



**Japfa Ltd**

## **Sustainability-Linked Financing Framework**

**1 March 2022**

**Japfa Ltd**

# Sustainability-Linked Financing Framework

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## 1. Introduction

### 1.1. About Japfa Ltd

Japfa Ltd (“Japfa”, the “Company”, or together with its subsidiaries, the “Group”) is a leading, pan-Asian, industrialised agri-food company dedicated to feeding emerging Asia with essential proteins. We are headquartered in Singapore and listed on the Singapore Stock Exchange. We employ over 40,000 people across an integrated network of modern farming, processing and distribution facilities in Indonesia, Vietnam, Myanmar, India and China. We specialise in producing protein staples (poultry, beef, swine and aquaculture), quality dairy and packaged food that nourish millions of people.



Over the past five decades we have grown to become leaders in multiple protein foods by embracing an integrated industrialised approach to farming and food production across the entire value chain. Our large-scale standardised operations that excel on livestock genetics, feed, farming technologies and biosecurity, allow us to consistently produce high-quality proteins and to replicate our business model across different markets and protein types.

With the growth in protein consumption in emerging Asia expected to continue, we forge ahead with our strategy across multiple protein segments in the major high growth markets of emerging Asia where Japfa operates.



### 1.2. Our Values

Central to the success of Japfa Ltd is the nurturing of sustainable, growth-oriented relationships based on trust and integrity. “*Growing Towards Mutual Prosperity*” is the vision which we practise and uphold with our various stakeholder groups.



### 1.3. Our Mission

To be the **leading dependable** provider of **safe and affordable protein foods** to millions of people in Emerging Asia, building on the foundation of **our excellent teamwork and proven experience** for the benefit of **all stakeholders**.

#### LEADING

- Top of mind
- Reference point by Industry
- A continuing process
- Ahead of competition

#### AFFORDABLE

- Cater mainly to the masses
- Not the cheapest, but good value
- Role in alleviation of food shortages
- Efficient protein converter, leading to reasonable long-term profit for business sustainability

#### DEPENDABLE

- Dependable to all partners, farmers, consumers & staff
- Consistent, traceable, good quality, safe, disease free products
- Responsible to the community & environment

#### PROTEIN FOODS

- Emphasis on poultry, livestock & marine proteins
- Including key upstream operations of feed, livestock breeding & raising, vaccines etc.
- Food grade, for human consumption



#### EXCELLENT TEAMWORK

- Co-operate & support each other even without being asked
- Seamless coordination
- Operate as one unit
- Differences in opinions encouraged but move as a team

#### PROVEN EXPERIENCE

- Experienced in farming and emerging economies

#### STAKEHOLDERS

- Staff
- Customers
- Suppliers
- Contract Farmers
- Shareholders
- Community

### **1.4. Sustainability**

#### *1.4.1 Sustainability Strategy*

Sustainability has been ingrained in our operations since the founding of our Company back in 1971. Sustainability is deeply rooted in the Company's vision and in our everyday business. Over time, more and more people across our Company have embraced sustainability in their daily activities. We believe we can only grow if we grow together towards mutual prosperity. Together with our employees, business partners, farmers and suppliers, we support local communities, the nation and the world to achieve sustainable development goals.

We align our strategies with the United Nations Sustainable Development Goals (UN SDGs), especially UN SDG 2: Zero Hunger, achieve food security and improved nutrition and promote sustainable agriculture. We have set up the Japfa Sustainability Pillars to guide the implementation of best practices in sustainability across the Group and the Company. The pillars focus on establishing an Efficient Production System, People Development and Improving Nutrition.



## Sustainability Pillars

Affordable Nutritious Protein



### Efficient Production System

Large Scale  
Operations & Advanced  
Technology

### Healthy Animals

Biosecurity  
Vaccines  
Animal Welfare  
Balanced Feed

### Efficient Use of Resources

Energy  
Water  
Reusable Packaging  
Local Sourcing

### Minimise Waste & Emission

Manure to Fertiliser  
Air Pollution Control  
Wasterwater Treatment



### People Development

Knowledge  
Management

### Employees

Training & Development  
Sports for Life Balance

### Farmers

Technical Assistance  
Skills Improvement

### Community

Education Programmes  
Focus on Agriculture



### Improving Nutrition

Feed More People

### Facilitating Access to Affordable Protein

Geographical Reach  
Industrialised Approach

### JAPFA for Kids



















Education Programmes  
about Balanced Diets for  
Children & Teachers

### Food Safety & Traceability

Food Safety &  
Hygiene Standards  
Halal Slaughterhouses  
Traceability back to the  
Farm

### 1.4.2 Sustainability Development Goals (SDGs) Compass

We align our efforts to contribute to the UN SDGs, with an emphasis on UN SDG 2: End hunger, to achieve food security, improve nutrition and promote sustainable agriculture.

