1.0 Intent

1.1 Fonterra is committed to the responsible sourcing of palm products. We are committed to working with stakeholders to ensure the fair and ethical treatment of suppliers, to avoiding deforestation, and to protecting conservation values in the palm products supply chain.

1.2 This document supports the Fonterra Group Environment Policy and defines the minimum requirements that must be complied with by Fonterra when procuring palm products.

2.0 Scope

2.1 This Standard applies to all Fonterra's global operations, including non-wholly owned subsidiaries (where Fonterra has a majority shareholding) or any entities where Fonterra has management control. Where Fonterra has a minority shareholding in any operation and it is unable to ensure compliance with this standard, the extent of that non-compliance must be approved by the Group General Counsel.

2.2 Where Fonterra is involved in a joint venture (involving 50/50 shareholding with a third party), Fonterra must ensure the joint venture adopts policies at least as rigorous as those set out in this standard, or to a higher standard if required by local law.

3.0 Standard Requirements

Environmental and Social Performance

3.1 All suppliers of palm products within Fonterra’s supply chain must be publically committed to policies that give equivalent effect to "No Deforestation, No Peatland Development, and No Exploitation" and have business processes in place to enact these commitments.

3.2 All suppliers of palm products to Fonterra must commit to consider and account for the impacts of their activities on the community and the environment, and exercise their influence with others within their own supply chains towards compliance with this standard.

3.3 All suppliers must commit to:

3.3.1 Identify, protect and enhance High Conservation Values (HCV).

3.3.2 Recognise community land rights through Free, Prior and Informed Consent (FPIC) and participatory mapping.

3.3.3 Use the High Carbon Stock Approach (HCSA) in any plantation development to identify, protect, and restore the natural forests in the landscapes in which they operate.

3.3.4 Follow a best-practice, science-based approach to managing existing plantations on peat, and to restoring and enhancing critical peatland in the landscapes in which they operate. No new development is to occur on peat.

3.3.5 Actively work to identify risks or negative consequences within their supply chain (including with regard to suppliers, parent companies, groups, and regions) and work proactively with stakeholders to ensure compliance with this standard. This should include monitoring forest cover change and deforestation within the landscapes that contain their supply catchment areas.
3.3.6 Ensure a fair, safe and healthy working environment for all employees within their palm operations.

3.3.7 Take steps to minimise the carbon footprint of their operations.

3.3.8 Work with smallholders within mill catchment areas to encourage adoption of good environmental management practices, improve productivity, and develop fair business arrangements.

3.3.9 Put in place processes to identify and manage suppliers that are found to have had forest fires within their concession or developed peatlands; including:
   a. Working with non-compliant suppliers to develop time-bound action plans; and compensatory restoration requirements where appropriate;
   b. Suspending suppliers that found to be non-compliant with agreed action plans.

3.4 Fonterra will move towards sourcing segregated supply palm oil from credible organisations with an aim of 100% segregated supply by 2018¹.

Transparency and Traceability

3.5 Suppliers of palm products must commit to:

   3.5.1 Be able to trace all products to mills.

   3.5.2 Have time-bound plans in place and demonstrate meaningful progress towards traceability of all products to plantation, with an aim of full traceability to plantation by 2018 (excluding smallholders)².

   3.5.3 Make available maps and coordinates of their operations, including all owned and third party supplier mills and refineries, and concession maps where legally permissible.

   3.5.4 Publicly report progress on compliance with this standard for all palm products.

   3.5.5 Use credible third-party verification or certification of environmental and social performance.

Monitoring and Reporting

3.6 Fonterra will monitor suppliers annually using credible third-party assessors to identify any areas of non-compliance with this standard.

3.7 Fonterra will disclose use of palm products and performance of palm products suppliers in relation to this standard, including steps taken to address non-compliance with this standard.

Engagement and Collaboration

3.8 Fonterra will work to influence partners across the dairy industry, including other suppliers of palm kernel expeller to its farmer suppliers, to comply with this standard to the fullest extent relevant to them.

3.9 Fonterra will continue to work with partners to identify new and innovative opportunities to improve the sustainability of palm products within its supply chain, including prioritising sourcing from those organisations demonstrating an active commitment to sustainability.

3.10 As new knowledge, technologies and practices emerge Fonterra will continue to review and update this standard to ensure alignment with the intent.

¹ Some palm derivatives for use in specialised products may require additional time to transition

² Palm kernels are sourced from very wide catchment areas, may be transported across long distances from source, and may be passed through numerous traders before being processed. This complex supply chain presents a significant challenge for traceability. Fonterra recognises this challenge and will take this into consideration when verifying plans and demonstrated progress of suppliers.
4.0 Accountabilities
4.1 Fonterra employees are accountable for ensuring the mandatory requirements prescribed by this standard are being met within Fonterra, and that contractors are trained on all aspects of this standard.
4.2 Business Unit managers are accountable for ensuring employees are trained on all aspects of this standard, and are complying with this standard.
4.3 The Content owner is accountable for the development, communication, and review of the standard.

5.0 Definitions
5.1 Palm Products are products including palm oil, palm kernel oil, palm kernel expeller and any other derivatives of the palm crop.
5.2 High Conservation Value Area (HCV A) or an HCV management area is an area in a site, management unit or landscape for which appropriate management decisions must be taken and implemented in order to maintain or enhance one or more High Conservation Values (HCVs).
5.3 High Carbon Stock Approach (HCSA): A methodology to identify areas of land suitable for plantation development and forest areas that can be protected in the long term.
5.4 Free Prior and Informed Consent (FPIC): The principle that a community has the right to give or withhold its consent to proposed projects that may affect the lands they customarily own, occupy or otherwise use.
5.7 Smallholders: Plantation areas of less than 50 hectares.

6.0 Approved by
Managing Director Corporate Affairs

7.0 Content Owner
GM Responsible Dairying

8.0 Standard Governance and Maintenance
8.1 Standard Location: This standard is published on the Fonterra intranet under the Policy and Procedure Library under the group policy folder it relates to.
8.2 Review Timetable: At a minimum, this standard must be reviewed annually and align to the current Fonterra Group Policy.
8.3 Contact Information: For queries in relation to this standard, contact General Manager, Responsible Dairying

9.0 Related Documents
9.1 Fonterra Group Social Responsibility Policy
9.2 Fonterra Group Environment Policy

VERSION HISTORY

<table>
<thead>
<tr>
<th>Issue</th>
<th>Date</th>
<th>Approved By</th>
<th>Action</th>
<th>Standard Owner</th>
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<td>Managing Director Corporate Affairs</td>
<td></td>
<td>GM Responsible Dairying</td>
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