

Second-Party Opinion

Pirelli Sustainability-Linked Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Pirelli Sustainability-Linked Financing Framework aligns with the Sustainability-Linked Bond Principles 2020 and Sustainability-Linked Loan Principles 2022. This assessment is based on the following:

- Selection of Key Performance Indicators** The Pirelli Sustainability-Linked Financing Framework defines two KPIs: Absolute scope 1 and 2 GHG emissions reduction (tCO₂e) and Absolute scope 3 reduction in GHG emissions from purchased raw materials (ktCO₂e) (see Table 1). Sustainalytics considers the KPIs chosen to be very strong based on their alignment to a material sustainability issue for Pirelli, their high scope of applicability and their ability to be benchmarked against science-based trajectories.
- Calibration of Sustainability Performance Targets** Sustainalytics considers the SPTs to be aligned with Pirelli's sustainability strategy. Further, SPT 1 is viewed to be highly ambitious and SPT 2 to be ambitious, based on the improvement they represent over historical performance, Pirelli's targets compared to those of its peers, and for SPT 1, its alignment with science-based trajectories.
- Financial Instrument Characteristics** Pirelli will link the financial characteristics of its sustainability-linked debt instruments to the achievement of the SPTs. The change in the financial characteristics of each instrument will trigger a coupon or margin adjustment, or a premium payment, as applicable, and are to be detailed in the individual transaction documents.
- Reporting** Pirelli commits to report on an annual basis, via its Annual Report, on its performance on the KPIs. Pirelli commits to disclose relevant information that may affect the KPIs, such as changes to the calculation methodology, the baselines or scope, or if there are significant changes in data due to improved data accessibility. The report will be made available on Pirelli's website. These reporting commitments are aligned with market expectations.
- Verification** Pirelli commits to obtain limited assurance conducted on its KPI performance on an annual basis, which is aligned with market expectations.

Evaluation Date	May 11, 2022
Issuer Location	Milan, Italy

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

KPI	Baseline	SPT	Strength of KPI	Ambitiousness of SPT
Absolute scope 1 and 2 GHG emissions reduction (tCO ₂ e)	2015	Reduce absolute scope 1 and 2 GHG emissions by 42% by 2025	Very Strong	Highly Ambitious
Absolute scope 3 reduction in GHG emissions from purchased raw materials (ktCO ₂ e)	2018	Reduce absolute scope 3 GHG emissions from purchased raw materials by 9% by 2025	Very Strong	Ambitious

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Scope of Work and Limitations

Pirelli has engaged Sustainalytics to review the Pirelli Sustainability-Linked Financing Framework dated May 2022 and provide an opinion on its alignment with the Sustainability-Linked Bond Principles 2020 (SLBP)¹, and Sustainability-Linked Loan Principles 2022 (SLLP)².

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent³ opinion on the alignment of the Framework with the SLBP, as administered by ICMA, and the Sustainability-Linked Loan Principles 2022, as administered by APLMA, LMA, and LSTA.

As part of this engagement, Sustainalytics exchanged information with various members of Pirelli's management team to understand the sustainability impact of their business processes and SPTs, as well as the reporting and verification processes of aspects of the Framework. Pirelli's representatives have confirmed that:

- (1) They understand it is the sole responsibility of issuer to ensure that the information provided is complete, accurate and up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Pirelli. Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated SPTs of KPIs but does not measure KPI performance.⁴ The measurement and reporting of the KPIs is the responsibility of the issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Pirelli has made available to Sustainalytics for the purpose of this Second-Party Opinion. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months or until one of the following occurs:

- (1) A material change to the external benchmarks⁵ against which targets were set;
- (2) A material corporate action (such as a material M&A or change in business activity) which has a bearing on the achievement of the SPTs or the materiality of the KPIs.

For inquiries, contact the Corporate Solutions project team:

Shreya Garg (Amsterdam)
Project Manager
shreya.garg@sustainalytics.com
(+31) 20 205 0067

Taylor Whitfield (Toronto)
Project Support
taylor.whitfield@morningstar.com

Enrico Tessadro (Amsterdam)
Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

Julie Malinur (Amsterdam)
Project Support
julie.malinur@morningstar.com

Stefan Spataru (Amsterdam)
Project Support
stefan.spataru@morningstar.com

¹ The Sustainability-Linked Bond Principles were launched by ICMA in June 2020. They are administered by ICMA and are available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-100620.pdf>.

² The Sustainability-Linked Loan Principles are administered by Asia Pacific Loan Market Association, Loan Market Association and Loan Syndications and Trading Association and are available at: <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/andhttps://www.lma.eu.com/>.

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

⁴ Sustainalytics has provided an opinion based on the understanding that the financial characteristics of instruments issued under this Framework will be tied to the achievement of SPTs corresponding to each of the KPIs included in the Framework.

⁵ Benchmarks refers to science-based benchmarks.

Introduction

Founded in 1872, Pirelli & C. S.p.A. ("Pirelli" or the "Company") is a multinational tyre manufacturer headquartered in Milan, Italy. As of 2021, Pirelli has a network of 18 production plants in 12 countries and operations across more than 160 countries. The Company's operations are focused solely on the consumer tyre market for cars, motorcycles and bicycles.

Pirelli intends to issue sustainability-linked debt instruments under the Framework, including loans, bonds, rate derivatives, guarantees and insurance policies whose respective coupon rate, margin adjustment, or premium payments are tied to the achievement of sustainability performance targets for two KPIs: (i) KPI 1 is related to the Company's scope 1 and 2 emissions, and (ii) KPI 2 is related to scope 3 emissions from purchased raw materials.

