Market Announcement

17 October 2022

Fonterra announces new Sustainable Finance Framework

As part of Fonterra's commitment to sustainability and implementation of its strategy, the Co-operative has today released its Sustainable Finance Framework (Framework). This Framework aligns Fonterra's funding strategy with its sustainability ambitions and reflects the evolving preferences of lenders and debt investors in this area.

Fonterra's Framework outlines how the Co-operative intends to issue and manage any sustainable debt, which could include Green Bonds and Sustainability-Linked Bonds and Loans. The Framework has been developed with Joint Sustainability Co-ordinators HSBC and Westpac NZ and has been independently verified by ISS Corporate Solutions confirming alignment with globally agreed sustainable finance principles.

"This new Framework is a step on our sustainable financing journey – aligning with our Co-operative's broader sustainability ambitions," says Simon Till, Fonterra Director Capital Markets.

"Over the next decade we intend to significantly increase our investment in sustainability-related activities and assets throughout our supply chain to both mitigate environmental risks and continue to differentiate our New Zealand milk. By FY30 we intend to invest around NZ$1 billion in reducing carbon emissions and improving water efficiency and treatment at our manufacturing sites. In doing so, we will be taking significant steps towards our aspiration to be Net Zero by 2050 and we plan to align our funding with this approach."

The Framework, the opinion issued by ISS Corporate Solutions and a presentation to update debt investors are attached. This announcement comes off the back of strong annual sustainability performance reported in September 2022.

Fonterra Chief Operating Officer Fraser Whineray says that the Co-operative is making solid progress towards its sustainability targets.

"In our sixth year of independently assured reporting, we are pleased with progress. Fonterra's GHG emissions (Scope 1&2) are 11.2% lower than FY18 and well on their way to our goal of 30% by 2030. With our supplier owners, we are ahead of target for delivery of Farm Environment Plans (FEP), with 71% of farmers now having plans, against a target of 67% for FY22 and on track for 100% by 2025."

This year Fonterra has also seen close to double the number of farmers achieving the Co-operative Difference to last year, with more than 70% achieving it at some level. From the 2021/22 season, farms became eligible for The Co-operative Difference payment of up to 10 cents per kg for milk solids, based on meeting specific criteria, covering milk quality and an on-farm demonstration of care for the environment, animals, people and community.

The Co-operative is also working with partners and other stakeholders on a wide range of potential solutions to help reduce biological emissions. Fonterra, along with other Agribusiness leaders, recently entered into a joint venture with the Government, as part of the new Centre for Climate Action on Agricultural Emissions. Under the MOU, industry partners have already made an indicative commitment up to around $35 million. This could see around $172 million invested over the next four years to develop and commercialise practical tools and technologies for farmers.

"Over the next four years we're looking to scale up an investment in methane reduction of around $50 million through this Joint Venture.

"We know we can, with the Government, achieve more by partnering with others and are looking forward to working together to find solutions that will benefit our farmer owners along with the rest of New Zealand" says Whineray.

At the heart of our Co-operative are people. Whether that is on-farm, at one of our sites, or the customers who can play a part in addressing food security and improve health and wellbeing. Across the Co-op we're committed to helping people reach their full potential.

Continued focus on training has seen New Zealand employees spend more than 500,000 hours upskilling, an average of 45 hours per learner. To date more than 1,000 employees have taken part in the Leadership Essentials Programme that develops current and future frontline leaders.

There has been a continued positive trend in regard to female representation in global senior leadership from 32.4% to 34.8% in FY22. The beginning of Fonterra's new financial year has seen two more women promoted to key roles on our Fonterra Management Team with the appointment of Komal Mistry-Mehta to Chief Innovation and Brand Officer and Emma Parsons as Managing Director Strategy and Optimisation. This year we have set a new goal of 40:40:20 (40% female, 40% male, 20% any gender) which sends a positive signal on direction. The 20% provides flexibility of female, male or non-binary gender.

Other progress includes *(please see attached Sustainability Progress Against Targets table for further information)*:

Planet

- Water use by our manufacturing sites in water-constrained regions decreased by 4.2%, taking us to a 6.6% absolute reduction against our 2018 baseline. Going forward, we are broadening our water target with our aim to reduce water use across manufacturing sites by 15% by 2030 from a 2018 baseline. Further, all sites will have refreshed bespoke water improvement plans by the end of FY24.
- New Zealand's first electric tanker, Milk-E, was launched as part of our fleet decarbonization plans. The percentage of e-vehicles continue to increase. There are now 693 electric vehicles (cars, forklifts, milk collection tanker) and the network of e-charging stations has expanded to 81.
- On a total tonnage of packaging basis, 89% of our packaging is now recycle-ready, up from 87% last year.

People

- 87.7% of products meet our independently endorsed nutritional guidelines through further improvements to the composition of everyday and advanced nutrition products.
- 50 million KickStart breakfasts have been served since the programme began.
- 100% of Fonterra's manufacturing sites are certified to a leading food safety management system.
- We increased in on-the-job training and reskilling hours, ahead of our plan to double on-the-job training and reskilling hours by 2025 from a 2020 baseline, in line with our Aotearoa New Zealand Skills Pledge.

Animals

- Farmer insight reports have been extended to include key insights relating to animal wellbeing including somatic cell count, milking efficiency, mastitis rates, lameness and the potential impact of heat stress.
- 76% of farms in New Zealand agreed an Animal Wellbeing Plan with their vet this year.

Attachments

- Sustainable Finance Framework
- Investor Presentation
- ISS Corporate Solutions Second Party Opinion (SPO) – Use of Proceeds
- Sustainability Progress Against Targets Table
- Sustainability Scorecard

ENDS

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FONTERRA CO-OPERATIVE GROUP LIMITED
OCTOBER 2022

Sustainable Finance Framework

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	Operating Profit	Strong progress towards 2050 aspiration to be
~9-10%	40-50% increase from FY21	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	**PRIORITY ACTIVITIES**	**PRIORITY ACTIVITIES**	**PRIORITY ACTIVITIES**	**PRIORITY ACTIVITIES**	**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	• 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	• 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	• Converting our specialised dairy know-how into value through the products, solutions and partnerships we develop	• 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	• 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.

[1] *The 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.

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

New biomass boiler under construction at Stirling

Weston & Dheeraj, Auckland

[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 guidelines[10].

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 material[13] 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 (m^3)**

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)**

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

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.

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

Contacts:

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T: +64 9 374 9000
E: investor.relations@fonterra.com

Fonterra Co-operative Group Limited

Debt Investor Update

October 2022

Contents

FY22 Annual Results

2022 Annual Results

Farmgate Milk Price

$9.30 per kgMS

Reported profit after tax[1]

$583 million ↓ $16m

Normalised profit after tax[1]

$591 million ↑ $3m

35c earnings per share[2]

Dividend

20c per share

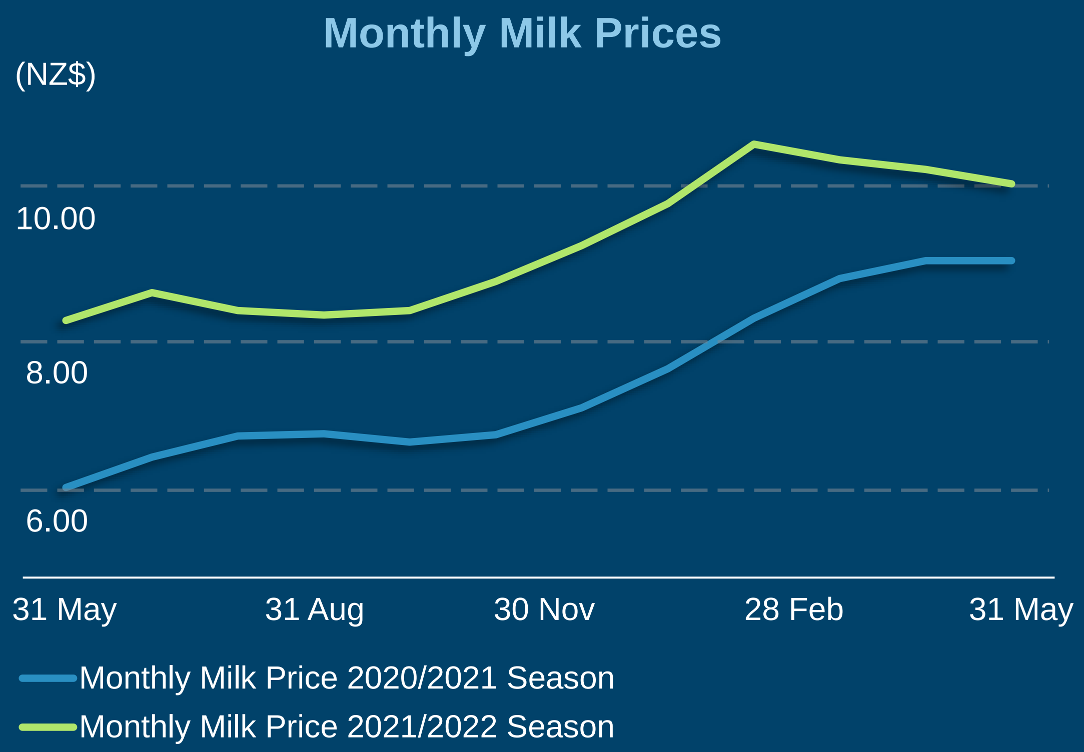
Return on capital

6.8% ↑

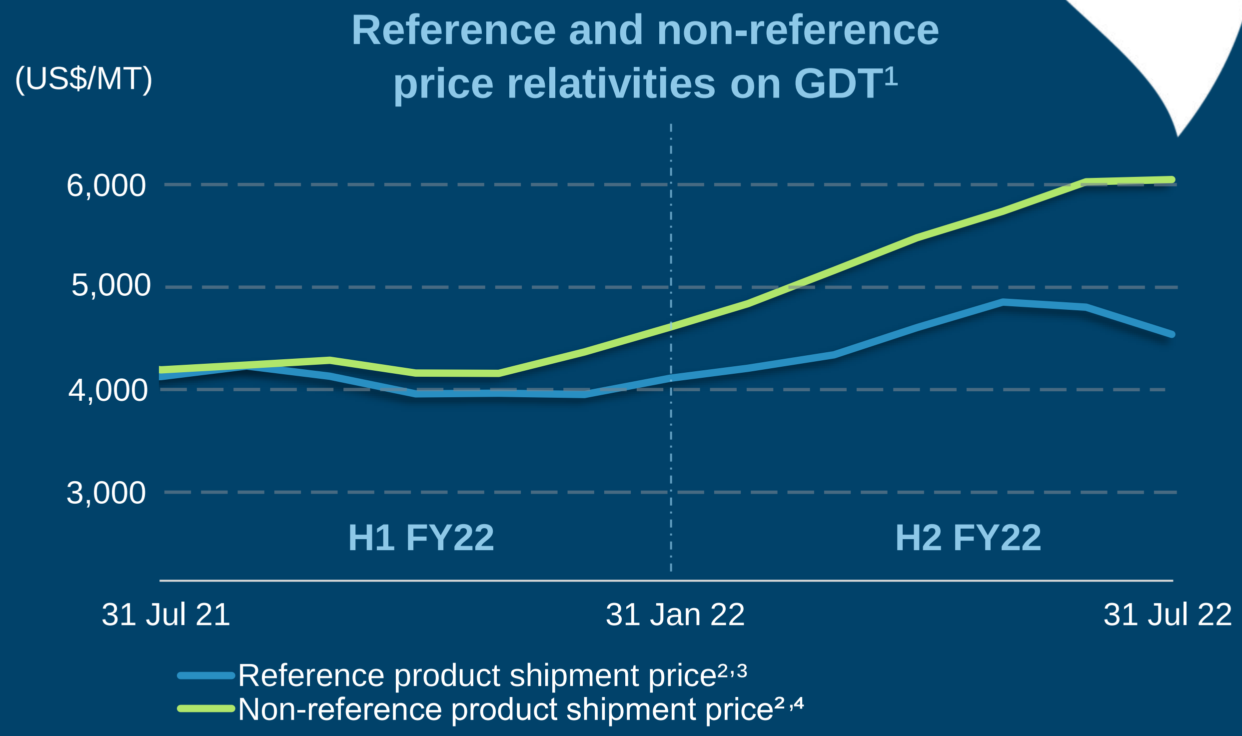
- Fonterra has delivered a higher Farmgate Milk Price and strong earnings, total pay-out of $9.50 per kgMS
- Diversified and resilient earnings – top end of guidance
- Good progress on key drivers of our strategy, focusing on New Zealand milk, sustainability, and dairy innovation and science
- Increased working capital has driven higher debt levels but will improve as working capital returns to normal levels in FY23
- Continued strong dairy industry fundamentals