Sustainability Pillars	Description	Contribution to UN SDGs	
Efficient Production System	We contribute to hunger reduction and provide nutrition for our society through farming healthy animals, efficient use of resources and waste and emission minimisation. These efforts ensure that we produce responsibly while providing affordable and nutritious food for people in emerging economies.	  	  
People Development	Through our large-scale operations, we create jobs to reduce poverty and support infrastructure development around our operating units, as well as knowledge management for our employees, farmers and community by providing training, technical assistance and skills improvement for farmers and education programmes.	  	  
Improving Nutrition	Our industrialised vertically integrated operations and local sourcing provide access to affordable nutritious protein for people through a transparent and traceable supply chain that ensure food safety. We also approach the community to adopt a healthy lifestyle by promoting a healthy balanced diet through our Japfa for Kids programme.	  	  



## **Providing Affordable and Nutritious Protein**

UN SDG 2 is the cornerstone of our sustainability strategy as it underscores our mission to provide affordable protein foods in Indonesia. Starting from a single poultry feed mill in Indonesia in the early seventies, we have progressively expanded our business to include breeding, commercial farming and food processing. Today, we have become one of the major industrialised agri-food companies in Indonesia, and we help improve the nutrition of millions of people by producing essential proteins that are nutritious, safe and affordable through an Efficient Production System. This is how we live up to our value of “*Growing Towards Mutual Prosperity*” and contribute towards the goal of UN SDG 2, which is to end hunger, achieve food security and improved nutrition and promote sustainable agriculture.

As reflected in our Sustainability Pillars, an Efficient Production System can be achieved by ensuring the health and welfare of our chickens, the efficient use of resources and by minimising waste.

### **Efficient Production System**

#### **Healthy Animals**

##### **Animal Welfare**

We treat our animals in accordance with the Five Freedoms of Animal Welfare. We conduct appropriate veterinary care, provide housing facilities that are safe and designed to promote animal well-being. Our chickens are raised in a condition where they can eat, drink, rest and roam freely in closed or open-house farm systems.

In our aquaculture operations in Indonesia, water quality is of critical importance. We monitor the physical and chemical condition of our aquatic ecosystem’s water to maintain the optimum range of our aquaculture needs. Our efforts are recognised by the certifications from the Best Aquaculture Practice (BAP) and Aquaculture Stewardship Council, which are testimonies that fish has been farmed in a responsible manner.

In Vietnam, we are building new modern swine breeding which will be “closed house” with automatic ventilation, feeding and drinking systems. These new farms will utilise group pens and tighter biosecurity to protect the animals.

In our China dairy business, we work with U.S. animal welfare experts to promote the wellbeing of our cattle as we believe happy cows are more productive. We focus on continuous genetic improvements to our dairy herd as well as improving forage quality and managing heat and cold stress for the comfort of the cows. Our farms consistently deliver the highest average milk yields in China compared to other raw milk producers.

##### **Biosecurity**

Strict biosecurity is key to animal health and to protect our animals from infectious diseases. Our operations adopt three components of biosecurity, namely isolation, traffic control and sanitation. We practise strict biosecurity and hygienic procedures to minimize the entry and spread of pathogens into our operations. At sensitive units, such as our breeding farms, we implement a rigorous three-zone biosecurity system that requires visitors and personnel to take a shower and change into clean

clothes and footwear provided before entering our farms. Likewise, vehicles are cleaned and disinfected before coming into the farms.

We adopt international best practices such as the Principle of Good Agricultural Practices and Hazard Analysis Critical Control Point (HACCP) system as part of our biosecurity control policies. Our measures include frequent sampling to prevent salmonella infection and routine monitoring of animals' health.