Pirelli has engaged Sustainalytics to review its Sustainability-Linked Financing Framework dated May 2022 (the "Framework"), and to provide a second-party opinion on its alignment with the Sustainability-Linked Bond Principles 2020 and Sustainability-Linked Loan Principles 2022.

Pirelli has defined the following KPIs and SPTs:

Table 1: KPI Definitions

KPI	Definition
Absolute scope 1 and 2 GHG emissions reduction (tCO ₂ e)	<p>The KPI is defined as scope 1 and 2 GHG emissions measured in tonnes of CO₂ equivalent (tCO₂e) and covers 100% of Pirelli's global scope 1 and 2 emissions.</p> <ul style="list-style-type: none"> Scope 1 emissions include those generated from the combustion of hydrocarbons to operate heat generators to power production sites. Scope 2 emissions are those generated by plants that produce electrical and thermal energy purchased by Pirelli for its use. <p>The methodology used to calculate KPI performance is based on the IPCC's Guidelines for National Greenhouse Gas Inventories⁶ and the GHG Protocol⁷ standards.</p>
Absolute scope 3 reduction in GHG emissions from purchased raw materials (ktCO ₂ e)	<p>The KPI is defined as scope 3 GHG emissions from purchased raw materials and are measured in ktCO₂e. The KPI covers 100% of Pirelli's global scope 3 GHG emissions from purchased raw materials.</p> <p>KPI performance is calculated as per the GHG Protocol in line with ISO 14040-44.⁸</p>

Table 2: SPTs and Past Performance against KPI 1

KPI 1	2015 (baseline)	2016	2017	2018	2019	2020	2021	SPT 1: 2025
Absolute scope 1 and 2 GHG emissions reduction (tCO ₂ e)	925,477	902,388	848,278	856,923	828,388	638,730	636,190	536,777

Table 3: SPTs and Past Performance against KPI 2

KPI 2	2016	2017	2018 (baseline)	2019	2020	2021	SPT 2: 2025
Absolute scope 3 reduction in GHG emissions from purchased raw materials (ktCO ₂ e)	2,430.50	2,674.20	2,659.60	2,563.90	2,077.10	2,500.70	2,420.20

⁶ IPCC, "2019 Refinement to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories", at: <https://www.ipcc.ch/report/2019-refinement-to-the-2006-ipcc-guidelines-for-national-greenhouse-gas-inventories/>

⁷ The Greenhouse Gas Protocol, "A Corporate Accounting and Reporting Standard revised edition", (2015) at: <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>

⁸ Pirelli uses an eco-design tool customized by an external provider, which integrates data from certified commercial databases and suppliers.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of the Pirelli Sustainability-Linked Financing Framework with the Sustainability-Linked Bond Principles and the Sustainability-Linked Loan Principles

Sustainalytics is of the opinion that the Pirelli Sustainability-Linked Financing Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2020 and the Sustainability-Linked Loan Principles 2022.



Selection of Key Performance Indicators

Relevance and Materiality of KPIs

In its assessment of materiality and relevance, Sustainalytics considers: i) whether an indicator speaks to a material impact of the Company's business on environmental or social issues, and ii) to what extent the KPI is applicable.

Sustainalytics considers KPI 1, Absolute scope 1 and 2 GHG emissions reduction (tCO₂e); and KPI 2, Absolute scope 3 reduction in GHG emissions from purchased raw materials (ktCO₂e), to be relevant and material given the following:

- Regarding KPI 1, Sustainalytics' ESG Risk Rating identifies "Carbon – Own Operations" as a material ESG issue due to the inherently energy-intensive business operations of the auto component manufacturing industry. Further, the Sustainable Accounting Standards Board (SASB) identifies "Energy Management" as a material topic for Pirelli and the "Auto Parts" industry overall, which is directly tied to scope 2 GHG emissions.⁹
- With regard to KPI 2, SASB also identifies "Materials Sourcing & Efficiency" as a material issue for the "Auto Parts" industry. Pirelli depends heavily on the sourcing of raw materials for the manufacture of tyres at its production plants, and in this context, mitigating the GHG emissions associated with the procurement of these inputs is relevant to the reduction of the Company's overall carbon footprint.¹⁰
- Sustainalytics notes that KPI 1 addresses 100% of Pirelli's scope 1 and 2 emissions which, as of 2021, account for approximately 18% of the Company's total emissions. Sustainalytics further notes that KPI 2 addresses 85% of Pirelli's scope 3 emissions from purchased raw materials, distribution of products and end-of-life management, and therefore, KPI 2 covers approximately 70% of the Company's total emissions.¹¹ Sustainalytics has utilized a combined approach to address the scope of applicability for both KPIs under the Framework and considers KPI 1 and KPI 2 to collectively address approximately 87% of Pirelli's total GHG emissions (scope 1, 2 and 3).

KPI Characteristics

In its assessment of the KPI's characteristics, Sustainalytics considers: i) whether it uses a clear and consistent methodology, ii) whether it follows an externally recognized definition, iii) whether the KPI is a direct measure of

⁹ SASB Materiality Finder, "Pirelli & C Spa", at: <https://www.sasb.org/standards/materiality-finder/find/?lang=en-us&company%5B0%5D=IT0005278236>

¹⁰ Ibid.

