

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainability Financing Framework

Fortescue Metals Group
05 November 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Sustainability Financing Framework
Relevant standards	<ul style="list-style-type: none">• Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs) from the International Capital Market Association (ICMA). Green Loan Principles (GLPs), Social Loan Principles (SLPs) from the Loan Market Association/Asia Pacific Loan Market Association (LMA/APLMA).
Scope of verification	<ul style="list-style-type: none">• Fortescue Sustainability Financing Framework (as of 05.11.2021)• Fortescue Selection criteria (as of 05.11.2021)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• Until material changes are made to the framework

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Scope of work

Fortescue Metals Group (Fortescue) commissioned ISS ESG to assist with its Sustainability Financing Framework by assessing three core elements to determine the sustainability quality of the instrument:

1. Sustainability Financing Framework link to Fortescue’s sustainability strategy – drawing on Fortescue’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Fortescue’s Sustainability Financing Framework (5 November 2021 version) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs) (GBPs); and against the Loan Market Association/Asia Pacific Loan Market Association’s (LMA/APLMA) Green Loan Principles (GLPs) and Social Loan Principles (SLPs).
3. The Selection criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 2).

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
<p>Part 1:</p> <p>Sustainability Financing Framework link to issuer's sustainability strategy</p>	<p>According to the ISS ESG Corporate Rating published on 11.10.2021 the issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Mining & Integrated Production sector. The issuer is rated 50th out of 173 companies within its sector.</p> <p>ISS ESG finds that the Use of Proceeds financed under this Framework are broadly consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing sustainability bonds and loans is clearly described by the issuer.</p>	<p>Consistent with issuer's strategy</p>
<p>Part 2:</p> <p>Alignment with GBPs, SBPs, SBGs</p>	<p>The issuer has defined a formal concept for its Sustainability Financing Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs), Green Loan Principles (GLPs), and Social Loan Principles (SLPs).</p>	<p>Aligned</p>
<p>Part 3:</p> <p>Sustainability quality of the Selection criteria</p>	<p>The overall sustainability quality of the Selection criteria in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Sustainability Financing Framework will (re-)finance eligible asset categories which include: renewable energy, energy efficiency, green hydrogen and ammonia, energy storage, pollution control, clean transportation, sustainable water management, employment generation, access to education and vocational training, and socioeconomic advancement and empowerment.</p> <p>Those use of proceeds categories have a significant contribution to SDGs 6 'Clean water and sanitation', 7 'Affordable and clean energy', and 13 'Climate action'. They also have a limited contribution to SDGs 3 'Good health and wellbeing', 4 'Quality education', 8 'Decent work and economic growth', and 10 'Reduced inequalities'. One category has a limited obstruction to SDG 15 'Life on land'. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p>Positive</p>

¹ ISS ESG's evaluation is based on the Fortescue's Sustainability Financing Framework (5 November 2021 version), on the analysed Selection criteria as received on the 05.11.2021, and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 11.10.2021).

ISS ESG SPO ASSESSMENT

PART I: SUSTAINABILITY FINANCING FRAMEWORK LINK TO FORTESCUE'S SUSTAINABILITY STRATEGY

A. ASSESSMENT OF FORTESCUE'S ESG PERFORMANCE

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

COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
FORTESCUE	MINING & INTEGRATED PRODUCTION	3	VERY HIGH

This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the Mining & Integrated Production sector and obtains a Decile Rank relative to industry group of 3, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

ESG performance

As of 11.10.2021, this Rating places Fortescue 50th out of 173 companies rated by ISS ESG in the Mining & Integrated Production sector.

Key challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

Key Issue Performance



Sustainability Opportunities

Fortescue is one of the largest iron ore producers worldwide. The company mines iron ore and operates supporting rail and port infrastructure in Australia. Iron ore is the source of primary iron for steel production. Mineral commodities like iron ore do not provide solutions to global sustainability challenges as the potential contribution of metals to sustainable development largely depends on how and in what kind of products they are applied.