In response to Asian Swine Fever (ASF) in Vietnam in 2018, Japfa has pioneered stringent bio-security protocols to minimise any direct impact of ASF to our farms. Japfa established a separate "selling centre" and designated truck washing bays with extra disinfectant, a truck dryer/baking system (to kill viruses) and quarantine for trucks before entering our premises. Environmental sample collection is done in our feedmills, farms, washing bays and selling centre to check for infectious pathogens. A biosecurity team is set up to train and audit compliance and we also invite experts from overseas to share their experience in ASF to help strengthen our team on biosecurity protocols.

### Vaccine

Our animals are regularly vaccinated, as a preventive measure, to boost their immunity and to protect them from contagious diseases. In Indonesia, we are the only animal protein producer that has an in-house animal vaccine research and production unit, PT Vaksindo (Vaksindo) which is a leading poultry vaccine research producer in Indonesia actively doing research on endemic diseases in the Asian and African regions and produce autogenous vaccines for the poultry industry to combat the threat of diseases. The production facilities in Indonesia are equipped with cutting edge technology and bear Biosecurity level 3 certification ISO 9001:2015 as Good Manufacturing Practice. We also collaborate with national and international institutions in Asia, Europe, Australia and America on research and is building a science & innovation centre to further strengthen our research capabilities.

### Balanced Feed

Through innovative research and development, we endeavour to provide quality and balanced animal feed that optimises growth and development of the animals. Our formula considers the digestive abilities and requirements for balanced nutrition, suitable for various phases of animal development, especially in the tropical climate where we run our animal protein operations.

Working alongside our expert nutritionists, we use advanced precision technology such as the Near Infrared Reflectance ("NIR") to identify nutritional content of our feed raw materials to develop balanced feed formulation and improve production efficiency.

Our poultry feed and aqua feed are free from Antibiotic Growth Promoter (AGP). We use alternative substitutes as such enzymes and probiotics.

In addition, we built Japfa Aquaculture Research Station (JARS) in Sumatra and Japfa Poultry Researched Farm (JPRF), which is the most advanced and the biggest in-house poultry research infrastructure across Asia Pacific, to support our research and development in formulating the best balanced nutrition for our animal feed.

### **Efficient Use of Resources**

We adopt an industrialised approach in our farming and food production business, focusing on our core competencies, scale and technology (including genetics). Our industrialised approach promotes

efficient use of resources, waste and emission reduction which help to increase our operational efficiencies.

It is critical for us to transform our production and resource consumption. An initiative adopted in tackling this issue is a Life Cycle Assessment that we have piloted for some of our poultry units in Indonesia. The assessment will provide a scientific analysis on the environmental impacts resulted from our production processes and identify areas where improvements can be made.

Water availability presents a material risk in the animal protein sector, yet an indispensable part of our production. Water is used across our operations, from producing steam in the boilers, serving as drinking water for our animals, as well as for our aquaculture business. Rainwater harvesting systems and biopores are important parts of water resources management to reduce intakes from groundwater and overcome water scarcity. These systems are important particularly in areas where water is scarce. As part of our efforts to conserve water, we are looking at wastewater treatment and water recycling facilities in relevant poultry operations in Indonesia. Our other goals include to install more rainwater harvesting systems and use of mobile applications for more effective monitoring of freshwater ecosystem.

We are committed to using clean energy for our production processes, with a preference for natural gas and renewal energy from biomass and solar power where available.

### Minimise Waste & Emission

Water is essential in our livestock business. We treat our wastewater in wastewater treatment facilities (WWTP) to remove impurities before discharge into water bodies to preserve the water supplies.

We aim to minimise waste generated and maximise recycling through thorough waste sorting. Our operations generate mainly non-hazardous waste, of which half is recycled, reused or composted into fertilizers. The balance of non-hazardous waste is distributed to third parties, sent to landfills or incinerated. Hazardous waste is collected and handled by licensed third party contractors.

Most of our day-old-chick (DOC) hatchery operations use reusable plastic boxes for transportation of DOC to customers. Waste from used woven plastic bags are either donated to local farmers to be used in their farms or recycled to make new packaging. In Myanmar, we cooperate with a third party to use black soldier flies technology to effectively and biologically break down part of our organic waste.