¹¹ Sustainalytics has not considered emissions from product use (approximately 85% of Pirelli's total emissions and 94% of scope 3 missions) in the calculation for applicability of the KPIs to align with guidance under the Greenhouse Gas Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard. According to the GHG Protocol, emissions resulting from the indirect energy consumption by tyres during the use of vehicles are already allocated to the use phase of the vehicles and therefore, should not be included within the GHG inventory for companies such as Pirelli which manufacture products for intermediate use.

the Company's performance on the material environmental or social issue, and iv) if applicable, whether the methodology can be benchmarked against an external contextual benchmark.¹²

Sustainalytics considers Pirelli's definitions and methodologies to calculate progress on the KPIs to be clear and consistent with its historical disclosures. The methodology used to calculate scope 1 and 2 emissions is based on the IPCC's Guidelines for National Greenhouse Gas Inventories, under which Pirelli utilizes a market-based approach for calculating scope 2 emissions. Further, the Company reports on its emissions in accordance with the GHG Protocol standards, and for scope 3 emissions Pirelli utilizes a lifecycle analysis approach in line with ISO 14040-44.

Sustainalytics views the KPIs to be directly linked to Pirelli's performance on a material environmental issue, given that the KPIs measure Pirelli's GHG emissions as an output of its activities.

In addition, KPIs 1 and 2 lend themselves well to be benchmarked against external science-based trajectories, such as the Science-Based Targets initiative (SBTi).¹³

Overall Assessment

Sustainalytics is of the opinion that KPI 1, Absolute scope 1 and 2 GHG emissions reduction (tCO₂e); and KPI 2, Absolute scope 3 reduction in GHG emissions from purchased raw materials (ktCO₂e), are very strong given that: (i) they are a direct measure of the Company's performance on a material environmental issue, (ii) they follow a clear and consistent calculation methodology which is aligned with the GHG Protocol, and therefore, (iii) they support benchmarking against external science-based emission reduction trajectories, and (iv) they together have a high scope of applicability.

KPIs	Strength of KPIs			
KPI 1: Absolute scope 1 and 2 GHG emissions reduction (tCO ₂ e)	Not Aligned	Adequate	Strong	Very strong
KPI 2: Absolute scope 3 reduction in GHG emissions from purchased raw materials (ktCO ₂ e)	Not Aligned	Adequate	Strong	Very strong



Calibration of Sustainability Performance Targets

Alignment with Pirelli's Sustainability Strategy

Pirelli has set the following SPTs for its KPIs:

- SPT 1: Reduce absolute scope 1 and 2 GHG emissions by 42% by 2025 from a 2015 baseline
- SPT 2: Reduce absolute scope 3 GHG emissions from purchased raw materials by 9% by 2025 from a 2018 baseline

Sustainalytics considers the SPTs to be aligned with Pirelli's sustainability strategy. Please refer to Section 2 for an analysis of the credibility of Pirelli's sustainability strategy.

Pirelli has identified GHG emissions reduction as a material topic for the Company and has categorized it among the five material topics to be addressed by its Industrial Plan which includes sustainability targets for 2025-2030.¹⁴ Under its Industrial Plan, the Company has implemented a decarbonization strategy to address the emissions of its own operations and those of its value chain by focusing on the emissions associated with its purchased raw materials, the manufacturing of its products, its logistical network, the use of its products, and its products' end-

¹² External contextual benchmarks provide guidance on alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

¹³ Pirelli, "Pirelli: Science Based Targets Initiative Validates CO₂ Emissions Reduction Targets", at: <https://press.pirelli.com/pirelli-science-based-targets-initiative-validates-co2-emissions-reduction-targets/>

¹⁴ Pirelli, "Industrial Plan" (2021), available at: <https://corporate.pirelli.com/corporate/en-ww/sustainability/sustainability-targets>

of-life. Pirelli also has a recent history of setting and updating SBTi validated GHG emission reduction targets, furthering its commitment to align its strategy with science.¹⁵

Strategy to Achieve the SPTs

SPT 1: Reduce absolute scope 1 and 2 GHG emissions by 42% by 2025 from a 2015 baseline

Pirelli intends to achieve the SPT through the following strategy:

- Enhancing energy efficiency: Reducing emissions at its production and distribution plants through increased energy efficiency by way of improved energy management and optimised smart control systems, improved thermal energy transformation and recovery processes, targeted maintenance to reduce energy waste, and improved efficiency in compressed air generation and management.
- Renewable energy generation and sourcing: Increase the share of renewable electricity used in Pirelli's production plants through increased procurement efforts, with a goal of sourcing 100% of its electricity from renewable sources by 2025. Further, the Company will develop renewable energy generation capabilities at its production facilities, including a 1 MW internal combustion engine module powered by vegetable oil for the production of electricity, steam and hot water at its plant in Settimo Torinese, Italy; and biomass steam generation plants in Campinas and Feira de Santana, Brazil that utilize wood waste.

SPT 2: Reduce absolute Scope 3 GHG emissions from purchased raw materials by 9% by 2025 from a 2018 baseline

- Collaboration with suppliers: Pirelli will address scope 3 emissions from purchased raw materials through partnerships to develop solutions that increase the proportion of biobased and recycled materials in its products. This includes key supplier partnerships, as outlined through Pirelli's Green Sourcing Policy, and research and development partnerships with universities. Specific projects include the development of high-performance silica from renewable sources, biofillers such as lignin and plant-based resins, the replacement of precipitated silica and black carbon with mineral-based materials, and the increased usage of natural rubber from sustainable sources.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers: i) whether the SPTs go beyond a business-as-usual trajectory, ii) how the SPTs compare to targets set by peers, and iii) how the SPTs compare with science.¹⁶

Pirelli has set the baseline for SPT 1 at 2015 as this was the year when the GHG Protocol first introduced its market-based guidance for scope 2 calculations. This 2025 target has been validated by SBTi as aligned with a 1.5°C global warming scenario. For SPT 2, the Company has set the baseline as 2018 to reflect the most recent information available at the time of setting the scope 3 emission reduction target in 2019. Additionally, Pirelli has obtained SBTi verification for SPT 2 using 2018 as the baseline.