Sustainability Risks

Major social risks in the mining industry are related to worker health and safety and the protection of human rights. Fortescue has mining and railroad operations in Australia. The company has shown decreasing accident rates at a common industry level over the last few years, showcasing the efficacy of Fortescue Metal's occupational health and safety management systems. However, one fatality occurred in recent years among the company's workforce. As a member of the UN Global Compact, the company is committed to respecting internationally recognized human rights. The company's human rights policy also covers sector-specific issues such as resettlement and indigenous peoples, while it remains unclear whether some aspects like security issues are addressed. Human rights due diligence procedures include risk assessments, training, and grievance mechanisms, but there is no evidence for audits and monitoring.

In the environmental sphere, mining companies face substantial risks in the fields of climate protection and tailings management. While Fortescue has set itself a long-term greenhouse gas reduction target and aims to achieve carbon net zero operations by 2030, in recent years the greenhouse gas intensity of its iron ore operations has increased. Tailings storage and disposal are addressed through a tailings management system that includes internal monitoring as well as independent annual tailings' dam reviews. In addition, the company has detailed tailings dam specific emergency plans in place.

To ensure ethical business conduct, Fortescue has established a detailed code of conduct, covering all important aspects like corruption, antitrust violations, and conflicts of interest. The company has a solid compliance management system, including compliance training, risk assessments, and confidential and anonymous reporting channels.

Governance opinion

Regarding Fortescue's governance structure, slightly more than half of the members of the board of directors meet independence criteria. The chairperson, John Andrew Henry Forrest, is not considered independent as he was the CEO of Fortescue until 2011. However, the company has installed a lead independent director, Mark Barnaba. Also, the board has established predominantly independent committees in charge of audit, remuneration, and nomination. The company discloses its remuneration policy for executives, including long-term components, which could encourage sustainable value creation.

Regarding the governance of sustainability, the company has set up a sustainability committee comprised of predominantly independent members and while some sustainability performance objectives are taken into account in the remuneration of executives, details remain unclear. With regard to ethical business conduct, Fortescue has established a detailed code of conduct, covering all important aspects like corruption, antitrust violations, and conflicts of interest. Furthermore, the company has a solid compliance management system, including compliance training, risk assessments, and confidential and anonymous reporting channels.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of Fortescue'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 company's production process.

ISS ESG determined that, based on the information provided by the company, its overall business model has no net impact (contribution and/or obstruction) to the UN SDGs.

Breaches of international norms and ESG controversies

The company is exposed to a severe controversy as violation to norms related to human rights have been verified. However, it is important to note that remediation from the issuer is ongoing².

In March 2021 Fortescue informed ISS ESG that the works at its Solomon Mine in the Weelumurra Creek area, Western Australia (WA), which in February 2021 resulted in the destruction of an indigenous cultural heritage site of the Eastern Guruma people before offering Aboriginal Elders a chance to conduct cultural salvage activities, were suspended as soon as the error was identified. Fortescue also confirmed that it sent a letter apologising for the "administrative error" to Eastern Guruma people representatives, completed an internal investigation into the incident and has updated its internal systems to ensure land use conditions are met. In communication with ISS ESG, Fortescue stated that it is cooperating with the WA Department of Planning, Lands and Heritage official investigation to determine whether it breached the WA Aboriginal Heritage Act when it cleared a significant site of the Eastern Guruma people for development. In a statement to media, the community group representing the Eastern Guruma people stated that it is disappointed by the apparent disregard for Aboriginal cultural heritage, and that it encourages the prosecution of FMG for its breach of consent to mine under section 18 conditions. Section 18 allows the WA authorities to give consent to permanently modify and destroy aboriginal sites where land users conclude that impact to a site is unavoidable. Fortescue disclosed to ISS ESG that it is in ongoing consultation with the Eastern Guruma community. ISS ESG remains vigilant on the implementation of remediation and measures taken by Fortescue to fully align its operations to responsible business standards and norms.

B. CONSISTENCY OF SUSTAINABILITY FINANCING FRAMEWORK WITH FORTESCUE'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

Fortescue is an iron ore company founded in 2003 in Western Australia. In 2020, it established Fortescue Future Industries (FFI), a wholly owned subsidiary fully dedicated to renewable green energy and industry. Fortescue and its subsidiaries have set as strategic priorities for sustainability and committed to:

- create value for investors,
- protect the health and safety of employees,

² The Norm-Based Research (NBR) identifies corporate controversies and assesses how companies manage these controversies. The scope covers controversial practices that have adverse impacts on society and the environment in line with established expectations for Responsible Business Conduct. The core normative framework consists of the Principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights, and is embedded in the Sustainable Development Goals. The NBR assessment scale of controversies has three degrees of severity: moderate, severe, and very severe.