Note: Figures are Total Group, which includes continuing and discontinued operations
1. Includes amounts attributable to non-controlling interests
2. Attributable to equity holders of the Co-operative, excludes $23 million of normalised profit after tax attributable to non-controlling interests

Higher dairy prices and favourable price relativities



- Consistently higher monthly milk price across the 2021/22 season compared to prior season
- The average of the monthly milk prices are equivalent to \$7.54 and \$9.30 for 2020/21 and the 2021/22 seasons, respectively



- Narrow price relativities in the first half; strong increase in non-reference product prices improving price relativities in second half
- More favourable than expected price relativities contributed to stronger fourth quarter earnings

1. Source: GlobalDairyTrade
2. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped
3. Reference product shipment price is represented by a weighted average of the WMP, SMP, AMF and butter prices achieved on GDT
4. Non-reference product shipment price is represented by the cheddar prices achieved on GDT

Total Group business performance

million	2021[1]	2022	%Δ [2]
Sales volume (‘000 MT)	4,102	**3,924**	(4)%
Revenue ($)	21,124	**23,425**	11%
Cost of goods sold ($)	(18,010)	**(20,085)**	(12)%
Gross profit ($)	3,114	**3,340**	7%
Gross margin (%)	14.7%	**14.3%**	
Operating expenses ($)	(2,242)	**(2,397)**	(7)%
Other[3] ($)	80	**48**	(40)%
Normalised EBIT ($)	952	**991**	4%
Normalised profit after tax[4] ($)	588	**591**	1%
Normalised EPS[5] (cents)	34	**35**	3%

Note: Total Group figures are for the year ended 31 July. This includes continuing and discontinued operations and are on a normalised basis unless otherwise stated

1. 2021 performance includes Ying and Yutian China Farming hubs and China Farms joint venture, which were sold during FY21
2. Percentages as shown in the table may not align to the calculation of percentages based on numbers in the table due to rounding of figures

- Increased revenue from higher product prices, partially offset by lower sales volumes reflecting lower milk collections in the first nine months of the year and shipping disruptions
- Higher gross profit despite increased cost of milk, driven by gross margin achieved in Ingredients, particularly in the protein portfolio
- Operating expenses up due to inflationary pressures, supply chain disruption and impairment of some of our Asia brands[6]
- ‘Other’ includes $(80) million adverse revaluation of the Sri Lankan business payables due to devaluation of the rupee
- Normalised profit after tax is up $3 million, due to higher earnings and favourable interest expense

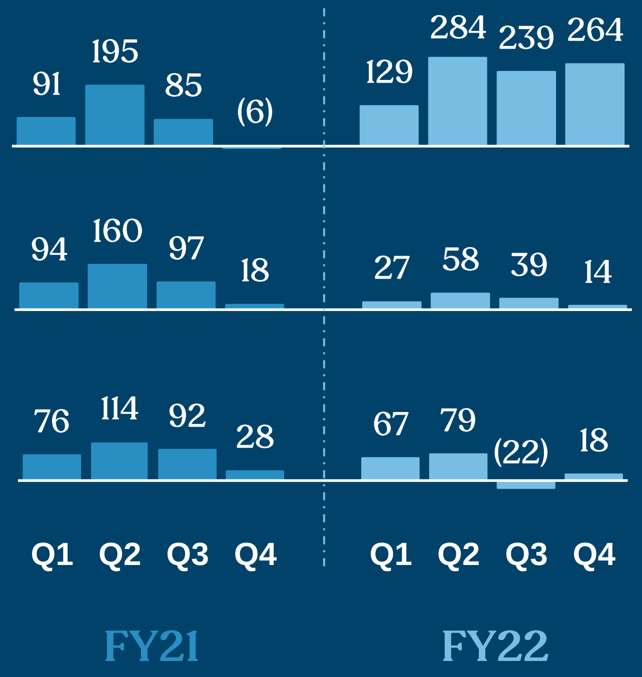
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees
4. Includes amounts attributable to non-controlling interests
5. Attributable to equity holders of the Co-operative, excludes $23 million of normalised profit after tax attributable to non-controlling interests
6. The impairment includes a $22 million impairment of Anlene, an $11 million impairment of Anmum and a $1 million impairment of Chesdale, with the carrying amount of these brands now at $336 million as at 31 July 2022. Our Asia brands also include Anchor which was not impaired

Diversified across markets and products

Higher margins in the Ingredients channel in the second half

	Asia Pacific	AMENA	Greater China	Total
Volume (‘000 MT)[1]	1,370 ↓ 1%	1,355 n/c	1,029 ↓ 13%	3,754 ↓ 4%
EBIT contribution[1,2]				
Ingredients	$192m ↑ $168m	$442m ↑ $231m	$282m ↑ $152m	$916m ↑ $551m
Foodservice	$(13)m ↓ $92m	$(4)m ↓ $19m	$155m ↓ $120m	$138m ↓ $231m
Consumer	$58m[3] ↓ $144m	$89m ↓ $21m	$(5)m ↓ $3m	$142m ↓ $168m
Total	$237 ↓ $68m	$527m ↑ $191m	$432m ↑ $29m	

EBIT by Quarter[1,2]



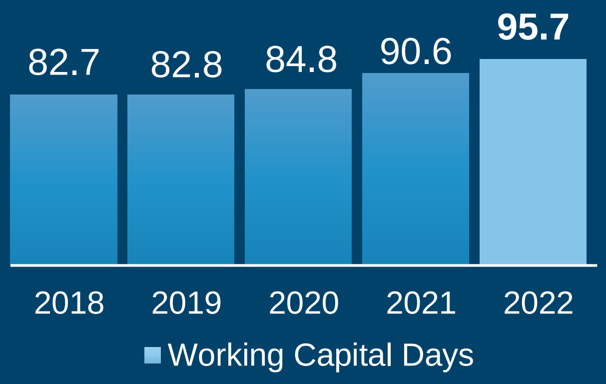
Note: Figures are for the year ended 31 July

1. Prepared on a normalised continuing operations basis. Normalised EBIT contributions sum to $1,196 million, and does not align to reported continuing operations due to excluding unallocated costs and eliminations. Comparative information includes re-presentations for consistency with the current period
2. Inclusive of Group Operations’ EBIT attribution
3. Includes $(80) million adverse revaluation of payables in Sri Lanka

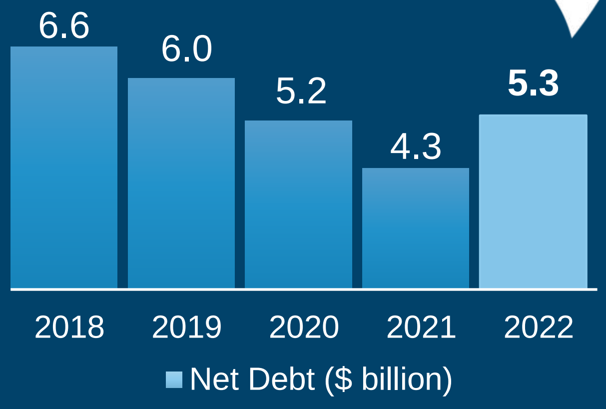
A strong balance sheet

- Our 'A band' credit rating and key metrics demonstrate our strong balance sheet position
- These metrics have increased but will improve as working capital returns to normal levels throughout FY23
    - FY23 sales and shipping profile supports inventory levels returning to normal
- Improved return on capital due to higher earnings offsetting the impact of additional working capital on our capital employed

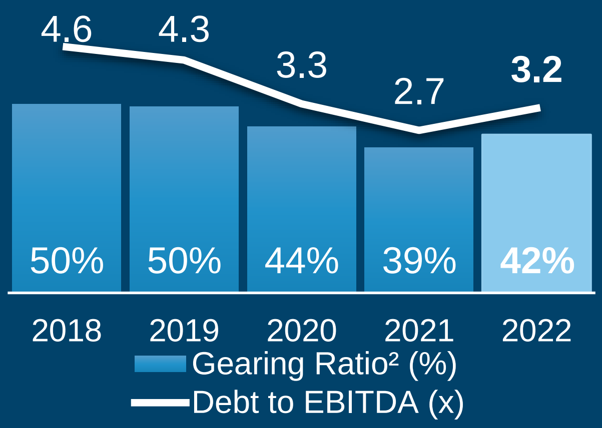
Working Capital



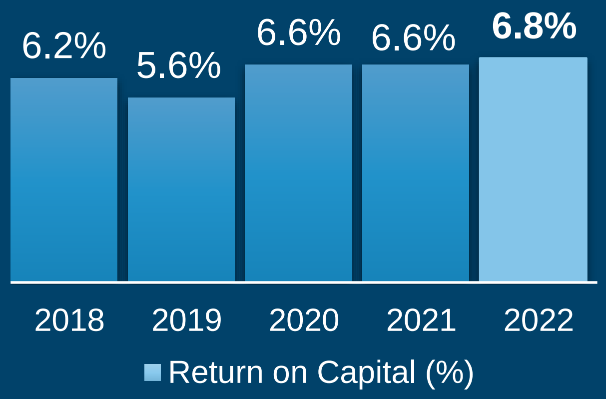
Net Debt[1,2]