SPT 1: Reduce absolute scope 1 and 2 GHG emissions by 42% by 2025 from a 2015 baseline

Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance, peer performance and external science-based decarbonization pathways.

Pirelli has reduced its scope 1 and 2 emissions by an average annual rate of approximately 6% between 2015 and 2021. To achieve the SPT by 2025, the Company will need to reduce its absolute scope 1 and 2 emissions by an average annual rate of approximately 4% between 2021 and 2025. Therefore, Sustainalytics views the SPT to represent a continued reduction in Pirelli's scope 1 and 2 emissions.

Based on Sustainalytics' analysis the target is aligned with the scope 1 and 2 emission reduction targets set by Pirelli's peers in the auto components manufacturing industry. Additionally, SPT 1 has been validated by SBTi to be aligned with the Paris Climate Agreement's scenario to limit global warming to 1.5°C as of May 2022.^{17,18}

¹⁵ Pirelli, "Pirelli: Science Based Targets Initiative Validates CO₂ Emissions Reduction Targets", at: <https://press.pirelli.com/pirelli-science-based-targets-initiative-validates-co2-emissions-reduction-targets/>

¹⁶ We refer here to contextual benchmarks that indicate the alignment of targets with ecosystem boundaries.

¹⁷ United Nations Climate Change, "The Paris Agreement", at: <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

¹⁸ Pirelli, "Pirelli: Science Based Targets Initiative Validates CO₂ Emissions Reduction Targets", at: <https://press.pirelli.com/pirelli-science-based-targets-initiative-validates-co2-emissions-reduction-targets/>

SPT 2: Reduce absolute scope 3 GHG emissions from purchased raw materials by 9% by 2025 from a 2018 baseline

Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance, peer performance and external science-based decarbonization pathways.

Pirelli reduced its scope 3 emissions from purchased raw materials by an average annual rate of approximately 1% between 2018 and 2021. To achieve the SPT by 2025, the Company will need to reduce its scope 3 emissions from purchased raw materials by an average annual rate of 0.8% between 2021 and 2025. Therefore, Sustainalytics considers the SPT to be aligned with historical performance as it represents a continued reduction in Pirelli's scope 3 emissions from purchased raw materials.

Based on Sustainalytics' analysis of Pirelli's peer group, the target exceeds the scope 3 targets set by its peers, the majority of which do not have any scope 3 emissions targets; SPT 2 also aligns with the Paris Climate Agreement's scenario for limiting global warming to 2°C.^{19,20}

Overall Assessment

Sustainalytics considers the SPTs to align with Pirelli's sustainability strategy. Sustainalytics further considers SPT 1 to be highly ambitious given that it: (i) represents an alignment with Pirelli's past performance on scope 1 and 2 emissions, (ii) is aligned with scope 1 and 2 emission reduction targets set by the Company's peers, and (iii) is aligned with the 1.5°C global warming scenario.²¹

Sustainalytics considers Pirelli's SPT 2 to be ambitious given that it: (i) represents an alignment with Pirelli's past performance on scope 3 emissions from purchased raw materials, (ii) exceeds the scope 3 emission reduction targets set by the Company's peers, and (iii) is aligned with the 2°C global warming scenario.

SPTs	Ambitiousness of SPTs			
SPT 1: Reduce absolute scope 1 and 2 GHG emissions by 42% by 2025	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
SPT 2: Reduce absolute scope 3 GHG emissions from purchased raw materials by 9% by 2025	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious



Financial Instrument Characteristics

Pirelli has disclosed that the financial characteristics of the sustainability-linked financing instruments issued under the Framework, including loans, bonds, rate derivatives, guarantees and insurance policies, will be linked to the achievement of the SPTs. For sustainability-linked debt instruments, the success or failure to achieve the SPTs on the relevant target observation dates will trigger a step-up coupon or margin adjustment, as applicable, to be detailed in the individual transaction documents.

- For foreign exchange sustainability-linked rate derivatives, the Company will recognise a penalty or reward to the counterparty that adjusts the forward foreign exchange rate of the transaction.
- For interest rate sustainability-linked rate derivatives, the Company will recognize a penalty or reward applied as an adjustment to the interest rate.
- For sustainability-linked guarantees, the penalty or reward is applied as an increase or decrease in the commission, calculated as a percentage of the amount of the guaranteed amount.
- For sustainability-linked insurance policies there will be a mechanism in place whereby the annual premium is adjusted based on various parameters, including the achievement of the SPT identified by the policy agreement.

Sustainalytics considers these levels of disclosure to be aligned with the SLBP and SLLP, noting that it does not opine on the adequacy or the magnitude of the financial penalty.

¹⁹ United Nations Climate Change, "The Paris Agreement", at: <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

²⁰ Pirelli, "Pirelli: Science Based Targets Initiative Validates CO₂ Emissions Reduction Targets", at: <https://press.pirelli.com/pirelli-science-based-targets-initiative-validates-co2-emissions-reduction-targets/>

²¹ United Nations Climate Change, "The Paris Agreement", at: <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

**Reporting**

Pirelli commits to report on an annual basis, via its Annual Report, on its progress against the KPIs towards the relevant SPTs. Pirelli commits to disclose relevant information that may affect the KPI, such as changes to the calculation methodology, the baselines or scope, or if there are significant changes in data due to improved data accessibility. The report will be made available on Pirelli's website. These reporting commitments are aligned with market expectations.

**Verification**

Pirelli commits to obtain limited assurance conducted on its annual KPI performance at the communicated SPT deadlines, which is aligned with the SLBP and SLLP on verification.