- empower communities,
- protect the environment.

Its sustainability targets and initiatives are connected to the UN SDGs and captured under three sustainability pillars:

- Setting high standards
- Safeguarding the environment
- Creating positive social change.

In March 2021 the company committed to achieve carbon neutrality within its existing and future operations by 2030. The decarbonization strategy focuses on substituting fossil fuel power with renewables. In addition, Fortescue has set a long-term goal for its Scope 3 emissions: achieve net zero by 2040. The company has set the following 2030 interim targets: reduce emissions from ore shipping by 50% and enable a reduction of emissions intensity from Fortescue’s customers steel making by 7.5%.

In the social dimension, Fortescue has programs in place targeting local communities. In particular, it focuses on education, empowerment and employability of women and Aboriginal people. In addition, the company is committed engage and collaborate with Aboriginal people to protect and promote the cultural heritage.

Rationale for issuance

Fortescue is putting in place a Sustainability Financing Framework to link its sustainability strategy and climate change objectives with its funding policy. The proceeds from the issuances under this Framework will be directed to projects supporting the decarbonization of the company’s activities, to the development of low carbon fuels alternatives, and to social projects.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under this Sustainability Financing Framework 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 Mining & Integrated Production sector. 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 sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Renewable Energy	✓	✓	Contribution to a material objective
Energy Efficiency	✓	✓	Contribution to a material objective

Green Hydrogen and Ammonia	✓	✓	Contribution to a material objective
Energy Storage	✓	✓	Contribution to a material objective
Clean Transportation	✓	—	Contribution to a non-material objective
Pollution Control	✓	✓	Contribution to a material objective
Sustainable Water Management	✓	✓	Contribution to a material objective
Employment generation	✓	—	Contribution to a non-material objective
Access to educational and vocational training	✓	—	Contribution to a non-material objective
Socioeconomic advancement and empowerment	✓	—	Contribution to a non-material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through this framework are broadly consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing green bonds and loans is clearly described by the issuer.*

PART II: ALIGNMENT WITH GREEN BOND PRINCIPLES (GBPS), SOCIAL BOND PRINCIPLES (SBPS), SUSTAINABILITY BOND GUIDELINES (SBGS)

1. Use of Proceeds

An equivalent amount of the net proceeds of Use of Proceeds Financing instruments will be allocated to the financing or refinancing of Eligible Green Projects and/or Eligible Social Projects.

Types of expenditures

1. Capital expenditures of physical assets meeting the criteria set out for Eligible Green or Social Projects;
2. FFI, all its capital and operating expenditures:
 - Research and Development (“R&D”) expenditures aiming at developing new products and solutions set out under the criteria for Eligible Green Projects, and
 - Majority acquisitions of companies meeting the criteria as set out for Eligible Green Projects or Eligible Social Projects. Fortescue will only consider as eligible the pro-rata share of the acquisition / participation that is dedicated to Eligible Green Projects or Eligible Social Projects
3. Fortescue and other subsidiaries operating expenditures (such as maintenance costs that either increase the lifetime or the value of Eligible Green Projects or Eligible Social Projects).

Look-back period

An equivalent amount of the net proceeds of each Use of Proceeds Financing instrument will be used to:

1. Finance Eligible Green Projects or Eligible Social Projects occurring post issuance of each financing instrument; and/or
2. Refinance disbursements in Eligible Green Projects or Eligible Social Projects initiated up to 36 months period prior to the date of issuance of any Use of Proceeds Financing Instrument.

Eligible Green Projects

Eligible Green Projects are projects supporting the transition to a low-carbon economy while aligning with Fortescue’s sustainability and climate change strategy.

To ensure that all Eligible Green Projects provide environmental benefits, they must fall into and comply with at least one of the following Category and Sub-category, while meeting the Eligibility Criteria as set out below and comply with the international E&S standards where feasible.