Leverage



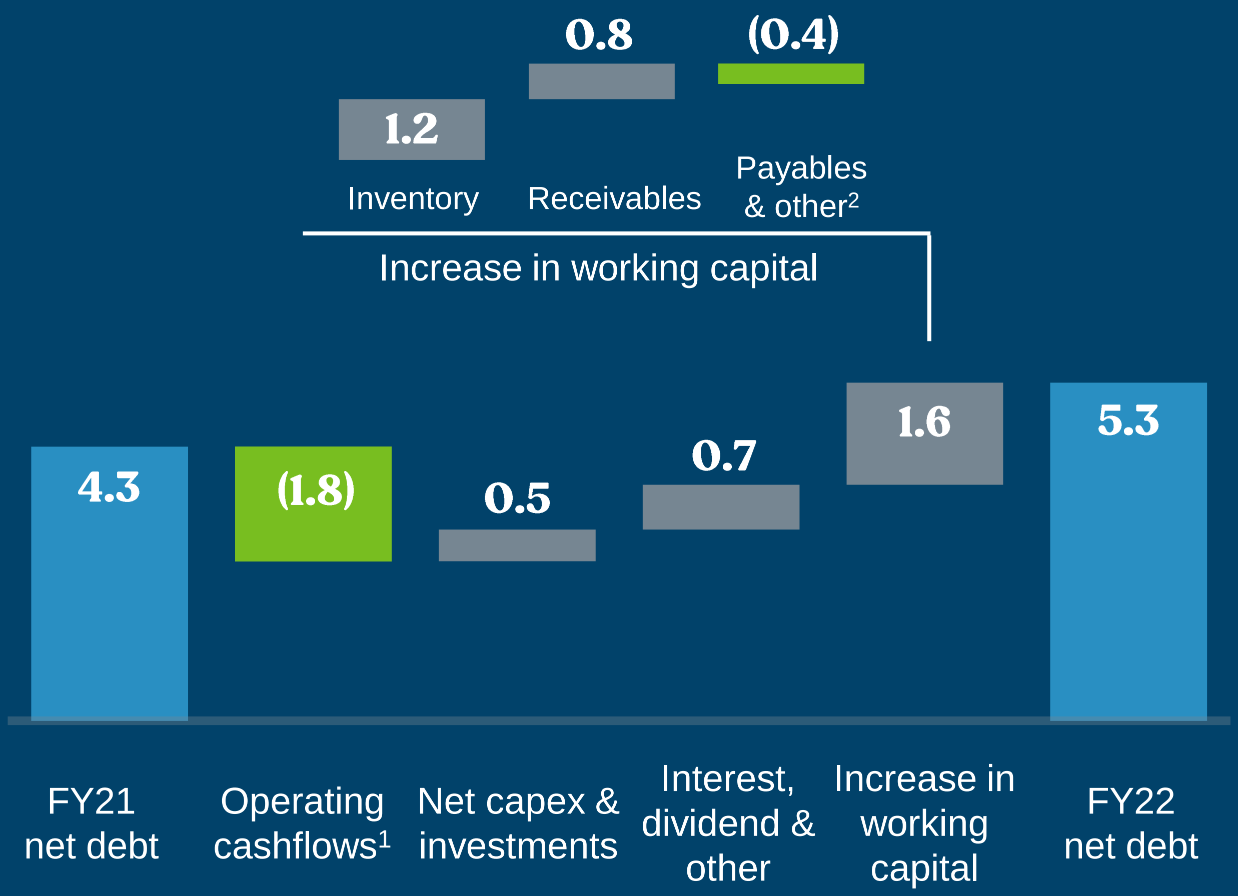
Return on Capital



Note: Figures are for the year ended 31 July except where otherwise stated
1. As at 31 July. Refer to Glossary for definition
2. Comparative figures are shown on a consistent basis with current year

Strong balance sheet provides flexibility to manage market volatility and disruptions

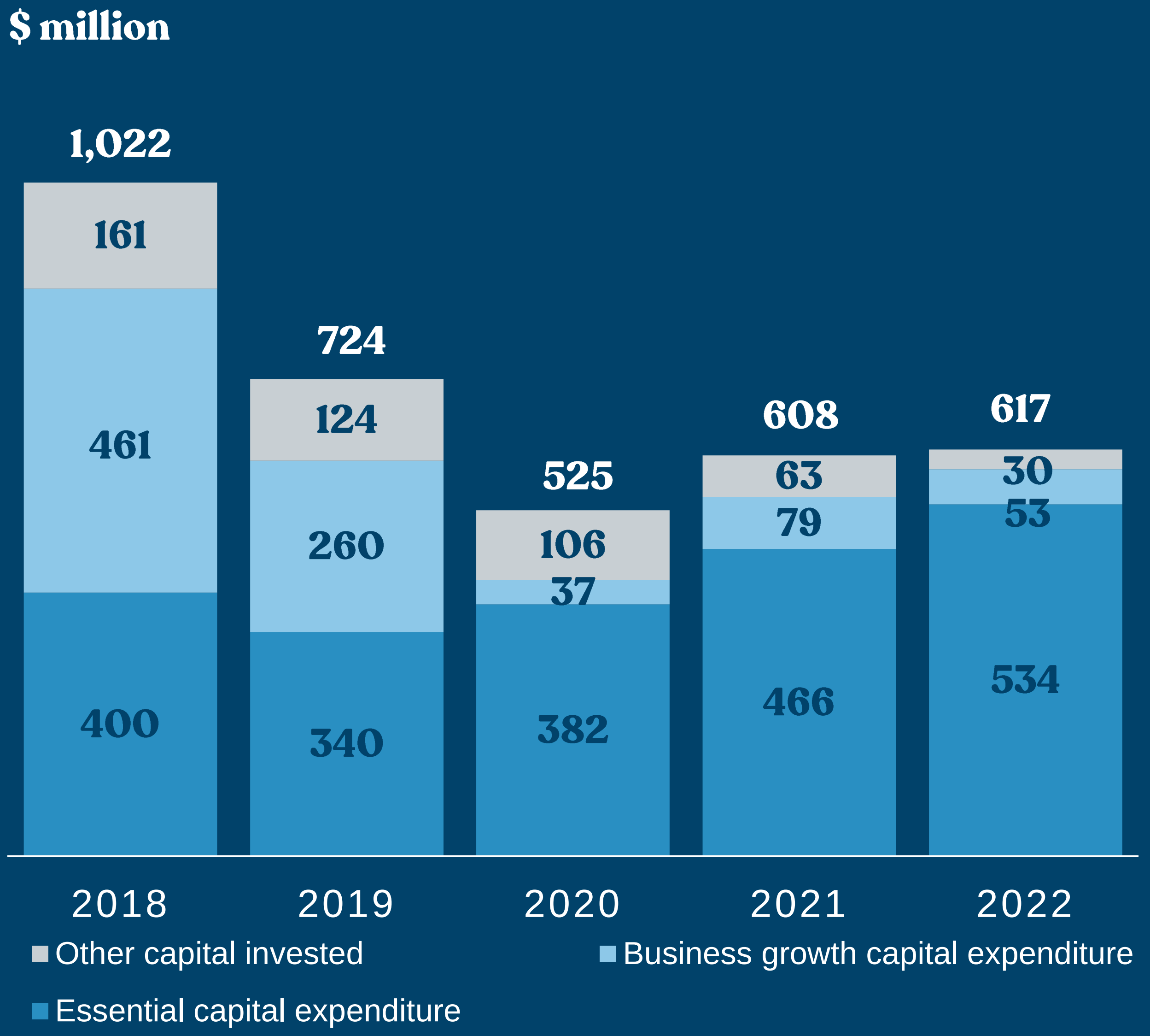
Change in net debt ($ billion)



- Strong balance sheet enabled us to hold higher working capital through year end
- Increase of $1.6 billion in working capital resulted in an increase in year end net debt of $1.0 billion
  - 88% of total inventory was priced and contracted but not shipped at year end
- Net debt position will improve as working capital returns to normal levels throughout the year
  - FY23 sales and shipping profile supports inventory levels returning to normal

1. Excluding working capital
2. Includes supplier payables and other movements

Capital invested



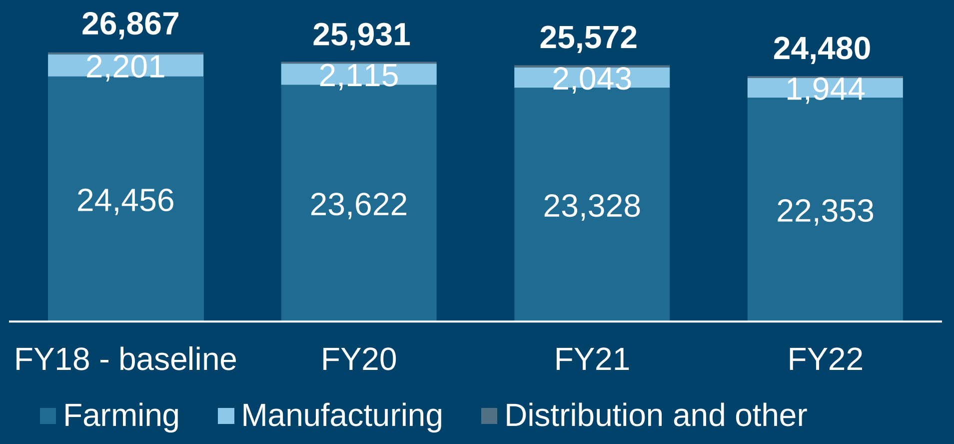
- Total capital invested was $617 million, comprised of capital expenditure of $587 million and other capital invested of $30 million
- Of the $587 million capital expenditure:
  - $534 million was allocated to essential projects to maintain and improve existing assets
  - $53 million was allocated to business growth projects to drive future earnings growth
- The $30 million of other investments mainly comprised of right-of-use assets and equity investments, including investment in new innovation opportunities

Note: Refer to Glossary for definition of capital invested and capital expenditure

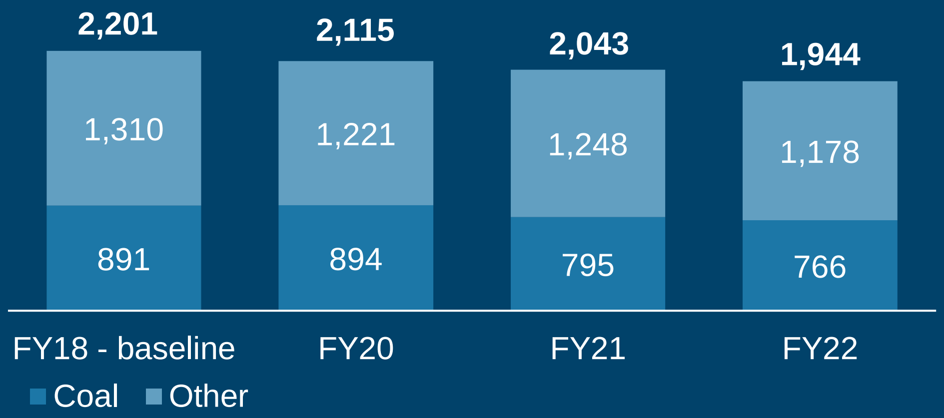
Investing in sustainability

Doing what's right for customers, the planet and our Co-op

Total GHG emission in Fonterra's value chain[1,2]



Manufacturing GHG emissions[2]