## People Development

### Community

#### Supporting Our Farmers

In Indonesia, many farmers still live in poverty despite a growth in the demand of poultry and aquaculture products driven by the country's strong economic performance. The problem has found to be linked with a lack of education, skill and access to funding. Guided by our value of *"Growing Towards Mutual Prosperity"*, we constantly support our farmers in addressing these challenges to enhance their productivity, which in turn improves their livelihoods. This once again demonstrates our strong commitment to be aligned with SDG 2: End hunger, achieve food security and improved

nutrition and promote sustainable agriculture, where one of its targets is to double the agricultural productivity and income of small-scale farmers by 2030.

We collaborate with external contract farmers in over 10,000 commercial farms throughout Indonesia to produce live chickens for sale to wet markets, providing affordable, accessible fresh animal protein to local communities.

We set up a poultry partnership scheme to impart technical skills such as farm selection, premium input selection, sanitation maintenance and vaccine administration. In addition to technical knowledge, we also have mentoring and training programmes targeted at the other aspects of their operations such as accounting and marketing. Through these knowledge developments, we hope to contribute to the improvement of their livelihood.

### **Improving Nutrition**

#### **Japfa for Kids**

According to the United Nations International Children's Emergency Fund (UNICEF), more than two million children in Indonesia suffer from wasting and more than seven million children under-5 are stunted<sup>1</sup>. Experts believe that this problem is not merely due to poverty, but also due to the lack of a nutritionally balanced diet<sup>2</sup>. As a leading protein provider, we play a role in the battle to combat malnutrition.

Japfa for Kids is our social flagship programme dedicated to the wellbeing of children with the objective to support the Indonesian Government's efforts to tackle stunting. The programme focuses on educating primary school students and teachers on the importance of nutrition and hygiene, where we provide mentorship and training to foster the awareness of balanced diet, safety and hygiene awareness to improve the general wellbeing and health especially those in rural areas. In addition, we also conduct free health, dental and optical screenings for the children.

#### **Food Safety and Traceability**

Consumers today are more concerned about how their food is produced and sourced. Our vertically integrated operations, from animal feed production to breeding farms then to fattening farms and to downstream processing, allow us to trace products within our vertically integrated system, which are essential for a sustainable supply of nutritious food.

The processes both in our Indonesian poultry and aquaculture ensure food safety through hygienic handling and strict biosecurity, certified with Food Safety System Certificate (FSSC) 22000 4.1.

In Indonesia, our chick vans are integrated into our SAP system, using GPS to assign the most efficient route to minimize fuel consumption and alleviate stress on the DOCs as well as allows location tracking. To provide more transparency for our customers, a barcode system allows full traceability of our DOC from supplier to customer.

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<sup>1</sup> UNICEF (30 June 2020) **Indonesia: Number of Malnourished Children Could Increase Sharply Due to COVID-19 Unless Swift Action Is Taken.** [www.unicef.org/indonesia/press-releases/number-of-malnourished-children-in-indonesia-could-increase-sharply-due-to-covid-19](https://www.unicef.org/indonesia/press-releases/number-of-malnourished-children-in-indonesia-could-increase-sharply-due-to-covid-19)

<sup>2</sup> World Health Organization (2018) Reducing stunting in children: equity considerations for achieving the Global Nutrition Targets 2025. p.7-8 Geneva. Licence: CC BY-NC-SA 3.0 IGO. Access via <https://www.who.int/publications/i/item/9789241513647>

Our aquaculture operations operate its own breeding, processing, cold storage and value-added product facilities. This integrated production structure allows us to meet the requirements of best practices in food traceability and food safety for domestic and global food service companies.

In Vietnam, we are part of the TE-Food Vietnam program, an initiative by the HCMC government, which provides food traceability information of our processed chickens across the supply chain through the QR code on our packaging of our products.

#### 1.4.3 Life Cycle Assessment (LCA)

By having an Efficient Production System, we are able to efficiently manage our resources and minimise toxic release into the environment, which allows us to align with UN SDG 12: Responsible Consumption and Production.