CATEGORY	SUB-CATEGORY	ELIGIBILITY CRITERIA
Renewable Energy	Solar, Wind and Geothermal Power Generation	Procurement (incl. land acquisition), development, installation, operation, and maintenance of solar, wind and geothermal facilities.

	Hydropower	Procurement (incl. land acquisition), development, installation, operation, and maintenance of hydropower facilities.
	Transmission and distribution networks	Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of electricity transmission and distribution networks supporting renewable energies
Energy efficiency	Production of magnetite concentrate	Production of magnetite concentrate and related infrastructure with at least [30%] higher energy efficiency than conventional processing
Green hydrogen and ammonia	Green hydrogen	Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of hydrogen from electrolysis using renewable electricity (including solar, wind, geothermal, hydrogen)
	Green ammonia	Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of ammonia produced from hydrogen as set out in category Green Hydrogen
	Transmission pipelines of hydrogen and ammonia	Procurement (incl. land acquisition), development, installation, operation, and maintenance of fluid pipelines dedicated to the transport of green hydrogen and/or ammonia or retrofit of existing natural gas networks for green hydrogen and/or ammonia transport. Subject to application of best available technologies (including leak detection systems)
Energy storage	Storage of electricity	Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of electricity storage systems including batteries and accumulators for: <ul style="list-style-type: none"> • Use in mobile fleet supporting Hydrogen and battery electrical vehicle mobility • Energy storage facilities for load balancing in Renewable Energy electricity networks
	Storage of hydrogen and ammonia	Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of hydrogen and ammonia storage facilities
Clean transportation	Land transport	Procurement (incl. land acquisition), development, maintenance, retrofitting, repurposing, and upgrade of low carbon mining and ancillary equipment including buses, hauling trucks and rails; Electric and/or hydrogen based with zero tailpipe emissions
	Sea and coastal freight transport	Procurement (incl. land acquisition), development, maintenance, retrofitting, repurposing, and upgrade of low carbon sea carriers; With zero funnel emissions

Pollution control	Electricity and hydrogen-powered Heavy Mining Equipment (HME)	Procurement, development, maintenance, retrofitting, repurposing and upgrade of low carbon diggers, excavators drill rigs and other HME
	Tailing management	Dry stacking storages construction
	Mine closure	Expenditure related to sustainable land rehabilitation and restoration
Sustainable water management	Water efficiency	Investments on improving water use efficiency, conservation systems, purification plants and recycling systems

Eligible Social Projects

Eligible Social Projects are projects supporting a designated target population while aligning with Fortescue’s business strategy. To ensure that all Eligible Social Projects provide social benefits, they must fall into and comply with at least one of the following Category and Sub-category while meeting the Technical Eligibility Criteria as set out below:

CATEGORY	SUB-CATEGORY	ELIGIBILITY CRITERIA
Employment generation	Vulnerable populations that can be targeted are: <ul style="list-style-type: none"> • Females • Rural populations including Traditional Owners and first nations people • Economically excluded individuals • Low-income populations 	Spend on procurement with Aboriginal businesses via initiatives such as the Billion Opportunities program and other vulnerable population businesses
Access to educational and vocational training		Businesses shall not exceed 199 employees and businesses shall be owned at least by 50% by the targeted population
Socioeconomic advancement and empowerment		Expenditures providing access to educational and vocational training and apprenticeship through Fortescue’s Vocational Training aimed at indigenous persons, and Fortescue Trade Up providing indigenous persons and females accredited pathway to an apprenticeship

Exclusion criteria

Fortescue has established a set of criteria (the “Exclusion Criteria”) preventing any projects included in the following list to be considered as Eligible Green Projects or Eligible Social Projects:

- Extracting and / or processing of fossil fuel (including, but not limited to, coal, oil or natural gas);
- Projects related to acquisition, development, operation and maintenance of new or existing fossil-fuel based electricity generation capacity (including, but not limited to, coal, oil or natural gas-powered assets);
- Projects related to the production of hydrogen from non-renewable electricity sources;
- In the context of transmission and distribution infrastructure, projects for infrastructure dedicated to directly and solely connecting or expanding existing direct connection to production plants that are fossil-fuel based;

- In the context of clean transportation, projects for infrastructure dedicated to the transport of fossil fuels or blended fossil-based fuels; and
- Specific exclusion will be applied on a case-by-case basis for each project in the context of any material adverse issues linked to Environmental, Social & Governance factors.