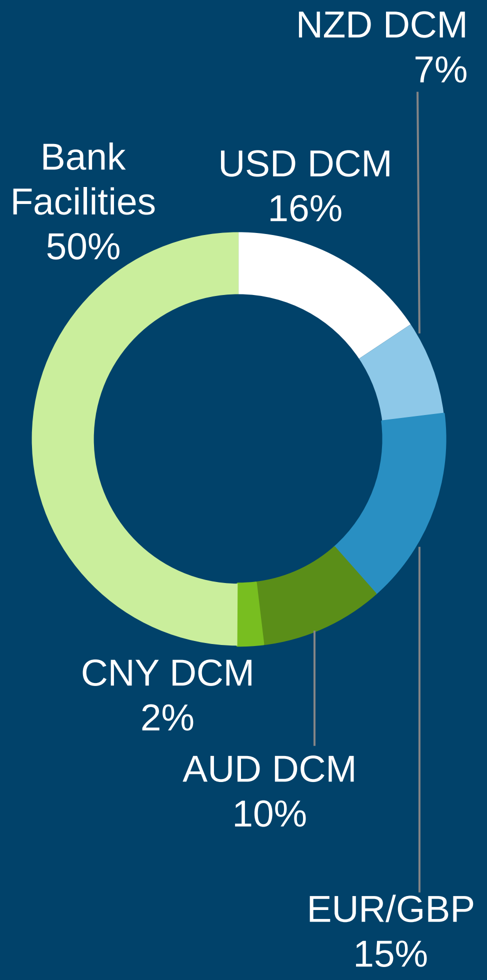


- Reducing annual manufacturing emissions by converting coal boilers to wood biomass:
  - completion of Te Awamutu in FY21 reduced our emissions from coal by more than 9%[3]. The project cost $11 million
  - Stirling to be completed during FY23 will reduce our emissions from coal by about 2%[3]. The project is expected to cost $30 million
  - one boiler at Waitoa to be completed in FY24. Expected to reduce our emissions from coal by more than 5%[3]. The project is expected to cost $102 million

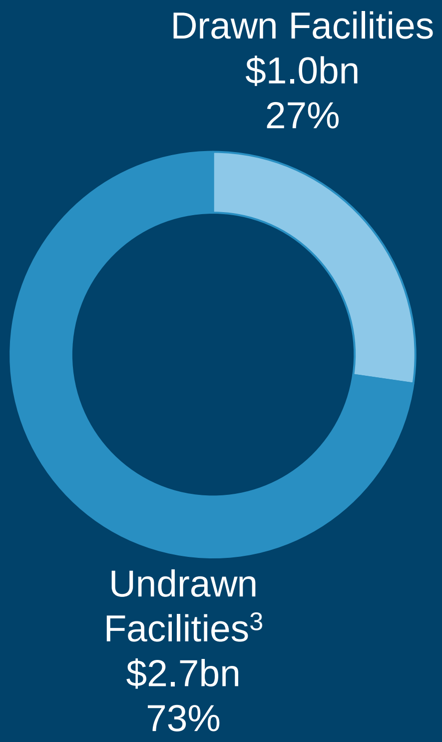
1. Farming and Manufacturing emissions do not add to Total GHG emissions. Distribution and other emissions are not displayed, these are less than 1% of our total emissions
2. Measured in 000's $tC0_2$-e
3. Relative to FY18, the baseline year

Diversified and prudent funding position

Diversified Profile[1]

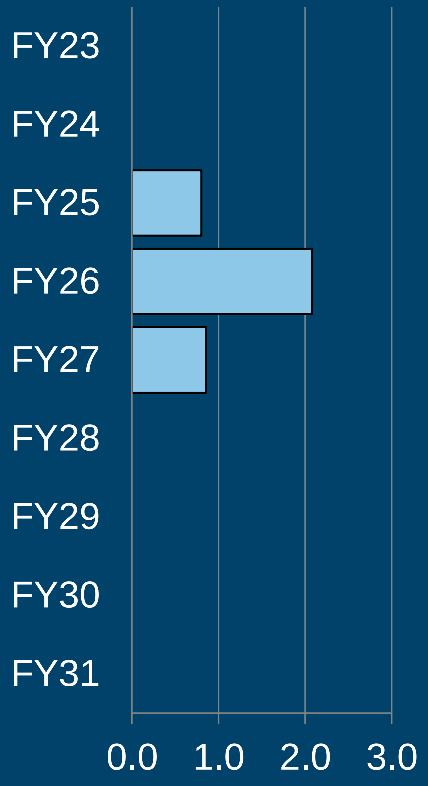


Prudent Liquidity



Bank Facilities

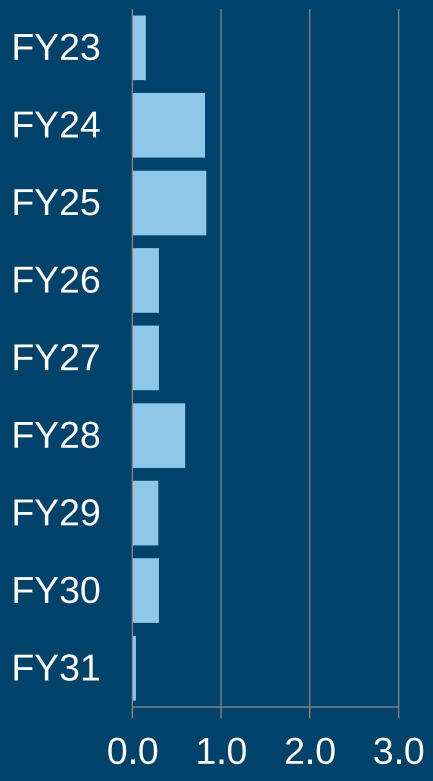
Maturity Profile



$ billion
WATM[4]: 3.5 years

Debt Capital Markets[2]

Maturity Profile



$ billion
WATM[4]: 3.6 years

1. Includes undrawn facilities and commercial paper. DCM is debt capital markets
2. Excluding commercial paper

3. Undrawn facilities includes $0.4bn stepped down during the year, reinstated from 1 Sept 2022
4. WATM is weighted average term to maturity

Note: As at 31 July 2022 and excludes amounts attributable to disposal groups held for sale

Our strategy positions us well

OUR STRATEGIC CHOICES

Focus on Aotearoa New Zealand Milk

Be a leader in dairy Innovation & Science

Be a leader in Sustainability

PERFORMANCE TARGETS

40–50%
EBIT increase from FY21

~9-10%
Return on capital

Increase dividends to **~40-45** cents per share

Aspiration to be **Net zero by 2050**

INVESTMENT

~$1 billion
in sustainability

~$1 billion
invested in moving more milk to higher value products

~$160m
per annum in R&D

~$2 billion
for mix of investment in further growth and return to shareholders

DISTRIBUTION OF FUNDS

~$1 billion
Intended to be distributed to shareholders after asset sales

Note: The figures in this slide are targets we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. These targets are based on assumptions and risks that are set out in the Appendix to the booklet *Our Path to 2030*, including the assumption of an average Farmgate Milk Price for the decade of $6.50 - $7.50 per kgMS, each of which could materially affect the actual outcomes. Please refer to the important cautions and disclaimer at the back of this presentation and the key assumptions and risks in the Appendix of the booklet titled *Our Path to 2030* for further details

Our Sustainability Strategy

Our approach – a sustainable future is core to our strategy

People & culture

Able to retain, develop and attract the best talent

PRIORITY ACTIVITIES

- Providing a safe, healthy and inclusive place to work
- Continuously developing people's skills for meaningful careers within the everchanging nature of work

Nature

Demonstrating that dairy can be a net-positive contributor to nature

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

Relationships

Trusted relationships through high-quality, innovative products and services and playing our part for positive social, environmental and economic outcomes

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

Intellectual Capital

Leveraging intellectual property to deliver additional value

PRIORITY ACTIVITIES

- Converting our specialised dairy know-how into value through the products, solutions and partnerships we develop

Assets and infrastructure

Operational assets are resilient and efficiently delivering our most valuable products

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 safe and able to respond to future needs

Financial

Consistently attractive performance for providers of funding, including our farmer shareholders

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

A copy of the 2022 Sustainability Report is available on Fonterra's website here

Thinking sustainability across the value chain…

Fonterra
Dairy for life

Farming

Farmer-owned supporting rural livelihoods

Cared for cows
Low antibiotic use
No growth-promoting hormones

Milk quality
Low somatic cell counts

Manufacturing

Certified environmental management systems

Consumption

World class food safety & quality

Nutrition R&D that supports health & wellbeing

Pasture-fed
Non-GMO Project Verified
Audited sustainability performance

Partnering with others to enable farming & nature to thrive together

Leading transition to a low-carbon future

Efficient global distribution

Sustainable packaging innovation

CarbonZero™ certified products

Traceability

Independently rated

World Benchmarking Alliance

GOLD 2022 ecovadis Sustainability Rating

CDP™ SUPPORTER 2021

BBFAW Business Benchmark on Farm Animal Welfare

2050
We aspire to be net zero emissions as we deliver sustainable nutrition through the goodness of New Zealand milk

2037
No more coal in our operations

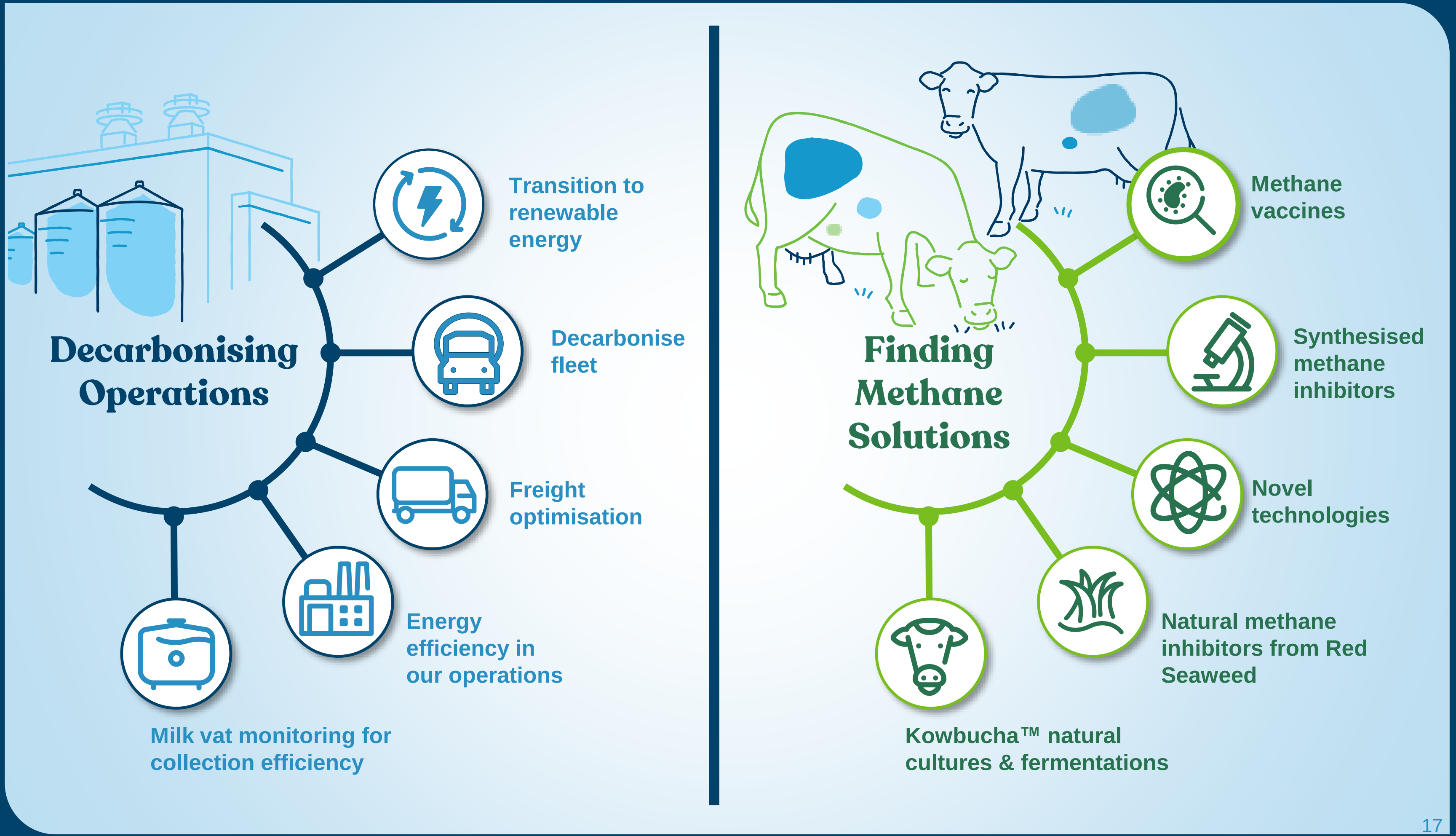
2030
30% reduction in absolute emissions from manufacturing operations from FY18 baseline