Section 2: Assessment of Pirelli's Sustainability Strategy

Credibility of Pirelli's Sustainability Strategy

Pirelli demonstrates a commitment to sustainability by incorporating economic, social and environmental considerations into its business operations. In 2022, Pirelli conducted a materiality assessment aligning its sustainability strategy and targets with the materiality of the Company's socio-environmental impacts²². The Company has also aligned its sustainability model to the United Nations Global Compact, the stakeholder engagement principles set out by AA1000,²³ and the ISO 26000 standard for social responsibility. Pirelli has in place a Sustainability Strategic Committee which is underpinned by the Sustainable Development Operational Committee, which oversees the Company's strategic and operational management of sustainability topics. In addition, Pirelli's sustainability strategy is prepared in accordance with the Task Force on Climate-Related Financial Disclosures.

To support its decarbonization, in 2020, Pirelli established targets to reduce its direct and indirect emissions, which were validated by the SBTi to be in line with the well-below 2°C scenario. In 2021, the Company set forth a new goal for carbon neutrality in scope 1 and 2 emissions by 2030, including a new intermediate target of reducing its scope 1 and 2 GHG absolute emissions by 42% by 2025 compared to 2015. This target has been validated by SBTi as aligned with a 1.5°C global warming scenario as of May 2022. Additionally, Pirelli aims to reduce its absolute scope 3 emissions from purchased raw materials by 9% by 2025, relative to 2018. To support these targets, the Company aims to source 100% of its electricity from renewable sources by 2025.²⁴ By 2021, Pirelli's supply chain emissions had decreased by 6% in absolute terms compared to 2018. Additionally, 100% of electricity purchased by Pirelli in Europe and Turkey was generated from renewable sources.²⁵

Pirelli has established an Eco & Safety Performance Strategy to support the development of products that lower its environmental impact. The Company aims to increase the share of renewable materials²⁶ on new consumer tyres to above 40% by 2025 and above 60% by 2030. In addition, Pirelli has set targets to increase the share of recycled materials²⁷ in its new consumer tyres to 3% by 2025 and 7% by 2030, and to reduce its use of fossil-derived raw materials to less than 40% by 2025, and less than 30% by 2030.²⁸ Pirelli is also compliant with ISO 20400 standards for sustainable procurement. In 2021, Pirelli introduced consumer tyres on the market which already contained 28% of renewable materials and 5% of recycled materials.²⁹ As an example of product innovation in this area, in 2021 Pirelli produced concept tyres maximizing the use of renewable and recycling materials, achieving 94% of non-fossil materials (there including rice husk ash silica, bio-resin, recycled carbon black). Innovation was also introduced in terms of sustainable materials procurement with Pirelli producing the world's first Forest Stewardship Council (FSC) certified tyre containing natural rubber and rayon sourced from FSC-certified plantations.³⁰

Sustainalytics considers Pirelli to have a strong sustainability strategy and is of the opinion that the sustainability-linked issuances under the Framework will further support the Company's sustainability strategy.

Pirelli's Environmental and Social Risk Management

Sustainalytics recognizes that while Pirelli's defined targets are impactful, achieving the SPTs bears environmental and social risks related to the overall environmental and social impact of its products and services, human capital, and human rights within its supply chain. In this context, Sustainalytics' ESG Risk Rating identifies risks related to "human capital", "business ethics", "carbon for products and services" and "product governance" for the auto components industry.

Sustainalytics comments below on Pirelli's ability to mitigate such potential risks:

²² Pirelli, "Pirelli's Sustainability-Linked Financing Framework", at: www.pirelli.com/

²³ The AA1000 Stakeholder Engagement Standard has set a benchmark for conducting stakeholder engagement projects and programs. Among other things, it establishes a framework for implementing stakeholder engagement and describes how to integrate stakeholder engagement into an organization's governance, strategy and operations.

AccountAbility, "AA1000 Stakeholder Engagement Standard", at: <https://www.accountability.org/standards/aa1000-stakeholder-engagement-standard/>

²⁴ Pirelli, "Our sustainability strategy", (2021), at: https://psi-dotcom-prd.s3-eu-west-1.amazonaws.com/corporate/Piano_Sostenibilit%C3%A0_v.FINALE.pdf

²⁵ Pirelli, "Annual Report", (2021), at: https://psi-dotcom-prd.s3-eu-west-1.amazonaws.com/corporate/2021_PIRELLI_ANNUAL_REPORT_ENG.pdf

²⁶ Pirelli aligns its definition of renewable material with that of the OECD, which defines renewable natural resources as "natural resources which, after their exploitation, can return to their original stock levels through natural growth or regeneration processes." Examples at Pirelli include rice husk silica produced from rice husk and lignin, which is sourced from paper pulp.

²⁷ Recycling materials are those made from waste. An example at Pirelli is pyrolysis carbon black, a material obtained by pyrolyzed end-of-life tyres.