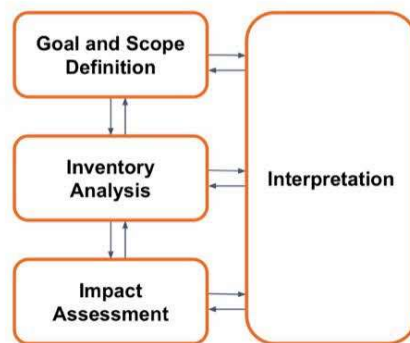
In 2019, we commenced a formal Life Cycle Assessment (LCA) on our Indonesia poultry operations with the aim to better understand impacts associated with our products and identify opportunities to improve the environmental performance of our products at various points in their life cycle. LCA is a science-based methodology where the procedures and standards have been developed and outlined within the ISO 14040/14044:2006.

### What is Life Cycle Assessment (LCA)?

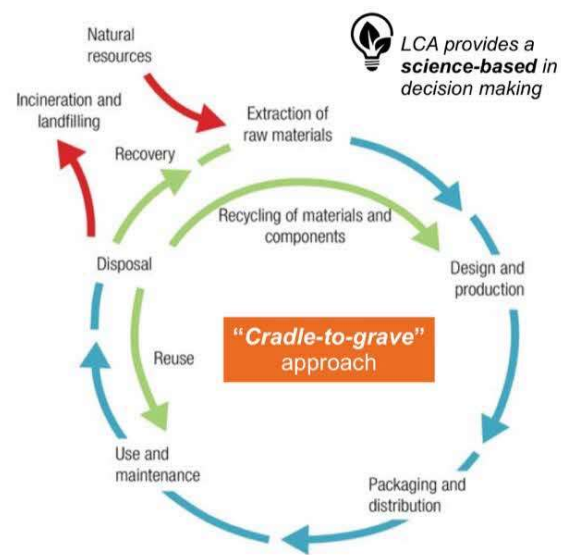
According to ISO 14040/44:2006:

**"Compilation and evaluation of input, output and potential environmental impact of a system product throughout its life cycle"**

LCA Framework:



Source: ISO 14040:2006



Source: UNEP/SETAC. Life Cycle Management: A Business Guide to Sustainability. Paris, 2007.

We are the first vertically integrated poultry producer in Indonesia to carry out an LCA to measure the environmental impacts of our poultry products throughout the supply chain. The LCA covers 27 poultry units in Indonesia representing approximately 12% of our poultry operations, from the production of the feed to the end product, throughout the vertical integrated chain. The quantitative analysis considers the required inventory within the cradle-to-gate boundary, from raw materials, energy,



transportation, packaging, waste to emissions, which are later calculated as environmental impact values of our production system.

In addition to the environmental LCA, we have participated as the road tester in the Social LCA Project initiated by the United Nations Environment Life Cycle Initiative and Social LC Alliance. Similar to the environmental LCA, Social LCA is a technique to assess the social impacts of products and organizations from raw material extraction to final disposal. We are the only company that represented the food and agricultural sector and the Southeast Asian region.

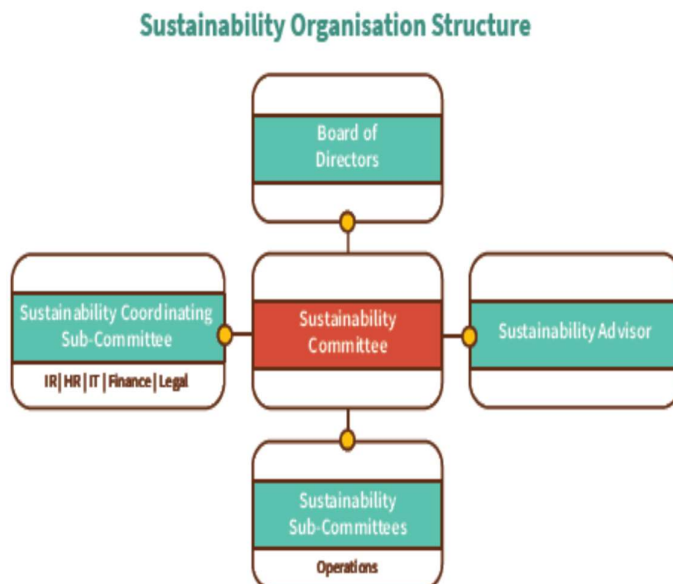
These LCAs provide insights into our environmental and social hotspots and form the backbone of our on-going efforts on water and wastewater management, energy efficiency, waste minimisation and process improvements. The most material topics identified include wastewater management, animal welfare, and farmer livelihood.