Opinion: ISS ESG considers the green and social eligibility categories in the Use of Proceeds descriptions provided by Fortescue's Sustainability Financing Framework as aligned with the Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs), Green Loan Principles (GLPs), and Social Loan Principles (SLPs). Potential environmental and social benefits of the project categories are described. Clear exclusion criteria for the use of proceeds is explained, which is aligned with best market practice.

2. Process for Project Evaluation and Selection

Fortescue is committed to setting high sustainability standards for the identification and selection of Eligible Projects.

Projects which have been presented to the Sustainability Committee will be assessed against the eligibility criteria set in this Framework, as well Fortescue's E&S risks management processes. The CEO chairs the Sustainability Committee which comprises executives and technical experts from across the business, including Finance, Environment, Investor Relations, Sustainability, Risk Management and FFI. Projects will then be reviewed in line with the Company's Capital Allocation Framework for endorsement by the Capital Allocation Group for approval by the Board.

Selection of Eligible Projects will also consider Fortescue's sustainability priorities and technical criteria in line with industry standards and guidelines.

E&S Risk Management Processes

In addition to the eligibility criteria set in the Framework, Eligible Projects are evaluated and selected considering their compliance with applicable national, international, environmental and social standards and regulatory requirements.

Opinion: ISS ESG considers the Process for Project Evaluation and Selection description provided by Fortescue's Sustainability Financing Framework as aligned with the Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs), Green Loan Principles (GLPs), and Social Loan Principles (SLPs). The process involves individuals from different departments of the issuer, which provides diverse and expert inputs.

3. Management of Proceeds

The net proceeds of any Use of Proceeds Financing Instrument will be managed on a portfolio basis by Fortescue Group Treasury.

Fortescue Group Treasury will establish a register and will rely on internal accounting systems to track the allocation of any Use of Proceeds Financing Instrument's proceeds. The register will be reviewed annually by the Board and will contain information on the use of proceeds of each Green and Social financing, including the amount of allocation per Eligible Categories.

To the extent that any proceeds of the Use of Proceeds Financing Instruments have not yet been allocated to Eligible Projects, the unallocated proceeds will be managed in accordance with Fortescue's cash management policy inclusive of cash, deposits and money market instruments and will not be invested in any project listed in the exclusion criteria. Any unallocated proceeds will be disclosed as part of Fortescue's post-issuance reporting.

Fortescue will also aim to re-allocate proceeds to other Eligible Projects promptly after a previously identified Eligible Project has been divested, cancelled, or related to a material E&S issue, so long as the facility remains in place.

Opinion: ISS ESG finds that the Management of Proceeds description proposed by Fortescue's Sustainability Financing Framework is well aligned with the Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs), Green Loan Principles (GLPs), and Social Loan Principles (SLPs). The commitment to apply the exclusion criteria to the temporary use of unallocated proceeds is showing best market practice.

4. Reporting

Fortescue will report annually and until full allocation (or on a timely basis upon material changes of projects) on the allocation or proceeds and on impact of the Use of Proceeds Financing Instruments.

The Use of Proceeds Financing Instruments reporting will be made publicly available on the website (www.fmgl.com.au) and will cover allocation and impact reporting for each project category.

An external verification of the Sustainable Financing Report will be provided by an independent external auditor, on an annual basis and until the complete allocation of proceeds (or in case of significant changes in the allocation of proceeds). The external auditor will verify that the proceeds of the bonds are either allocated to Eligible Projects or managed in accordance with Fortescue's approved Treasury Policies. This verification report will be published on their website (www.fmgl.com.au).