²⁸ Pirelli, "Our sustainability strategy", (2021), at: https://psi-dotcom-prd.s3-eu-west-1.amazonaws.com/corporate/Piano_Sostenibilit%C3%A0_v.FINALE.pdf

²⁹ Pirelli, "Pirelli's Sustainability-Linked Financing Framework", at: www.pirelli.com/

³⁰ Pirelli, "Pirelli Produces The World's First Fsc-Certified Tyre", (2021), at: https://press.pirelli.com/pirelli-produces-the-worlds-first-fsc-certified-tyre/?_ga=2.47959076.2057788381.1650465208-2110232087.1649675403

- To address risks related to business ethics, Pirelli has implemented its Anti-Corruption Compliance Program which is applicable to all employees and third-parties acting on behalf of the Company.³¹ Under this programme, the Company commits to complying with anti-corruption laws, encouraging employees and stakeholders to report on any violations. Pirelli's Values and Ethical Code policy outlines its commitments to acting with integrity, transparency, rectitude and propriety.³²
- Regarding risks related to human capital, Pirelli is a signatory of the United Nations Global Compact and is committed to incorporating its 10 principles to guarantee human rights and labour standards, as well as environmental and anti-corruption standards.³³ Under its Global Human Right Policy, Pirelli commits to ensuring that human rights risks are sufficiently identified and addressed.³⁴ The Company has also adopted SA8000 international standards³⁵ as its official reference standard for the management of social responsibility at its affiliates, and across its supply chain, and as such must comply with human and labour rights through audits conducted by independent consultants.³⁶
- To address risks related to carbon for products and services, Pirelli has established a Product Stewardship Policy to minimize the environmental impact and social impact of its products throughout their life cycle, including use phase.³⁷ In addition, Pirelli aims at reducing emissions associated with its customers' use of their vehicles. Pirelli has set a target to increase the share of new labelled car products in A and B classes for rolling resistance³⁸ to 70% by 2025 relative to 49% in 2021.^{39,40}
- Regarding product governance, Pirelli has in place a Global Quality Policy to ensure customer satisfaction and compliance with quality standards through ensured safety, reliability of products and services, compliance with legislation, innovation and collaboration with suppliers and customers.⁴¹ Pirelli is certified under the ISO 9001 standard on quality management systems which ensures consistent delivery of high quality products and services.^{42,43} Pirelli is also certified under IATF 16949:2016, an automotive industry standard for quality management systems.⁴⁴

In addition to the above, Sustainalytics has not found evidence of any major environmental or social controversies related to Pirelli. Overall, Sustainalytics considers that Pirelli has strong management programmes and policies in place to mitigate risks that could arise in achieving the SPTs.

³¹ Pirelli, "Anti-Corruption Compliance Program", (2019), at: https://s3.eu-west-1.amazonaws.com/psi-dotcom-prd/corporate/5129_English_Version.pdf

³² Pirelli, "The Values and Ethical Code of the Pirelli Group", at: https://d2snyq93qb0udd.cloudfront.net/corporate/pdf/EthicalCode_ENG.pdf

³³ UN Global Compact, "Company Information – Pirelli & C. S.p.A", at: <https://www.unglobalcompact.org/what-is-gc/participants/7434-Pirelli-C-S-p-A->

³⁴ Pirelli, "Global Human Rights Policy", (2016), at: https://s3.eu-west-1.amazonaws.com/psi-dotcom-prd/corporate/4663_en_global_human_rights_policy.pdf

³⁵ The SA8000 standard set out social requirements to be met by organisations on child labour, forced or compulsory labour, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration and management system.

Social Accounting International, "SA8000:2014 Standard", at: <https://sa-intl.org/resources/sa8000-standard/>

³⁶ Pirelli, "Certifications and Management Standards", at: <https://corporate.pirelli.com/corporate/en-ww/sustainability/certifications-and-management-standards>

³⁷ Pirelli, "Product Stewardship Policy", (2016), at: https://s3.eu-west-1.amazonaws.com/psi-dotcom-prd/corporate/4521_Product_Stewardship_Policy_ENG.pdf

³⁸ The European Commission has defined energy labeling requirements for tyres: the rolling resistance class ranges from A to E, the most efficient to the least.

European Commission, "Tyre label", at: https://ec.europa.eu/info/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/energy-label-and-ecodesign/energy-efficient-products/tyres_en

³⁹ Pirelli, "Annual Report", (2021), at: https://psi-dotcom-prd.s3.eu-west-1.amazonaws.com/corporate/2021_PIRELLI_ANNUAL_REPORT_ENG.pdf

⁴⁰ Pirelli, "Annual Report", (2021), at: https://psi-dotcom-prd.s3.eu-west-1.amazonaws.com/corporate/2021_PIRELLI_ANNUAL_REPORT_ENG.pdf

⁴¹ Pirelli, "Global Quality Policy", (2015), at: https://s3.eu-west-1.amazonaws.com/psi-dotcom-prd/corporate/4820_En_quality_policy.pdf

⁴² Pirelli, "Certifications And Management Standards", at: <https://corporate.pirelli.com/corporate/en-ww/sustainability/certifications-and-management-standards>

⁴³ Pirelli, "Global Quality Policy", (2015), at: <https://www.iso.org/iso-9001-quality-management.html>

⁴⁴ Pirelli, "Certifications And Management Standards", at: <https://corporate.pirelli.com/corporate/en-ww/sustainability/certifications-and-management-standards>

Section 3: Impact of the SPTs

In 2020, the transportation sector accounted for 23% of total global CO₂ emissions, with emissions from road vehicles comprising approximately 75% of the total sector emissions.^{45,46,47} According to the IEA, to achieve net zero emissions by 2050, the transport sector's emissions must be reduced by 20% by 2030 relative to 2021.⁴⁸ Specifically, the automotive industry together with the auto components industry play an important role in achieving this target. The auto components industry is composed of the auto parts sub-industry (81% of the companies) and the tyres sub-industry (19%).⁴⁹ Tyres have environmental impacts at all their life cycle phases. Their production consumes energy and raw materials, and during use, tyres wear and spread particles on roads, impact vehicle energy use and consequently generate GHG emissions through their rolling resistance. At the end of their life, tyres need to be managed appropriately to alleviate the risk of environmental pollution and to curb further use of natural resources needed in production, which is done preferably by recycling tyres to recover energy and materials.⁵⁰ Expected to grow at a rate of 3.6% through 2026, the global tyre market will need to adapt to meet global challenges related to sustainability, such as the choice of raw materials used as inputs.⁵¹