2025
Every Fonterra farmer has a tailored Farm Environment Plan

Today...
Working with farmers to understand their footprint while decarbonising across our operations

We aspire to be Net Zero by 2050

New Zealand has a unique position as one of the lowest carbon dairy producers in the world. **But we can’t slow down now**



Our approach to low carbon dairying

Protecting New Zealand's natural advantage

- New Zealand farmers are among the most efficient in the world, with an on-farm carbon footprint (1.03 $kgCO_2$-e/kgFPCM[1]) amongst the lowest in the world
- Natural advantages, such as climate and a pasture-based farming system, combined with the hard work of our farmers to make their farms productive and efficient have delivered this
- We're helping protect this advantage by supporting continuous improvement and research

Supporting continuous improvement

- Supplying farms in New Zealand already have a farm-specific emissions profile so farmers can understand the footprint of their farm
- Our 40 Sustainable Dairying Advisors are helping establish farm-specific Farm Environment Plans (FEPs), including a GHG module with prioritised actions
- Every supplying farm in New Zealand will have an FEP by the end of 2025
- The Co-operative Difference payment allows us to reward and recognise farmers who meet a specific set of sustainability targets each year

Investing in research and development

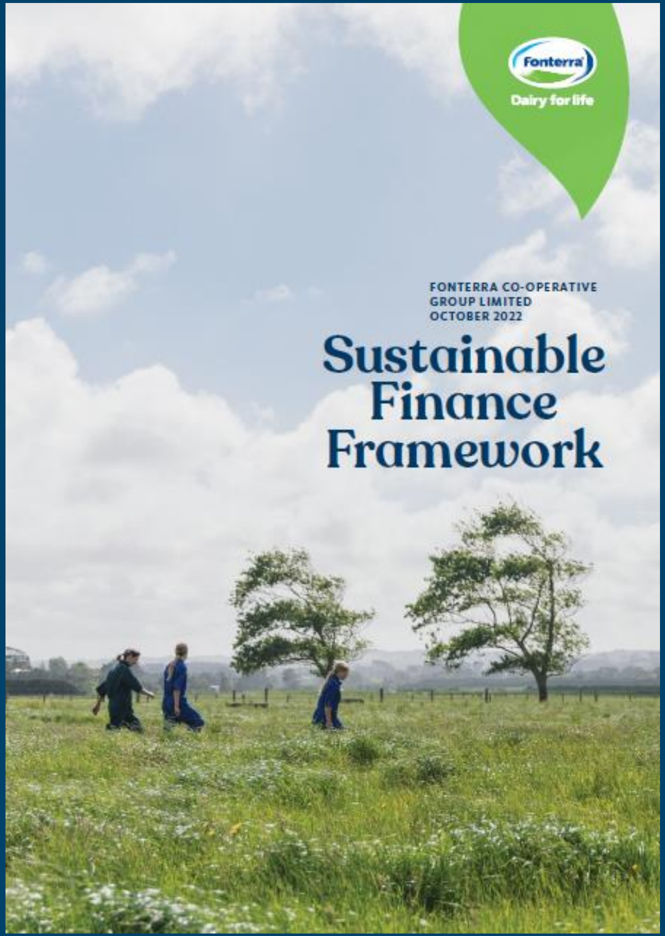
- Significant investment is required to deliver practical steps that farmers can take
- We are collaborating on a range of potential methane solutions to help dairy farmers and more widely
- We are partnering with New Zealand Government and five other New Zealand agribusinesses through the new Centre for Climate Action on Agricultural Emissions (combined investment ~ $172m in next four years)

1. Kilogram of fat-and-protein-corrected milk

Sustainable Finance Framework

Sustainable Finance Framework

- Fonterra established a Sustainable Finance Framework (**Framework**) in October 2022
  - reflects our commitment to sustainability and to align our financing with our sustainability ambitions
- The Framework is aligned to the relevant market standards, including those published by the International Capital Markets Association and the Asia Pacific Loan Market Association
  - independent external review and confirmation of alignment with those standards (Second Party Opinion) provided by ISS Corporate Solutions
- The Framework sets out how Fonterra intends to issue and manage sustainable debt and includes issuance of both Use of Proceeds and Sustainability-Linked instruments
- Our intention is to finance in a sustainable format going forward
  - we intend to initially focus on Use of Proceeds issuance (e.g., Green Bonds); and
  - we intend to issue Sustainability-Linked instruments in the future. At the time of such issuance specific sustainability performance targets (Targets) and external review of the Targets will be made available to investors/lenders

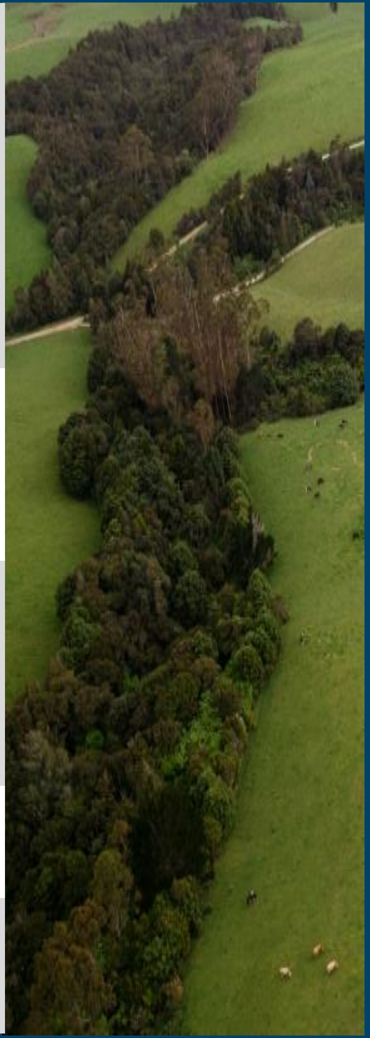


A copy of the Sustainable Finance Framework is available on Fonterra's website here

Core Components of Use of Proceeds Instruments

- The Framework enables the issuance of Green, Social and Sustainability Bond/Loan instruments
- The intention is to initially focus on Green Bonds (as reflected in slides 21 to 23)

1. Use of Proceeds	• Proceeds will be notionally allocated to finance or refinance projects, assets and/or activities which meet the eligibility criteria set out in the Framework and aligns with the Green Bond Principles (**Eligible Assets**) • Supports investments towards renewable energy, clean transportation, pollution prevention and control, sustainable water and wastewater management, environmentally sustainable management of living natural resources and land use, and energy efficiency • Look-back period of no longer than three prior financial years applied when refinancing existing Eligible Assets • Exclusionary criteria applies
2. Process for Project Evaluation and Selection	• Overseen by Fonterra's Treasury Team with responsibility to manage Eligible Asset selection and compliance with reporting commitments and the relevant sustainable finance principles
3. Management of Proceeds	• Proceeds to be notionally allocated to Eligible Assets within 24 months of issuance • Maintain an Eligible Assets Register that includes (amongst other things) their project cost, the notional allocation of proceeds to that asset and compliance with the relevant Eligibility Criteria • The total project cost of Eligible Assets will be at least equal to the aggregate amount of all outstanding green financing, including Green Bonds (subject to temporary management of unallocated proceeds)
4. Reporting	• Within one year of issuance (and annually thereafter), we will publish Annual Update Reports covering use of proceeds (allocation and eligibility) and impact of the Green Bonds
5. External Review	• ISS Corporate Solutions has provided a pre-issuance Second Party Opinion (SPO) on the Framework • On an annual basis post-issuance, Fonterra will obtain and publish an external review report on its Annual Update Report (including verification of the Eligible Assets Register)



A copy of the Framework and ISS Corporate Solutions Second Party Opinion are available on Fonterra's website here

Categories of Eligible Green Assets

Fonterra
Dairy for life

Clean Transportation

- Expand light fleet of EVs and the network of EV charging stations
- Conversion of heavy goods fleet (including milk tankers) to electric and renewable energy sources

Renewable Energy

- Conversion of existing coal boilers at manufacturing sites to renewable energy sources
- Infrastructure and equipment to increase the use of solar and renewable energy

Pollution Prevention & Control

- Infrastructure and equipment to reduce solid waste to landfill
- Investment in Research and Development to investigate and trial methane mitigation practices and technologies
- Upgrade packaging materials and associated packaging lines to improve reuse and/or recyclability

Sustainable Water & Wastewater Management

- Infrastructure and equipment to improve our approach to water intake by manufacturing sites so they contribute to healthier water catchments
- Infrastructure and equipment to improve treatment of wastewater prior to discharge so they contribute to healthier water catchments

Energy Efficiency

- Infrastructure and equipment to improve energy efficiency of manufacturing processes and sites
- Energy storage (batteries)

Environmentally Sustainable Management of Living Natural Resources and Land Use

- Investment in tools and systems to support improved farming practices
- Development and deployment of farm-specific farm environment plans

Note: Refer to section 4 of the Framework for the full eligibility criteria independently reviewed by ISS Corporate Solutions

Eligible Asset pipeline

- The following table is an indicative pipeline of Eligible Assets. The intention is to notionally allocate the net proceeds of any future Green Bonds to refinance existing Eligible Assets first, before being applied to finance future Eligible Assets
- Fonterra expects to have a total of $503 million of Eligible Assets by FY24 year end:
    - $183 million relates to spend over the last three years (FY20-FY22)
    - $320 million is estimated to be spent over the next two years (FY23-24)

Eligible Category	Examples of existing Eligible Assets (Projects in FY20–FY22)	Existing project cost (3-year look-back)[1] (NZDm)	Estimated future project cost (FY23-24)[2] (NZDm)	Total Potential Eligible Assets (NZDm)
Renewable Energy	• Installation of biomass boilers to replace existing coal boilers at three manufacturing sites (**Project Sites**: Te Awamutu (completed), Stirling (in progress), Waitoa (in progress)) • Installation of solar panels	59	110	169
Sustainable Water and Wastewater Management	• Infrastructure and equipment to improve the treatment of wastewater prior to discharge, contributing to healthier water catchments (**Project Sites**: Te Awamutu, Tirau, Clandeboye)	93	145	238
Energy Efficiency	• Equipment to improve energy efficiency in manufacturing sites including heat recovery and improved heat exchange (**Project Sites**: Whareroa, Edendale)	24	35	59
Pollution Prevention and Control	• Waste reduction and recyclable packaging programmes • Upgrade of refrigeration systems (**Project Sites**: Te Awamutu, Hautapu) • Investments and infrastructure to reduce on-farm emissions	3	25	28
Clean Transportation	• Light vehicle fleet – purchase of electric vehicles	4	5	9
Total Eligible Assets		**183**	**320**	**503**