Allocation Reporting

The method of allocation reporting will be outlined as it relates to an individual debt issuance and issuer and may include:

- Total amount of Eligible Projects (the "Portfolio") (in USDm)
- Breakdown of the Portfolio by categories (in USDm and % of total)
- Breakdown of the Portfolio by entities (Fortescue or FFI) (in USDm and % of total)
- Breakdown of the Portfolio by region / country
- Share of refinancing and financing in the Portfolio
- Breakdown of the Portfolio by type of expenditures (capex, R&D, ...) (in USDm and % of total)
- List of outstanding Use of Proceeds Financing Instruments with their outstanding amount (instruments other than bonds will be reported on an aggregate basis)
- Breakdown of each series of Use of Proceeds Financing Instrument (green, social and sustainability) by eligible category (%)

- Balance of unallocated proceeds (if any) (in USDm).

Impact Reporting

Impact reporting will consider use of proceeds and the associated meaningful impact indicators. On a best efforts basis and where feasible Fortescue intends to align its impact reporting with the ICMA Handbook 'Harmonized Framework for Impact Reporting'. Examples of impact metrics may include, but are not limited to:

GREEN CATEGORIES	POTENTIAL IMPACT INDICATORS
Renewable Energy	Renewable energy capacity (in MW and/or in percentage) Annual renewable energy generation (in MWh) Annual GHG emissions reduced / avoided (in tCO ₂)
Green Hydrogen and Ammonia	Annual hydrogen and ammonia production (with split between the two) (in tH ₂ or m ³) Description of R&D related to green hydrogen and ammonia
Energy Storage	Annual energy stored (in MWh) Annual hydrogen stored (tH ₂ or m ³) Annual GHG emissions reduced/avoided in tCO ₂ e Description of R&D related to energy storage
Clean Transportation	Number and types of low carbon transportation financed Annual GHG emissions reduced/avoided in tCO ₂ e
Sustainable Water Management	Annual reduction in water use in % Annual volume of wastewater treated, reused, or avoided in %
Environmentally Sustainable Management of Living Natural Resources and Land Use	Annual amount invested in research and conservation programs Description of biodiversity conservation programs Annual volume of recycled plastics (in tonnes)
SOCIAL CATEGORIES	POTENTIAL IMPACT INDICATORS
Employment Generation	Cumulative amount and number of contracts awarded to businesses owned or operated by vulnerable populations Estimated number of employees supported
Estimated Number of Employees Supported	Total number of Aboriginals and women trained in the VTEC / Trade Up programs

	Average conversion rate to permanent headcount of Aboriginals and women in the VTEC / Trade Up programs
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Opinion: ISS ESG finds that the reporting proposed by Fortescue’s Sustainability Financing Framework is aligned with the Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs), Green Loan Principles (GLPs), and Social Loan Principles (SLPs). The reporting commitment makes reference to the ICMA Handbook “Harmonized Framework for Impact Reporting”, as well as disclosures on the proportion of refinancing vs financing new expenditures, which are both market best practices.

External review

Fortescue has obtained a Second Party Opinion to evaluate the Sustainability Financing Framework, its transparency and governance as well as its alignment with the relevant standards.

The Second Party Opinion is available on the website at www.fmgf.com.au.

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE SUSTAINABILITY FINANCING FRAMEWORK TO THE UN SDGs

Based on the assessment of the sustainability quality of the Sustainability Financing Framework Selection criteria and using a proprietary methodology, ISS ESG assessed the contribution of Fortescue’s Sustainability Financing Framework to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Sustainability Financing Framework’s Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Solar, Wind and Geothermal Power Generation	Significant Contribution	 
Hydropower (<10MW)	Significant Contribution	 
Hydropower (>10MW)	Limited Contribution	 
Hydropower (>1000MW)	Limited Contribution	 
Hydropower (>1000MW)	Limited Obstruction	
Transmission and distribution networks Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of electricity transmission and distribution networks supporting renewable energies.	Significant Contribution	 
Production of magnetite concentrate (Production of magnetite concentrate and related infrastructure with at least 20% higher energy efficiency than conventional processing)	No Net Impact	
Green Hydrogen (Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of hydrogen from electrolysis using	Significant Contribution	 

renewable electricity (including solar, wind, geothermal, hydrogen))

Green ammonia

(Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of ammonia produced from hydrogen as set out in category Green Hydrogen)

Limited Contribution³



Transmission pipelines of hydrogen

(Procurement (incl. land acquisition), development, installation, operation, and maintenance of fluid pipelines dedicated to the transport of green hydrogen or retrofit of existing natural gas networks for green hydrogen - Subject to application of best available technologies (including leak detection systems))

Limited Contribution



Storage of electricity

Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of electricity storage systems including batteries and accumulators for:

- Use in mobile fleet supporting hydrogen and battery electrical vehicle mobility
- Energy storage facilities for load balancing in renewable energy electricity networks

Significant Contribution



Transmission pipelines of ammonia

(Procurement (incl. land acquisition), development, installation, operation, and maintenance of fluid pipelines dedicated to the transport of ammonia or retrofit of existing natural gas networks for ammonia transport.