Tyre industry stakeholders have become increasingly aware of sustainability issues in recent years, resulting in collective efforts such as the Tire Industry Project (TIP) of the World Business Council for Sustainable Development. Comprised of 10 leading tyre companies, including Pirelli, TIP is the main forum for sustainability issues for the industry, addressing all life cycle phases of the product. Most TIP members have set targets to reduce their scope 1, 2 and 3 emissions and have in place carbon footprint reduction initiatives that are aligned with the 1.5°C or 2°C Paris Agreement scenarios.⁵² Moreover, members have also begun to implement end-of-life tyre management to recycle material and recover energy from the estimated one billion tyres ending their life every year globally, and have introduced innovative technologies, such as using nanomaterials to decrease tyres' rolling resistance.^{53,54} At the EU level, in 2020 the tyre industry embraced the European Commission's target to reduce GHG emissions by 55% by 2030. In alignment with this, tyre companies have committed to decarbonizing their manufacturing facilities in the EU, optimizing their technologies to improve vehicle fuel efficiency, and developing new digital services in transportation and tyre data solutions.⁵⁵

Based on the above, Sustainalytics is of the opinion that the Company's efforts to reduce its scope 1, 2 and 3 emissions are expected to have a positive impact on the reduction of the overall GHG emissions from the road vehicles transportation sector, as well as support the achievement of the Paris Climate Agreement's goals.

Alignment with/contribution to SDGs

The Sustainable Development Goals were adopted by the United Nations General Assembly in September 2015 and form part of an agenda for achieving sustainable development by the year 2030. The sustainability-linked instruments issued under the Framework are expected to help advance the following SDG goals and targets:

KPI	SDG	SDG Target
Absolute Scope 1 and 2 Greenhouse gas (GHG) emissions reduction (tCO ₂ e)	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency

⁴⁵ IEA, "Transport - Improving the sustainability of passenger and freight transport", at: <https://www.iea.org/topics/transport>

⁴⁶ IEA, "Global Energy Review: CO₂ Emissions in 2020", (2021), at: <https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020>

⁴⁷ Our World in Data, "Cars, planes, trains: where do CO₂ emissions from transport come from?", at: <https://ourworldindata.org/co2-emissions-from-transport>

⁴⁸ IEA, "Tracking Transport 2021", (2021) at: <https://www.iea.org/reports/tracking-transport-2021>

⁴⁹ Sustainalytics, "Auto Components Industry Report", (2021)

⁵⁰ WBCSD, "Tire Industry Project 10-Year Progress Report (2005-2015)", at: http://docs.wbcsd.org/2018/02/TIP/Tire_Industry_Project_10-Year_progress_report.pdf

⁵¹ Smithers, "The Future of Global Tires to 2024", (2019), at: <https://www.smithers.com/services/market-reports/transportation/global-tire-markets-to-2024>

⁵² WBCSD, "Environmental Key Performance Indicators for Tire Manufacturing 2009-2020", (2021), at: <https://www.wbcsd.org/download/file/13500>

⁵³ WBCSD, "End-of-life tire (ELT) management Toolkit", at: <https://www.wbcsd.org/download/file/13232>

⁵⁴ WBCSD, "Tire Industry Project 10-Year Progress Report (2005-2015)", at: http://docs.wbcsd.org/2018/02/TIP/Tire_Industry_Project_10-Year_progress_report.pdf

⁵⁵ European Tyre & Rubber Manufacturers Association, "The European tyre industry will contribute to achieve the new EU climate goals", (2020), at: <https://www.etrma.org/wp-content/uploads/2020/09/20200917-ETRMA-STOU-Statement.pdf>

Absolute Scope 3 GHG emissions from purchased raw materials reduction (ktCO ₂ e)	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
	12. Responsible consumption and production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Conclusion

Pirelli intends to issue sustainability-linked bonds loans, rate derivatives, guarantees and insurance policies, tying the coupon rate or the margin to achievement of the following SPTs:

- (1) Reduce absolute scope 1 and 2 GHG emissions by 42% by 2025 from a 2015 baseline
- (2) Reduce absolute scope 3 GHG emissions from purchased raw materials by 9% by 2025 from a 2018 baseline

Sustainalytics considers KPI 1, absolute scope 1 and 2 GHG emissions reduction (tCO₂e); and KPI 2, absolute scope 3 reduction in GHG emissions from purchased raw materials (ktCO₂e), to be very strong based on Pirelli's clear and consistent methodology used to calculate progress against them, the ability for the indicators to be benchmarked to science-based targets, their direct applicability to a material environmental issue for Pirelli and the industry, and their alignment with Pirelli's sustainability strategy. Sustainalytics considers SPT 1 to be highly ambitious and SPT 2 to be ambitious based on the improvement they represent over historical performance, Pirelli's targets compared to those of its peers, and the alignment of the targets with science-based trajectories. Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers the Pirelli Sustainability-Linked Financing Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and Sustainability-Linked Loan Principles 2022 and the prospective achievement of the SPTs to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Pirelli & C. S.p.A.