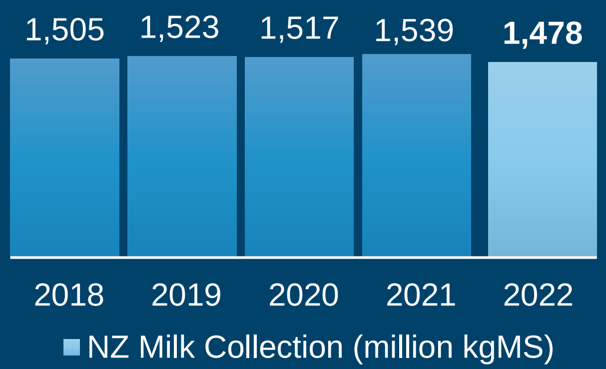
Note: This slide may contain forward looking statements or estimates. These statements or estimates should not be taken as forecasts. They are subject to successfully completing a number of business initiatives, and assumptions, each of which could materially affect the actual outcomes. These were prepared by Fonterra and have not been independently reviewed

1. Existing project cost is for the 3-year period from 1 August 2019 to 31 July 2022
2. Estimated future project cost is for the 2-year period from 1 August 2022 to 31 July 2024 and could vary depending on final selection of actual projects

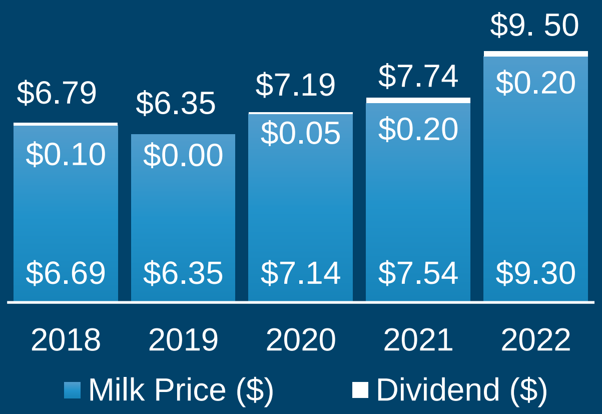
Appendix

Key financial metrics for Total Group FY22[1]

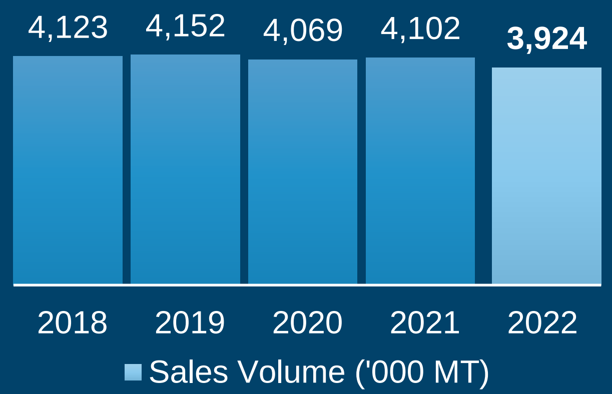
New Zealand Milk Collections



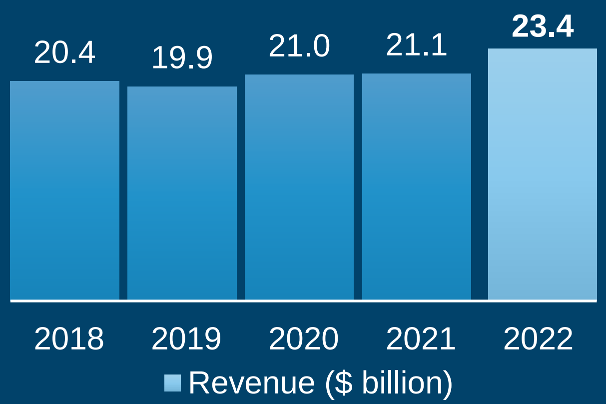
Total Pay-out



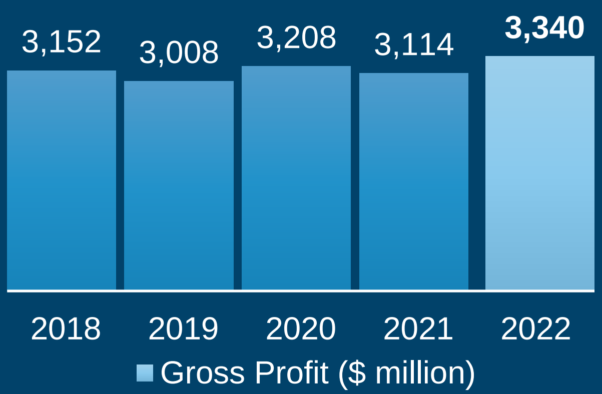
Sales Volume



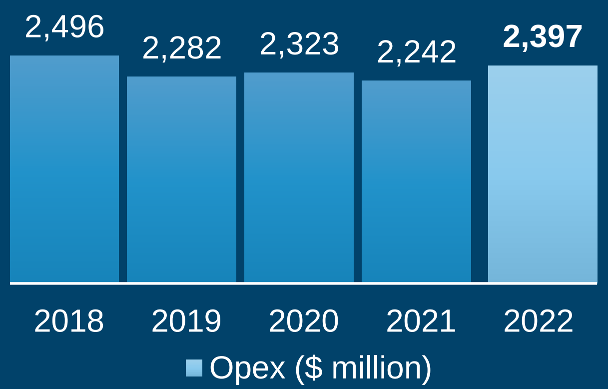
Revenue



Gross Profit



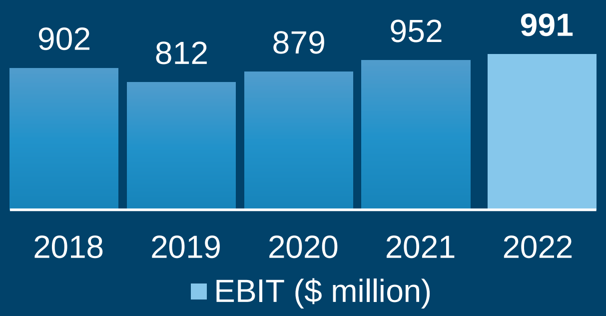
OPEX



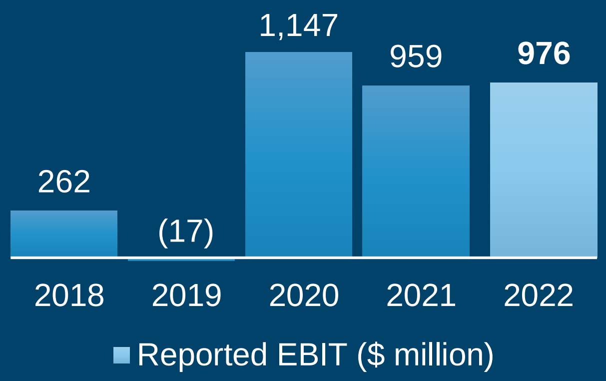
1. Total Group figures for the year ended 31 July. This includes continuing and discontinued operations, and are on a normalised basis unless stated otherwise

Key financial metrics for Total Group FY22[1]

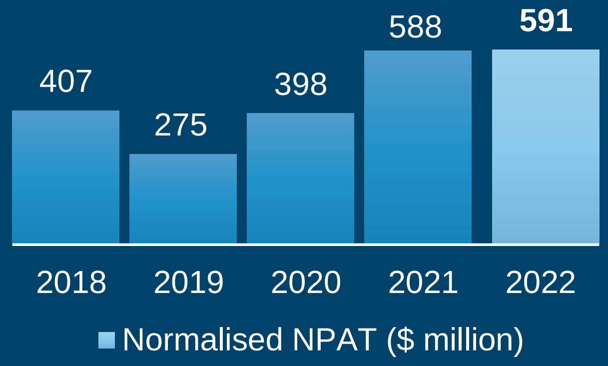
Normalised EBIT



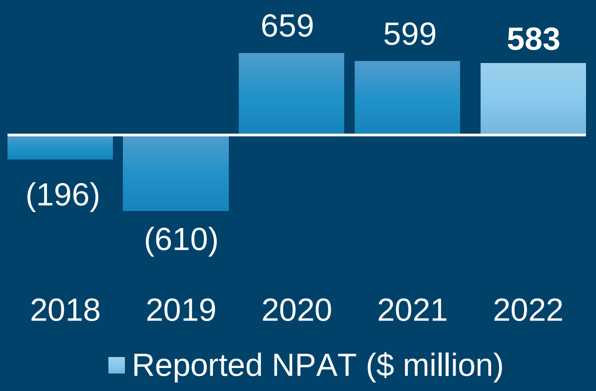
Reported EBIT



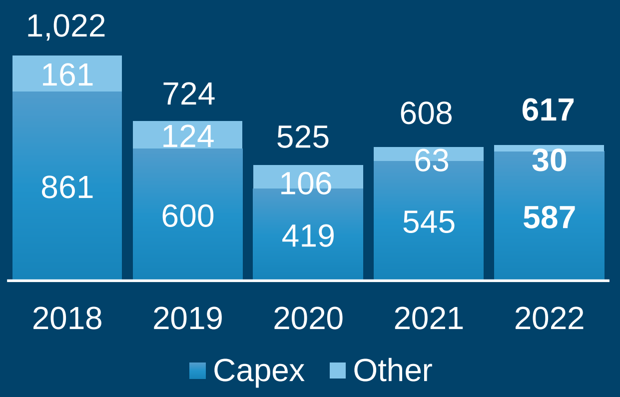
Normalised Profit After Tax[2]



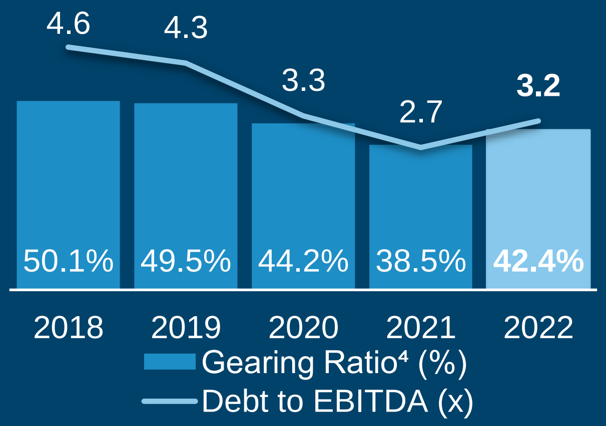
Reported Profit After Tax[2]



Capital Invested[3]



