Second-Party Opinion

Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework

SUSTAINALYTICS
a Morningstar company
SECOND-PARTY OPINION

Evaluation Summary

Evaluation Date	January 17, 2022
Issuer Location	Montecchio Maggiore, Italy

Sustainability-Linked Instruments

Sustainability-Linked Bond Principles 2020

Sustainalytics is of the opinion that the Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020. Overview of KPIs and SPTs:

KPI	SPT	Strength of the KPI	Ambitiousness of SPT
Absolute scope 1 and 2 GHG emissions (tCO_2)	Reduction of absolute scope 1 and 2 GHG emissions by 20% by 2026, against a 2020 baseline	Adequate	Ambitious
Freshwater consumption (m^3)	Reduce freshwater consumption by 20% by 2026, against a 2020 baseline	Strong	Ambitious
Ratio of waste sent to external disposal to external recovery (%)	Reduction of ratio of waste disposal to recovery by 20% by 2026, against a 2020 baseline	Adequate	Ambitious

The SPTs contribute to the following SDGs:

Climate Transition Finance Handbook

Sustainalytics has evaluated FIS's transition governance, strategy, decarbonization targets, and intentions to report on transition progress and finds the Company to be partially aligned with the recommendations of the Climate Transition Finance Handbook 2020. While FIS does not have a distinct climate transition strategy, its sustainability strategy speaks of emissions reductions and directly addresses the environmental impacts of its core business. In addition, FIS is committed to disclosing investment relevant to its transition strategy and to report on the climate-related outcomes of its implementation.

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Scope of Work and Limitations

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[1] opinion on the alignment of the Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework with current market standards. As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Sustainability-Linked Bond Principles 2020[2];
- The credibility and anticipated positive impacts of the SPTs;
- The Issuer's sustainability strategy, performance and sustainability risk management; and
- The alignment with the recommendations of the Climate Transition Finance (CTF) Handbook 2020[3];

As part of this engagement, Sustainalytics held conversations with various members of FIS's management team to understand the sustainability impact of their business processes and the core components of the Framework. FIS representatives have confirmed that:

(1) They understand it is the sole responsibility of FIS to ensure that the information provided is complete, accurate or 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 that Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and FIS.

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. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written up to 24 months or until one of the following occurs: (1) A material change to the external benchmarks[4] against which targets were set; (2) A material corporate action (such as material M&A or change in business activity) which has a bearing on the achievement of the SLBs or the materiality of the KPI.[5]

For sustainability-linked instruments, the Second-Party Opinion:

- addresses the anticipated SPTs of KPIs but does not measure the KPIs' performance. The measurement and reporting of the KPIs is the responsibility of the Bond 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 FIS has made available to Sustainalytics for the purpose of this Second-Party Opinion.

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[1] 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.

[2] The bond Principles, Guidelines and Handbooks are administered by the International Capital Market Association and are available at: https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/

[3] The Climate Transition Finance Handbook is administered by the International Capital Market Association and is available at: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Climate-Transition-Finance-Handbook-December-2020-091220.pdf

[4] Benchmarks refers to science-based benchmarks

[5] 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.

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Introduction

Fabbrica Italiana Sintetici S.p.A. ("FIS", the "Company", or the "Issuer") is an Italian company, headquartered in Montecchio Maggiore, Italy, specialized in development of chemical products for the pharmaceutical industry. The Company employs over 1,850 employees with 60% of sales in Europe and 40% outside Europe. The Company's business primarily includes: (i) custom synthesis manufacturing, including the exclusive production of intermediates, advanced intermediates, and active principles ingredients (API) for pharmaceutical companies; (ii) development and sale of generic APIs; (iii) custom and generic products for veterinary market; and (iv) integrated R&D services provided in the context of development contracts.

FIS has developed the Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework (the "Framework") under which it intends to issue sustainability-linked bonds (SLBs). FIS engaged Sustainalytics to review the Framework, dated December 2021, and provide a Second-Party Opinion on the Framework's alignment with the Sustainability-Linked Bond Principles 2020, and the recommendations of the Climate Transition Finance (CTF) Handbook 2020. This Framework has been published in a separate document.[6]

Under sustainability-linked instruments, the coupon/interest rate of the bond will be tied to the achievement of the Sustainability Performance Targets (SPTs) for three KPIs: (i) Absolute scope 1 and 2 GHG emissions (tCO_2); (ii) Freshwater consumption (m^3); and (iii) Waste sent to external disposal / external recovery (metric tonnes).

The KPIs and SPTs used by FIS are defined in Tables 1 and 2 below.