#### 1.4.4 Sustainability Committee

Over the years, we have continuously enhanced our sustainability processes. In 2017, we started by monitoring, and reporting our sustainability practices.

Backed by the commitment of the top management, Japfa Ltd has embraced sustainability more fully across the organisation. In 2018, we established a Sustainability Committee (SC) to strengthen our commitment and guide the implementation of best practices in sustainability. The Committee provides advice and assists the Board of Directors in strategic sustainability decision-making in relation to sustainability matters and long term planning, as well as facilitates sustainability initiatives.

The Sustainability Committee comprises the Chief Executive Officer and the Chief Financial Officer. In addition, we have the Sustainability Sub-committee and Sustainability Coordinating Sub-committee. The Sustainability Sub-committee comprises representatives from our operations across countries. The members are our sustainability champions who encourage the adoption of a sustainability mindset throughout Japfa. Our Sustainability Committee is responsible to roll out the sustainability pillars, document our progress and identify key areas for further development.



The Sustainability Committee has the following roles and responsibilities:

- Establish and propose sustainable development policy and direction to the Board of Directors for its approval
- Develop sustainability strategies with timeframes
- Consider and assess the results of the implementation of sustainability strategies, give advice for the development, and report to the Board of Directors at least once a year
- Approve Sustainability Report annually

Appoint Sustainability Sub-committees, as considered appropriate, for implementation of sustainability strategies in operational divisions

- Review and approve KPIs and SPTs of sustainability-linked transactions

## **2. Overview of Japfa Ltd's Sustainability-Linked Financing Framework**

Japfa Ltd recognises the importance of incorporating sustainability in our day-to-day operations for our long-term success. We believe that sustainable finance not only represents an opportunity for Japfa Ltd but it will be a strong motivator in driving the change toward a sustainable future. These financing activities will also allow our investors and stakeholders to partner with Japfa Ltd in achieving long term sustainability goals.

This Sustainability-Linked Financing Framework (hereinafter referred to as the "Framework") has been established in alignment with Japfa's Sustainability Pillars to provide guidance on debt issuances covering the following types of sustainability-linked instruments:

- Sustainability-Linked Bonds
- Sustainability-Linked Loans

This Framework is applicable to Japfa Ltd and all our subsidiaries. For the avoidance of doubt, the sustainability-linked instruments can be in any currency, tenor or with other terms or conditions.

## **3. Sustainability-Linked Bonds**

The *Sustainability-linked Bond Principles* (SLBP) released, and administered, by ICMA in June 2020 provide guidelines on the approach for issuance of sustainability-linked bonds. This Framework is in alignment with the five key components of the SLBP:

- Selection of Key Performance Indicators (KPIs)
- Calibration of Sustainability Performance Targets (SPTs)
- Bond characteristics
- Reporting
- Verification

### 3.1 Selection of Key Performance Indicators (KPIs)

Our sustainability strategy described in *Section 1.4.1, 1.4.2 and 1.4.3* has been formulated around material topics that are relevant to Japfa Ltd as well as our stakeholders. The efforts that we put in implementing programmes addressing these material topics will not only minimise the environmental, social and governance (ESG) risks Japfa Ltd faces but also contribute positively to the UN SDGs. We are committed to selecting sustainability KPIs that are relevant, core, and material to our business and sustainability strategy. Moreover, the selection of KPIs has been informed by the LCAs discussed in *Section 1.4.3*, which are a science-based study aims at identifying areas of improvement of our operations.

Our first sustainability-linked bond issuance by our subsidiary, PT Japfa Tbk, will prioritise Environmental KPIs. An example of the KPI includes but is not limited to the following:

#### **KPI: Water Recycling Facilities for Sustainable Water and Wastewater Management at our Indonesian Poultry Operations**

##### Objective

Minimise impacts related to water pollution from untreated wastewater by reducing eutrophication potential through the management, treatment and/or recycling, and utilisation of wastewater.

Treated wastewater will improve the environmental condition of the farm and the surrounding community.