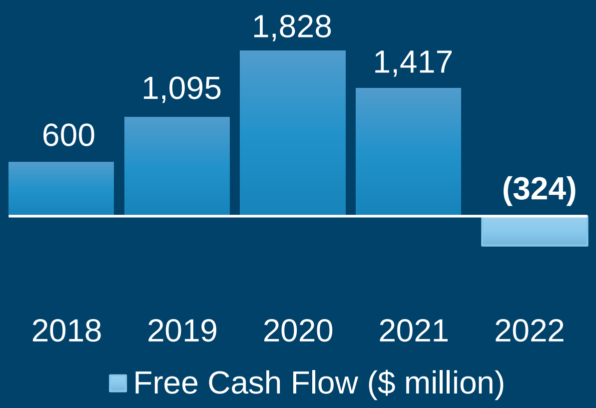
Leverage



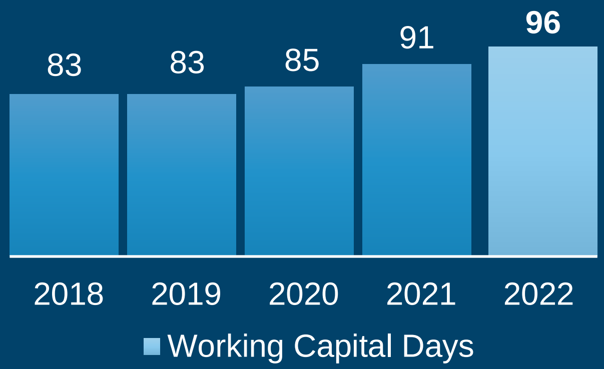
1. Total Group figures for the year ended 31 July. This includes continuing and discontinued operations, and are on a normalised basis unless stated otherwise
2. Includes amounts attributable to non-controlling interests
3. Refer to Glossary for definition
4. Comparative figures are shown on a consistent basis with current year

Key financial metrics for Total Group FY22[1]

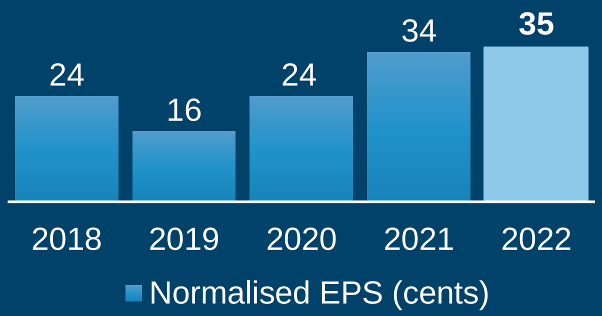
Free Cash Flow[2]



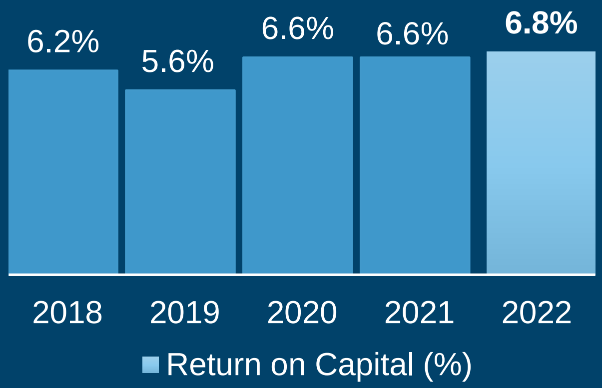
Working Capital Days



Earnings per Share



Return on Capital[2]

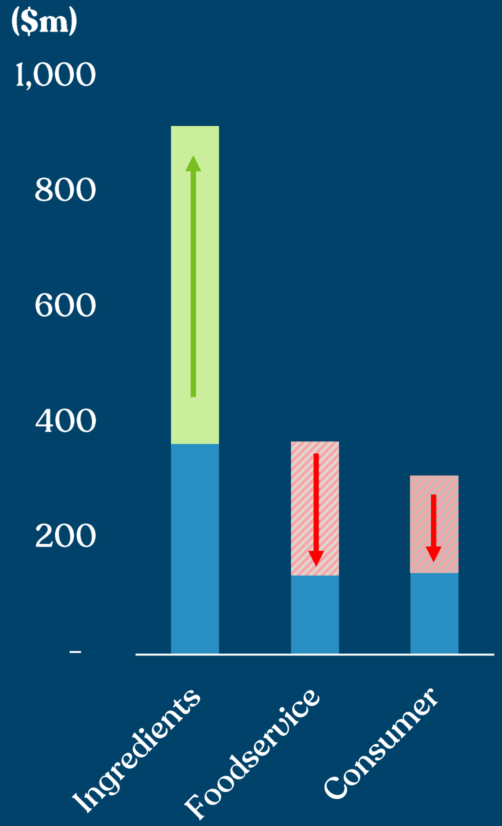


1. Total Group figures for the year ended 31 July. This includes continuing and discontinued operations, and are on a normalised basis unless stated otherwise
2. Refer to Glossary for definition

Earnings driven by strong Ingredients' margins

Asia Pacific	2021 EBIT	2022 EBIT	Change
Ingredients	$24m	$192m	700%
Foodservice	$79m	$(13)m	–
Consumer	$202m	$58m[2]	(71)%
	$305m	**$237m**	**(22)%**
AMENA			
Ingredients	$211m	$442m	109%
Foodservice	$15m	$(4)m	–
Consumer	$110m	$89m	(19)%
	$336m	**$527m**	**57%**
Greater China			
Ingredients	$130m	$282m	117%
Foodservice	$275m	$155m	(44)%
Consumer	$(2)m	$(5)m	(150)%
	$403m	**$432m**	**7%**
Eliminations[1]	$(148)m	$(214)m	(45)%
Total	**$896m**	**$982m**	**10%**

Product channel EBIT

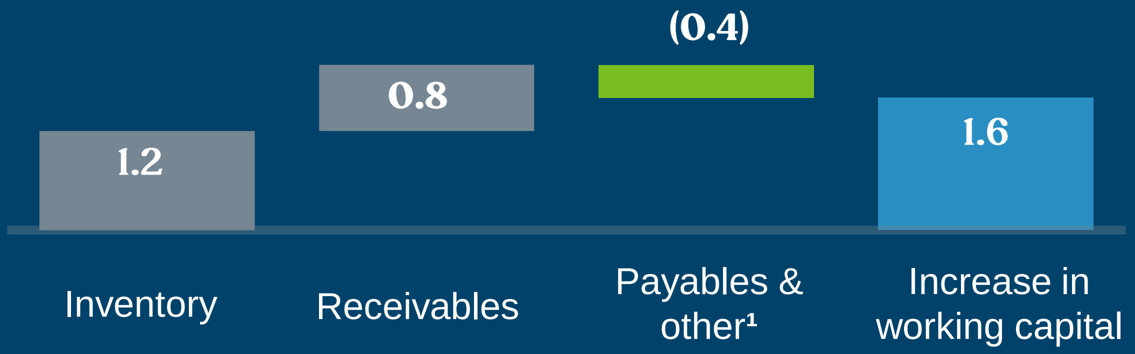


Note: Figures are for the year ended 31 July and prepared on a normalised continuing operations basis. Comparative information includes re-presentations for consistency with the current period

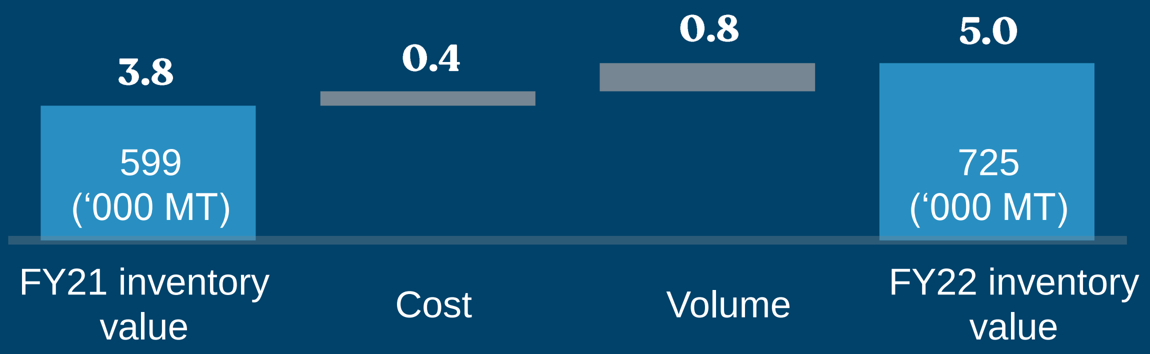
1. Eliminations and unallocated costs
2. Includes $(80) million adverse revaluation of payables in Sri Lanka

Increase in working capital due to higher prices and inventory

Breakdown of increase in working capital as at 31 July ($ billion)



Closing inventory as at 31 July ($ billion)



- Significantly higher working capital throughout the year and year end, up $1.6 billion, reflecting:
  - higher milk price – impacts both receivables and inventory
  - higher levels of inventory throughout second half and year end
- Higher year end inventory reflects late season milk production coinciding with shipping constraints
  - 88% of total inventory was priced and contracted but not shipped at year end
  - FY23 sales profile and shipping schedule supports inventory levels returning to normal levels

1. Includes supplier payables and other movements

FY22 progress against our aspirational financial profile

	FY20 Actual	FY21 Actual	FY22 Forecast	FY22 Actual	FY24 Year 3 Target	FY27 Year 6 Target	FY30 Year 9 Target
Improved performance							
Milk Price per kgMS	$7.14	$7.54		$9.30			
Normalised EBIT	$879m	$952m	$875-$975m	$991m	$1,025- $1,125m	$1,150-$1,250m	$1,325-$1,425m
Earnings per share	24c	34c	25-40c	35c	45-55c	50-60c	55-65c
Return on capital	6.6%	6.6%	6.5-7.0%	6.8%	7.0-8.0%	7.5-8.5%	9.0-10.0%
Financial position							
Capital investment	$525m	$608m	$650m	$617m	$980m	$980m	$980m
Debt to EBITDA ratio	3.3x	2.7x	2.4x*	3.2x	<2.5x	<2.5x	<2.5x
Gearing ratio	44%	39%	35%*	42%	<35%	<35%	<35%
Dividend to shareholders							
Dividends per share	5c	20c	15-20c	20c	22-27c	30-35c	40-45c

**Calculated using an EPS of 35 cents*

Note: The figures in this table which relate to dates in the future are targets we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. The target years assume long-term average levels of price relativity and lag pricing impacts, and individual years are likely to vary from this assumption. Please refer to the important cautions and disclaimer at the back of this presentation and the key assumptions and risks in the Appendix of the booklet titled *Our Path to 2030* for further details

Glossary

Asia Pacific
Represents the Ingredients, Foodservice and Consumer channels in New Zealand, Australia, Pacific Islands, South East Asia and South Asia

AMENA
Represents the Ingredients, Foodservice and Consumer channels in Africa, Middle East, Europe, North Asia and Americas

Capital expenditure
Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets (excluding purchases of emissions units), net purchases of livestock, and includes amounts relating to disposal groups held for sale

Capital invested
Comprises capital expenditure plus right-of-use asset additions and business acquisitions, including equity contributions, long-term advances, and investments

Consumer
Represents the channel of branded consumer products, such as powders, yoghurts, milk, butter and cheese

Debt/EBITDA
Is adjusted net debt divided by Total Group normalised earnings before interest, tax, depreciation and amortisation (Total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees and net foreign exchange gains/losses

Earnings before interest and tax (EBIT)
Is profit before net finance costs and tax

Farmgate Milk Price
Means the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual

Foodservice
Represents the channel selling to businesses that cater for out-of-home consumption; restaurants, hotels, cafes, airports, catering companies etc. The focus is on customers such as; bakeries, cafes, Italian restaurants, and global quick-service restaurant chains. High performance dairy ingredients including whipping creams, mozzarella, cream cheese and butter sheets, are sold in alongside our business solutions under the Anchor Food Professionals brand

Free cash flow
Is the total of net cash flows from operating activities and net cash flows from investing activities

Glossary

Gearing ratio (adjusted net debt)
Is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt

Greater China
Represents the Ingredients, Foodservice and Consumer channels in Greater China, and the Falcon China Farms JV

Group Operations
Comprises functions under the Chief Operating Office (COO) including New Zealand milk collection and processing operations and assets, supply chain, Group IT, Sustainability and Innovation; Fonterra Farm Source™ retail stores; and the Central Portfolio Management function (CPM)

Ingredients
Represents the channel comprising bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia, Europe and Latin America, or sourced through our global network, and sold to food producers and distributors

kgMS
Means kilograms of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra

Net debt (adjusted)
Is calculated as total borrowings, plus bank overdraft, less cash and cash equivalents, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries, adjusted for derivatives used to manage changes in hedged risks on debt instruments. Amounts relating to disposal groups held for sale are included in the calculation

Normalised earnings per share (EPS)
Normalised earnings per share is calculated as normalised profit after tax attributed to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period

Return on capital
Is Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed

Season
New Zealand: A period of 12 months from 1 June to 31 May
Australia: A period of 12 months from 1 July to 30 June
Chile: A period of 12 months from 1 August to 31 July

Unallocated costs and eliminations
Represents corporate costs including Co-operative Affairs and Group Functions; and any other costs that are not directly associated to the reporting segments; and eliminations of inter-segment transactions

Important information and disclaimer

This presentation may contain forward-looking statements, financial targets and ambitions ("Forward Statements"), each of which is based on a range of assumptions, including (in the case of our 2030 strategy) the assumptions noted in the Appendix of the booklet titled Our Path to 2030 which is available on our website. None of the Forward Statements is intended as a forecast, estimate or projection of the outcome that will, or is likely to, eventuate. They should not be taken as forecasts or a guarantee of returns to shareholders.

There can be no certainty of outcome in relation to the matters to which the Forward Statements relate. Our ability to achieve the outcomes described in the Forward Statements is subject to a number of assumptions, each of which could cause the actual outcomes to be materially different from the events or results expressed or implied by such Forward Statements.

The Forward Statements also involve known and unknown risks, uncertainties and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such Forward Statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of Fonterra Co-operative Group Limited ("Fonterra") and its subsidiaries (the "Fonterra Group") and cannot be predicted by the Fonterra Group. The Forward Statements in this presentation reflect views held only at the date of this presentation.

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This presentation does not constitute investment advice or opinions, or an inducement, recommendation or offer to buy or sell any securities in Fonterra or the Fonterra Shareholders' Fund.

Non-GAAP Measures

Fonterra uses several non-GAAP measures when discussing financial performance. Non-GAAP measures are not defined or specified by NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies.

Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited annual financial statements.

Please refer to the Non-GAAP Measures section in Fonterra's 2022 Annual Review for further information about non-GAAP measures used by Fonterra, including reconciliations back to NZ IFRS measures. Definitions of non-GAAP measures used by Fonterra can be found in the Glossary.

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)
Relevant standard(s)	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) 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.

CONTENTS

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 Instruments[1] 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**	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. 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'. 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'. The environmental and social risks associated with the use of proceeds categories are well managed.	**Positive**
Part 3: **Sustainable finance instruments link to issuer's sustainability strategy**	CONSISTENT WITH THE 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	✓	The Use of Proceeds description provided by Fonterra's Sustainable Finance Framework is **aligned** with the GBP, SBP, SBG, GLP and SLP. 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. 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.
2. Process for Project Evaluation and Selection	✓	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. 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. Fonterra explains that it's Treasury Team is responsible in the process for project evaluation and selection. Responsibilities for the team are laid out.
3. Management of Proceeds	✓	The Management of Proceeds proposed by Fonterra's Sustainable Finance Framework is **aligned** with the GBP, SBP, SBG, GLP and SLP.

		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). Fonterra discloses ESG criteria and the nature of temporary investments, in line with best market practice.
4. Reporting	✓	The allocation, eligibility, and impact reporting proposed by Fonterra's Sustainable Finance Framework is **aligned** with the GBP, SBP, SBG, GLP and SLP. 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. 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.

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

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 *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 apprenticeships[3].)*	Significant contribution [4]	8 DECENT WORK AND ECONOMIC GROWTH
Food Security and Sustainable Food Systems *Investments in assets, activities, technology, and R&D to support social and economic access to safe, nutritious, and*	Significant contribution	2 ZERO HUNGER

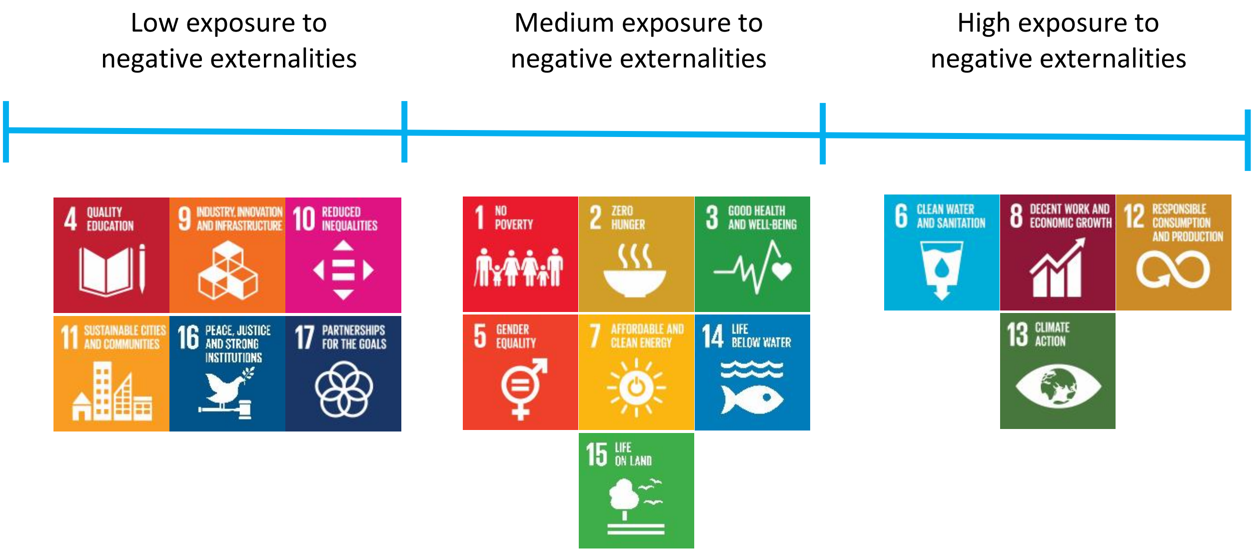
[3] Fonterra Apprenticeship Careers https://www.fonterra.com/nz/en/careers/apprenticeship-careers.html
[4] This project category is assessed as having a significant contribution to SDG 8, beyond the SDGA proprietary methodology.

sustainable food, including in resilient agricultural practices that reduce food loss and waste and/or improving access to affordable nutrition.	Limited Contribution	10 REDUCED INEQUALITIES
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 children[5]).*	Limited contribution	2 ZERO HUNGER 10 REDUCED INEQUALITIES
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	10 REDUCED INEQUALITIES

<u>Improvements of operational performance (processes)</u>

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 externalities[6] in the Food Products industry (to which Fonterra belongs) are the following:



[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 *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).*	✓	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
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.	✓	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
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.	✓	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
Biogas facilities: Installation and maintenance of biogas units at issuer's manufacturing sites.	✓	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
Sustainable Water and Wastewater Management *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:*	✓	3 GOOD HEALTH AND WELL-BEING 10 REDUCED INEQUALITIES

[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).*	✓	3 GOOD HEALTH AND WELL-BEING
For farms with irrigation systems, the FEPs also build on regulatory requirements for metering and support water efficiency improvements.	✓	13 CLIMATE ACTION
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.*	✓	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION

Combined heat and power: Facilities that support more efficient heat and power usage in the production process[8]	✓	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
Energy Efficiency *Energy storage: Including batteries*[9]	✓	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
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).*	✓	3 GOOD HEALTH AND WELL-BEING
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	✓	13 CLIMATE ACTION
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	✓	13 CLIMATE ACTION

[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) Act[12]. 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 modification[14].

[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 changehttps://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 FONTERRA'S SUSTAINABILITY STRATEGY

A. FONTERRA'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	2 ZERO HUNGER
Food products (highly processed and/or critical nutrient level)	2.5%	OBSTRUCTION	2 ZERO HUNGER; 3 GOOD HEALTH AND WELL-BEING

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

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: SPOOperations@iss-esg.com

Project team

Project lead	Project support	Project supervision
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Fonterra - Sustainability Progress Against Targets Table

Category	Target	Performance	
		FY22	FY21
Nutrition	100% of everyday and advanced nutrition products meet independently endorsed nutrition guidelines by 2025	87.7%	86.5%
Work related fatalities	Zero Harm	1	0
Serious harm injuries	Zero Harm	8	9
Total recordable injury frequency rate (TRIFR per million work hours)	Less than 5	6.7	5.7
Employee Engagement	World-class (top quartile)	Engagement continues to be monitored, but no global assessment has been completed. To measure impact over time we are implementing a new culturing diagnostic tool.	4.09 (2nd highest quartile)
Female representation in senior leadership*	50% by 2022	34.8%	32.4%
On-the-job training and re-skilling hours (NZ)	Double by 2025 from a FY20 baseline	85.6% increase since FY20, to 501,879 hours	346,417 hours
Farms with Farm Environment Plans (NZ)	100% by 2025	71%	53%
Water reduction at manufacturing sites in water constrained regions	30% reduction by 2030 from FY18 baseline	6.6% reduction on FY18	2.6% reduction on FY18
Reduction in absolute scope 1&2 emissions (Global)	30% reduction by 2030 from FY18 baseline	11.2% reduction on FY18	6.6% reduction on FY18
Net change in GHG emissions from dairy farming since 14/15 (NZ)	Neutral to 2030	8.2% reduction from a 2014/15 baseline	4.3% reduction from 2014/15 baseline
Solid waste sent to landfill (tonnes)	Zero waste	11,994 tonnes (a further 6.5% reduction in FY22 and more than 30% lower than FY19)	12,883 tonnes

Sustainability Scorecard

People & culture

50% female representation in senior leadership by 2022:
34.8%

20% ethnic representation in senior leadership by 2022:
15%

Gender pay gap in NZ:
5.1%
on a median basis compared to the national average of 9.2%

Double training skills hours (NZ) by 2025 from a FY20 baseline:
85.6%
increase to 501,879 hours

Nature

30% water reduction at manufacturing sites in water constrained regions by 2030 from FY18 baseline:
6.6%

Net changes in GHG emissions from dairy farming since 14/15 (NZ):
8.2%
reduction from a 2014/15 baseline

30% reduction in absolute scope 1&2 emissions (Global) by 2030 from FY18 baseline:
11.2%
on FY18

100% of Farms with Farm Environment Plans by 2025:
71%