Table 1: KPI Definitions

KPI	Definition
Absolute scope 1 and 2 GHG emissions (tCO_2)	Absolute scope 1 and 2 emissions are calculated following the GHG Protocol Corporate Standard and requirements of EU Emissions Trading System (EU ETS). The KPI primarily constitutes emissions from methane combustion, used in boilers and trigeneration unit (scope 1), emissions from incinerators for solid and liquid wastes and burners for processing off-gasses (scope 1), and indirect emissions from purchased electricity from the grid (scope 2). The KPI is measured in tonnes of carbon dioxide equivalent (tCO_2).
Freshwater consumption (m^3)	The KPI is a measure of total volume of water withdrawal in cubic meter (m^3). The KPI follows GRI standard.
Ratio of waste sent to external disposal to external recovery (%)	The KPI is the ratio of wastes sent to third parties for external disposal to the wastes sent for external recovery. The macro categories of liquid wastes include (i) aqueous waste with basic pH, (ii) wastes containing solutions with an acidic pH, (iii) wastes containing solutions of organic solvents, and (iv) wastes containing solutions of organic solvents with halogens. The macro categories of solid waste include (i) waste generated by the (internal) incineration of wastes, (ii) waste consisting of sludge from (internal) wastewater treatment plants, (iii) waste consisting of packaging contaminated with dangerous substances, and (iv) waste generated by the filtration or absorption of substances.

Table 2: SPTs and Past Performance

KPI	2017	2018	2019	2020	2021	2022	2023	2024	2025	SPT 2026
Absolute scope 1 and 2 GHG emissions (tCO_2)	89,544	86,176	91,075	91,800 (baseline)	85,000 (-7.4%)	83,826 (-1.4%)	82,212 (-1.9%)	81,703 (-0.6%)	79,153 (-3.1%)	73,422 (-7.2%)

[6] The Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework will be available on Fabbrica Italiana Sintetici's website at: https://www.fisvi.com/en

Freshwater consumption (m^3)	2,805,727	2,531,522	2,417,081	2,431,189 (baseline)	2,358,864 (-3.0%)	2,350,000 (-0.4%)	2,300,000 (-2.1%)	2,200,000 (-4.3%)	2,046,000 (-7.0%)	1,945,000 (-4.9%)
Ratio of waste sent to external disposal to external recovery (%)	75.8%	99.5%	94.3%	105.6% (baseline)	105% (-0.6%)	102.1% (-2.8%)	97.9% (-4.2%)	91.3% (-6.7%)	87.2% (-4.5%)	84.5% (-3.2%)

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of the Framework with Relevant Market Standards

Alignment with Sustainability-Linked Principles

Sustainalytics is of the opinion that the Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020. For detailed information please refer to Appendix 1: Sustainability Linked Bonds External Review Form. Sustainalytics highlights the following elements of FIS's Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework:

Selection of Key Performance Indicators (KPIs)

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 Issuer's business on environment or social issues, and ii) to what portion of impact the KPI is applicable.

Sustainalytics considers the KPIs to be material and relevant given the following:

KPI 1: Absolute scope 1 and 2 GHG emissions (tCO_2)

Sustainalytics' ESG Risk Rating identifies "Carbon – Own Operations"[7] as a material ESG issue for the "Chemicals" industry. The main source of direct carbon emissions in the chemicals industry is combustion of fossil fuel for energy generation making it the largest industrial energy consumer globally. It is also the third largest industry in terms of direct CO_2 emissions. As per the International Energy Agency (IEA), for the Chemicals industry to be aligned with the 'Net Zero Emissions by 2050 scenario', the direct emissions need to peak in the next few years and decline by 10% from current levels by 2030, despite a 25% increase in demand for primary chemicals.[8] Reducing use of coal and increasing energy efficiency are crucial for achieving these targets in the short and medium terms. Further, the Sustainability Accounting Standards Board (SASB) identifies GHG emissions as a relevant issue for the chemicals industry.[9] According to SASB, GHG emissions can create regulatory compliance costs and operating risks as the industry is increasingly subject to stringent regulations to limit or reduce carbon emissions. FIS conducted a materiality assessment in 2018, which identifies 'Climate change and pollutant emissions' as one of the top 10 material issues for the Company and its stakeholders.[10] Sustainalytics notes that due to its energy intensity and dependence on fossil fuels, reducing scope 1 and 2 emissions of the chemicals industry is key to mitigating its contribution to climate change.

In terms of applicability, the KPI covers scope 1 and 2 emissions of FIS's activities and business units. Although there are several intricacies associated with accounting scope 3 emissions in the chemicals sector in terms of data availability and quality, the Company acknowledges its importance and is currently working on establishing a methodology to compute its scope 3 emissions. The scope 3 emissions' computation is anticipated to be included in environmental assessments of the Company by 2023. For assessment of the applicability of scope 1 and 2 GHG emissions against total emissions of a company, Sustainalytics uses industry specific estimated share of emissions in each scope. In this case, Sustainalytics referred to the estimated scope emissions of the chemical

[7] The Sustainalytics's Carbon – Own Operations MEI refers to a company's management of risks related to its own operational energy use and GHG emissions (scope 1 and 2).
[8] IEA, Chemicals: Tracking Report, November 2021, at: https://www.iea.org/reports/chemicals
[9] SASB, Chemicals- Sustainability Accounting Standard 2018, at: https://www.sasb.org/wp-content/uploads/2018/11/Chemicals_Standard_2018.pdf
[10] FIS, "Sustainability Report 2020", at: https://www.fisvi.com/en/environmental-report

industry in Europe, reported in the CDP Europe Report 2021[11]. According to the report, scope 1 and 2 emissions of the chemical industry account for 15% and 8% of total emissions respectively, whereas 77% is scope 3 emissions. The KPI is therefore considered to represent approximately 23% of the total emissions of FIS.