##### Background

- Livestock production has high potential to impact water availability and/or water quality. Based on our LCA, wastewater management has been identified as a key area where we can manage our impact on the environment.
- Wastewater from livestock production is commonly utilised as organic fertiliser, that is beneficial for the surrounding communities, and/or discharged to the environment.
- Wastewater needs to be treated before it is discharged to the waterbody. Untreated wastewater may affect the quality of the receiving waterbody and its ecosystem. From the social perspective, it can also cause distress to the surrounding community from the odour, which may affect communities' safe and healthy living conditions.
- By Indonesian government regulations, companies are required to meet certain standards of wastewater discharge quality, namely:
  - UU 32 Tahun 2009
  - PP 82 Tahun 2001
  - PerMenLH No. 5 Tahun 2014 (Appendix XLVII)
- The national regulation only governs the wastewater discharge quality, where having a wastewater treatment facility is only a recommendation and not a requirement. The implementation of the regulation depends on local government policy and local governments have introduced varied policies on wastewater management in different locations throughout Indonesia.

A Wastewater treatment plant (WWTP) is usually recommended to treat wastewater and achieve discharge quality that is safe for the environment. An increase in the total volume of water discharge does not necessarily correspond to greater negative impacts, since these impacts depend on the quality of the water discharge and the sensitivity of the receiving waterbody. An organisation with a high volume of water discharge, but also a high level of treatment and strict quality standards, can have positive impacts on the receiving waterbody<sup>3</sup>.

- We acknowledge the issue of water scarcity in certain geographical locations and in specific operations that require large amounts of water. To conserve the natural water resources, minimise water withdrawal and improve water circularity, we are introducing these initiatives to manage our water and wastewater.

In our poultry slaughterhouses, we plan to embark on installing water recycling facilities in 8 out of our 15 poultry slaughterhouses in Indonesia. At this point in time, none of our slaughterhouses have water recycling facility.

- We are also going to build a pilot water recycling facility at one of our hatcheries in Indonesia. This will be a pilot project as none of our hatcheries currently have any water recycling facilities.
- In view of our commitment to sustainability, Japfa aims to go beyond basic compliance to bring environmental and social benefits through the water and wastewater management.

#### Action Plan

Our subsidiary PT Japfa Comfeed Tbk will carry out the following initiatives related to sustainable water and wastewater management by December 2024.

Initiatives	Rationale
Water recycling facilities in slaughterhouses	Presently, all the slaughterhouses are equipped with a wastewater treatment facility. Under this KPI, a water recycling facility will be added to allow the treated water to be reused, which will in turn avoid it to be discharged and improve water circularity.
Water recycling facility in a hatchery	Same as the practice at the slaughterhouses, we will install a water recycling facility at a hatchery to improve water circularity.

#### Sustainability Standards Contribution

- UN SDGs
  - Goal 6: Clean water and sanitation
  - Goal 12: Responsible consumption and production
  - Goal 14: Life below water
- Life Cycle Assessment
  - Eutrophication potential
  - Water footprint

<sup>3</sup> Global Reporting Initiative, GRI Standards 303: Water and Effluents 2018.

- Global Reporting Initiative (GRI) Standards
  - GRI 303: Water and effluents
  - GRI 307: Environmental compliance
  - GRI 413: Local communities
- Regulation of Financial Services Authority No. 51/POJK.03/2017
  - 2.B.3: Waste and effluents reduction
  - 6.E.2: Activities that result positive & negative impacts towards ecosystem
  - 6.E.5.B: Mechanism for waste and effluents treatment
- Green Bonds Principles
  - Sustainable water and wastewater management category is a primary contribution to pollution prevention and control

### **3.2 Calibration of Sustainability Performance Targets (SPTs)**

In the spirit of sustainability-linked bonds to promote sustainability performance of the issuer, PT Japfa Tbk will ensure that SPTs are ambitious and represent realistic improvements beyond a “Business as Usual” trajectory. The SPTs will be clearly defined, in the form of numerical value, with a pre-defined timeline.

An example on how a SPT will be set, using the sample KPI under *Section 3.1*, is as follows:

#### **SPT Water Recycling Facilities for Sustainable Water and Wastewater Management at Indonesian Poultry Operations**

Within 3 years 9 months, PT Japfa Tbk will construct the following new facilities with respect to this KPI:

- 8 water recycling facilities out of 15 slaughterhouses under Japfa operations
- 1 water recycling facility at a hatchery within the poultry breeding unit.