Limited Contribution⁴



Storage of hydrogen

(Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of hydrogen storage facilities)

Limited Contribution



Storage of ammonia

(Procurement (incl. land acquisition), development, installation, operational readiness, operation, and maintenance of ammonia storage facilities)

Limited Contribution⁵



Land Transport

(Procurement (incl. land acquisition), development, maintenance, retrofitting, repurposing, and upgrade of low carbon mining and ancillary equipment including buses, hauling trucks and rails; electric and/or hydrogen based with zero tailpipe emissions)

Limited Contribution



Sea and costal freight transport

(Procurement (incl. land acquisition), development, maintenance, retrofitting, repurposing, and upgrade of low carbon sea carriers powered by energy from renewable sources (such as green ammonia) with zero funnel emissions)

Limited Contribution



³ This project category is assessed as having a limited contribution to SDG 7 and 13, beyond the SDGA proprietary methodology.
⁴ This project category is assessed as having a limited contribution to SDG 7 and 13, beyond the SDGA proprietary methodology.
⁵ This project category is assessed as having a limited contribution to SDG 7 and 13, beyond the SDGA proprietary methodology.

<p>Tailing Management (Dry stacking storages constructions)</p>	<p>No Net Impact</p>	
<p>Mine closure (Expenditure related to sustainable land rehabilitation and restoration)</p>	<p>No Net Impact</p>	
<p>Electricity and hydrogen-powered Heavy Mining Equipment (HME) (Procurement, development, maintenance, retrofitting, repurposing and upgrade of low carbon diggers, excavators drill rigs and other HME powered by energy from renewable sources)</p>	<p>Limited Contribution</p>	
<p>Water Efficiency (Investments on improving water use efficiency, conservation systems)</p>	<p>No Net Impact</p>	
<p>Water Efficiency (Conservation systems)</p>	<p>Significant Contribution</p>	
<p>Water Efficiency (Conservation systems)</p>	<p>Significant Contribution</p>	
<p>Water Efficiency (Purification plants and recycling systems)</p>	<p>Limited Contribution</p>	
<p>Expenditures providing access to educational and vocational training and apprenticeship Expenditures providing access to educational and vocational training and apprenticeship through Fortescue’s Vocational Training aimed at indigenous persons, and Fortescue Trade Up providing indigenous persons and females accredited pathway to an apprenticeship</p>	<p>Limited Contribution</p>	
<p>Spend on procurement with Aboriginal businesses via initiatives such as the Billion Opportunities program and other vulnerable population businesses Business shall not exceed 199 employees and businesses shall be owned at least by 50% by the targeted population (Females, Rural populations and First Nations People, Economically excluded Individuals, Low-income populations)</p>	<p>Limited Contribution⁶</p>	

⁶ This project category is assessed as having a limited contribution to SDG 8 and 10, beyond the SDGA proprietary methodology.

B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA

Key performance indicators (KPIs) covering both Green and Social Activities

ASSESSMENT AGAINST ISS ESG KPI

Labour and Health & Safety

- ✓ The company has a health and safety management system in place.
- The company's health and safety management system in place is aligned to internationally recognized standards such as ISO 45001, however the system is not certified.
- ✓ Each company site has emergency management plans, incident management team and a trained emergency services team in place. Emergency exercises are conducted throughout the year. The company provides training to employees dealing with transporting and handling hazardous goods. It is also ensured that contractors carrying out those tasks have been properly trained.

Human Rights

- ✓ The company is a signatory of the United Nations Global Compact. Moreover, the company has due diligence measures in place such as risk and impact assessment, engagement with stakeholders, training, grievances channels.