Sustainability-Linked Bond ISIN:

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3): Sustainalytics

Completion date of second party opinion pre-issuance: May 11, 2022

Independent External Review provider's name for post-issuance verification (section 4):

Completion date of post issuance verification:

At the launch of the bond, the structure is:

- ☒ a step-up structure ☐ a variable redemption structure

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review:

- | | |
|---|---|
| <input checked="" type="checkbox"/> assessed all the following elements (complete review) | <input type="checkbox"/> only some of them (partial review): |
| <input type="checkbox"/> Selection of Key Performance Indicators (KPIs) | <input type="checkbox"/> Bond characteristics (acknowledgment of) |
| <input type="checkbox"/> Calibration of Sustainability Performance Targets (SPTs) | <input type="checkbox"/> Reporting |
| <input type="checkbox"/> Verification | |
| <input checked="" type="checkbox"/> and confirmed their alignment with the SLBP. | |

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

Overall comment on the section (if applicable):

The Pirelli Sustainability-Linked Financing Framework defines two KPIs: Absolute scope 1 and 2 GHG emissions reduction (tCO₂e) and Absolute scope 3 reduction in GHG emissions from purchased raw materials (ktCO₂e) (see Table 1). Sustainalytics considers the KPIs chosen to be very strong based on their applicability to a material sustainability issue for Pirelli, their high scope of applicability and their ability to be benchmarked against science-based trajectories.

List of selected KPIs:

- Absolute scope 1 and 2 GHG emissions reduction (tCO₂e)
- Absolute scope 3 GHG emissions from purchased raw materials reduction (ktCO₂e)

Definition, Scope, and parameters

- | | |
|--|---|
| <input checked="" type="checkbox"/> Clear definition of each selected KPIs | <input checked="" type="checkbox"/> Clear calculation methodology |
| <input type="checkbox"/> Other (please specify): | |

Relevance, robustness, and reliability of the selected KPIs

- | | |
|--|--|
| <input checked="" type="checkbox"/> Credentials that the selected KPIs are relevant, core and material to the issuer's sustainability and business strategy. | <input checked="" type="checkbox"/> Evidence that the KPIs are externally verifiable |
| <input checked="" type="checkbox"/> Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis | <input checked="" type="checkbox"/> Evidence that the KPIs can be benchmarked |
| <input type="checkbox"/> Other (please specify): | |

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (if applicable):

Sustainalytics considers the SPTs to be aligned with Pirelli's sustainability strategy. Further, SPT 1 is viewed to be highly ambitious and SPT 2 to be ambitious, based on the improvement they represent over historical performance, Pirelli's targets compared to those of their peers, and for SPT 1, its alignment with science-based trajectories.

Rationale and level of ambition

- | | |
|--|---|
| <input checked="" type="checkbox"/> Evidence that the SPTs represent a material improvement | <input checked="" type="checkbox"/> Credentials on the relevance and reliability of selected benchmarks and baselines |
| <input checked="" type="checkbox"/> Evidence that SPTs are consistent with the issuer's sustainability and business strategy | <input checked="" type="checkbox"/> Credentials that the SPTs are determined on a predefined timeline |
| <input type="checkbox"/> Other (please specify): | |

Benchmarking approach



- ☒ Issuer own performance
- ☒ reference to the science

- ☒ Issuer's peers
- ☐ Other (*please specify*):

Additional disclosure

- ☒ potential recalculations or adjustments description
- ☒ identification of key factors that may affect the achievement of the SPTs

- ☒ issuer's strategy to achieve description
- ☐ Other (*please specify*):

3-3 BOND CHARACTERISTICS**Overall comment on the section (*if applicable*):**

Pirelli will link the financial characteristics of its sustainability-linked debt instruments to the achievement of the SPTs. The change in the financial characteristics of each instrument will trigger a coupon or margin adjustment, or a premium payment, as applicable, and are to be detailed in the individual transaction documents.

Financial impact:

- ☒ variation of the coupon
- ☐ ...
- ☐ Other (*please specify*):

Structural characteristic:

- ☐ ...
- ☐ ...
- ☐ Other (*please specify*):

3-4 REPORTING**Overall comment on the section (*if applicable*):**

Pirelli commits to report on an annual basis, via its Annual Report, on its performance on the KPIs. Pirelli commits to disclose relevant information that may affect the KPI, such as changes to the calculation methodology, the baselines, or scope, or if there are significant changes in data due to improved data accessibility. The report will be made available on its website. These reporting commitments are aligned with market expectations.

Information reported:

- ☒ performance of the selected KPIs
- ☐ level of ambition of the SPTs
- ☒ verification assurance report
- ☐ Other (*please specify*):

Frequency:

- ☒ Annual
- ☐ Semi-annual



☐ Other (please specify):

Means of Disclosure

- | | |
|--|--|
| <input checked="" type="checkbox"/> Information published in financial report | <input checked="" type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other (please specify): |
| <input type="checkbox"/> Reporting reviewed (<i>if yes, please specify which parts of the reporting are subject to external review</i>): | |

Where appropriate, please specify name and date of publication in the “useful links” section.

Level of Assurance on Reporting

- | | |
|---|---|
| <input checked="" type="checkbox"/> limited assurance | <input type="checkbox"/> reasonable assurance |
| | <input type="checkbox"/> Other (<i>please specify</i>): |

USEFUL LINKS (*e.g. to review provider methodology or credentials, to issuer’s documentation, etc.*)

Section 4. Post-issuance verification

Overall comment on the section (*if applicable*):

Information reported:

- | | |
|--|--|
| <input type="checkbox"/> limited assurance | <input type="checkbox"/> reasonable assurance |
| | <input type="checkbox"/> Other (please specify): |

Frequency:

- | | |
|--|--------------------------------------|
| <input type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Material change:

- | | |
|---|--|
| <input type="checkbox"/> Perimeter | <input type="checkbox"/> KPI methodology |
| <input type="checkbox"/> SPTs calibration | |

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For more information, visit www.sustainalytics.com

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