The target is defined as the number of new facilities constructed with certification of completion from the building contractor. This target will serve to inform future roll out at relevant operations owned by the company and where water scarcity is identified as a material risk.

Our annual Sustainability Report will update the progress of the construction of the water recycling facilities, including the number of facilities completed. We will also report the annual amount of wastewater treated in the water recycling facilities and/or water saved in m<sup>3</sup> as a result of the water recycling facilities in our poultry operations.

### **3.3 Bond Characteristics**

We will tie our performance of the selected KPI to the financial structure of the sustainability-linked bond.

Our sustainability-linked bonds will have a tiered structure where the coupon adjustment will result in a coupon adjustment if our performance does not achieve the stated SPT. In essence, there will be a 25-bps coupon step-up if the SPT *Water Recycling Facilities for Sustainable Water and Wastewater*



*Management at Poultry Operations* is not met. If the SPT is achieved, there will be no coupon adjustment.

Details pertaining to the point of review and coupon adjustment mechanism will be provided as part of the pre-issuance documentation to the investor or announced publicly.

### **3.4 Reporting**

PT Japfa Tbk will disclose the progress on the KPI and SPT at least once a year, in the Annual Sustainability Report or as a separate document whichever is more suitable considering the timeline and administrative arrangement. Either way, the document will be made publicly available. We will communicate via the report, our progress and indicate if we are on track to achieve the SPT. If our progress is not as planned, we will describe the reasons. The report will also discuss the methodologies or supporting documents used to derive the numbers against the SPT.

The document will compare PT Japfa Tbk's performance of the selected KPI against the SPT set for the target observation date. Where appropriate, Japfa will also include positive impacts made through the achievement of the SPT as part of the reporting.

### **3.5 Verification**

PT Japfa Tbk will seek external verification on the performance against each KPI by a qualified external reviewer with relevant expertise at least once a year. The external reviewer could be an auditor or environmental consultant, depending on the nature of the KPI and SPT selected.

PT Japfa Tbk will publish the verification report in its Annual Sustainability Report mentioned in *Section 3.4*.

## **4 Sustainability-Linked Loans**

Sustainability-linked loans share similar traits as sustainability-linked bonds where the loan characteristics, e.g. the interest margin, are tied to the borrower's ESG performance.

This part of the Framework has been prepared in accordance to the *Sustainability-linked Loan Principles* published by the Loan Market Association (LMA) and Asia Pacific Loan Market Association (APLMA) in May 2020, which consist of the following four key components:

- i. Relationship to Borrower's Overall Sustainability Strategy
- ii. Target Setting – Measuring the Sustainability of the Borrower
- iii. Reporting
- iv. Review

### **4.1 Relationship to [Japfa/Borrower's] Overall Sustainability Strategy**

Japfa's sustainability strategy is described within *Section 1.4* of this Framework.

#### **4.2 Target Setting**

Japfa Ltd, &/or its subsidiaries, will adopt the same method described in *Section 3.1* when selecting KPIs for a sustainability-linked loan. In summary, we will consider the following principles when formulating KPIs:

- high strategic significance to the company's current and/ or future operations
- measurable or quantifiable on a consistent methodological basis
- externally verifiable
- able to be benchmarked against peers or an industry standard

In addition to the KPIs, Japfa will agree with the lender on the SPTs, as discussed in *Section 3.2*, and commercial terms including interest rate adjustment to be made once the SPTs are achieved.

#### **4.3 Reporting**

Our annual sustainability report discusses issues that are material to our operations and actions taken to address them. It will be used as evidence to verify the attainments if the selected KPI and SPT are already part of the content. Otherwise, we will provide additional information to facilitate the lender's verification of our performance.

#### **4.4 Review**

We will ensure that any evidence provided to the lender will be externally assured.

### **5 External Review**

PT Japfa Tbk has obtained a second party opinion (SPO) of the Sustainability-linked Finance Framework from Moody's ESG Solutions\* that it is aligned with all the principles mentioned within the respective sections.

PT Japfa Tbk will seek another SPO for any material changes to this Framework.

The SPO is available at <https://www.japfacomfeed.co.id/id/investors/sustainability-report>.

Likewise, Japfa Ltd &/or its subsidiaries, will seek SPO for future green financing plans.

*\*This SPO was originally conducted by Vigeo Eiris, which is now part of Moody's ESG Solutions.*