Dialogue with Local Communities

- ✓ The company engages with local communities and provides access to grievances channels and works to secure free, prior and informed consent from traditional indigenous landowners. It is committed to carry out the engagement and dialogue with relevant stakeholders through the whole project life-cycle.

Water Management and Monitoring

- The company does not have an overarching water management policy in place to date, although it is committed to develop one along with water use reduction targets by FY 2023. In addition, each site has specific water management policies in place.

Tailing Management, Mine closure

Waste Management

- ✓ The company conducts risk assessment of tailings and waste rock management measures. Processes are monitored and audited. Specific response plans for failures are designed.

- ✓ The company is committed to recycling more than 80% of the waste volumes at operating sites, including hydrocarbon and packaging wastes (excluding tires and concrete waste). Most waste is taken offsite for recycling. However, no overarching policy and targets for waste reduction or reduction of substances of concern use are in place.

Acid Mine Drainage Management

- ✓ The company has an acid mine drainage management system in place.

Production of Magnetite concentrate, Mine Closure

Environmental Management System

- ✓ The company has an environmental management system in place.
- The company's environmental management system in place is aligned to internationally recognized standards such as ISO 14001, however the system is not certified.
- ✓ The company provides for additional environmental considerations through management plans, standards, and process targeting noise, surface water, dust, flora and fauna, groundwater, and closure.

Production of Magnetite Concentrate, Transmission and Distribution

Biodiversity

- ✓ The company conducts environmental impact assessments for the construction and operation of all its mine sites, ports, and railways.

Air Quality

- ✓ The company reports on its total energy consumption and CO₂ emissions. Emissions data are externally verified and assured.
- ✓ The company has measures in place to prevent and control emissions such as increasing the use of renewable energy.

Production of Magnetite Concentrate

Site Closure, Decommissioning and Reclamation

- ✓ The company engages with external stakeholders with regard to post-closure land use. Studies and field trials are undertaken to demonstrate the feasibility of the closure strategies. Financial provisions for closure are developed for all sites and revised every six months.

Storage of Hydrogen and Ammonia

Risk Management System

- ✓ The company will develop a dedicated safety management framework. Impact on third-parties is specifically taken into account when designing pipelines, and evaluating project.

DISCLAIMER

1. Validity of the SPO: Until material changes are made to the framework
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
5. We would point out that this SPO, in particular the images, text and graphics contained therein, and the layout and company logo of ISS ESG and ISS-ESG are protected under copyright and trademark law. Any use thereof shall require the express prior written consent of ISS. Use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

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1. ANNEX 1: Methodology

ISS ESG GREEN AND SOCIAL KPIS

The ISS ESG 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 Fortescue’s Sustainability Financing 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.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

Environmental and social risks assessment methodology

ISS ESG 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 to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green and Social Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Fortescue (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 SDG

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, ISS ESG identifies the extent to which Fortescue’s Sustainability Financing Framework contributes to related SDGs.

2. ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

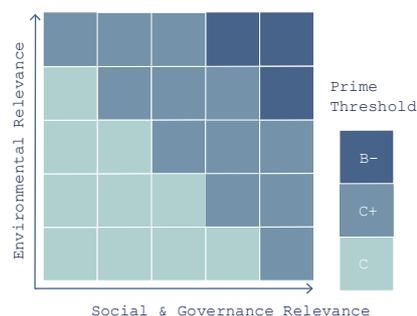
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

3. ANNEX 3: Quality management processes

SCOPE

Fortescue commissioned ISS ESG to compile a Sustainability Financing Framework SPO. The Second Party Opinion process includes verifying whether the Sustainability Financing Framework aligns with the Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs) and to assess the sustainability credentials of its Sustainability Financing Framework, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs)
- ISS ESG KPI set: Green and Social activities
- Other relevant KPI

ISSUER'S RESPONSIBILITY

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

- Framework
- Asset pool / 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 Sustainability Financing Framework to be issued by Fortescue based on ISS ESG methodology and in line with the ICMA Green Bond Principles (GBPs), Social Bond Principles (SBPs), Sustainability Bond Guidelines (SBGs).

The engagement with Fortescue took place in October 2021.

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.

4. 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.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

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/>

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