Sustainalytics considers the KPI to be relevant and material as it addresses a material environmental issue for the subindustry. However, the scope of applicability of the KPI is limited as compared to the Company's overall supply chain. Sustainalytics encourages the issuer to monitor and report its scope 3 emissions as well as undertake actions to mitigate them, notwithstanding the limited influence FIS may have on its value chain participants.

KPI 2: Freshwater consumption (m^3)

The SASB identifies Water & Wastewater Management as a key material sustainability topic in the "Chemicals" industry.[12] According to SASB, water is a critical input in chemicals production and is used primarily for cooling, steam generation, and feedstock processing. Impacts associated with water management may include higher costs, liabilities and lost revenues due to curtailment or suspension of operations. Higher water consumption levels may also lead to water scarcity and impact the groundwater table by impacting water reserves in aquifers where groundwater is the source of water. FIS's main source of freshwater is groundwater, representing 85% of the total water withdrawals, which is mainly used for cooling and chemical synthesis. FIS's materiality matrix identifies "Water Management and Protection" as a material sustainability topic.[13] In terms of applicability, Sustainalytics notes that the KPI applies to 100% of FIS's activities and business units.

Sustainalytics considers the KPI to be relevant and material as it addresses a material environmental issue for the subindustry with a significant scope of applicability to the Company's overall operations.

KPI 3: Ratio of waste sent to external disposal to external recovery (%)

Chemical manufacturing processes generate significant amounts of wastes and wastewater, including hazardous wastes and by-products. The management and safe disposal of these wastes is vital for improved environmental performance of the chemical companies. Sustainalytics Industry Report for the Chemicals industry identifies 'Emissions, Effluents and Wastes' as a material issue for the industry, as the large-scale waste and wastewater releases from this industry causes significant ecological impact. The wastes generated from the chemical industries are subject to stringent regulatory norms, thus exposing the companies to higher regulatory risks. Furthermore, SASB also considers waste and hazardous material management as one of the most relevant environmental issues for the chemicals sector.[12] In addition, the materiality assessment undertaken by the Issuer, identifies "Circular Economy", which effectively speaks of waste management, as one of the most material issues for the Company and its stakeholders.[10]

KPI Characteristics

In its assessment of the KPI characteristics, Sustainalytics considers i) whether a clear and consistent methodology is used, ii) whether the Issuer follows an externally recognized definition, iii) whether the KPIs are a direct measure of the performance of the Issuer on a material environmental or social issue, and, if applicable, iv) whether the methodology can be benchmarked to an external, contextual benchmark.[14]

KPI 1: Absolute scope 1 and 2 GHG emissions (tCO_2)

Sustainalytics considers FIS' definition and methodology to calculate the KPI 1 clear and consistent with the Company's historical reporting. FIS follows the GHG Protocol Corporate Accounting and Reporting Standard[15] for calculating and reporting scope 1 and 2 GHG emissions. The GHG emissions reports are verified externally in line with the requirements of EU Emissions Trading System (EU ETS). This approach is considered an industry

[11] CDP Europe Report, March 2021, at: https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/578/original/Running_hot_-_accelerating_Europe's_path_to_Paris.pdf?1615190423
[12] SASB, "Chemicals Industry Standard" (2018), at: https://www.sasb.org/standards/materiality-finder/find/?industry[]=RT-CH
[13] FIS, "Sustainability Report 2020", at: https://www.fisvi.com/en/environmental-report
[14] External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.
[15] GHG Protocol, Corporate Accounting and Reporting Standard, at: https://ghgprotocol.org/corporate-standard

standard and supports benchmarking against external emission reduction trajectories. The KPI is also directly linked to the Company's performance.

KPI 2: Freshwater consumption (m^3)

Sustainalytics considers FIS's definition and methodology to calculate KPI performance to be clear and consistent. Sustainalytics notes that FIS consistently follows GRI 303-3 standard to report its water withdrawal. The KPI measures water withdrawal to understand the level of freshwater consumption where groundwater is the main source. Furthermore, Sustainalytics notes that FIS will also report its "water consumption" based on GRI 303-5 standard from 2022 onwards, which covers water-related dimensions[16] beyond water withdrawal, considering that Italy falls under high water-stress region as per the World Resources Institute (see Section 3). Therefore, the KPI is directly related to the Company's performance having potential direct impact on local watersheds and aquifers. In addition, the KPI is not externally benchmarkable due to the variability in how water accounting is carried out across the sector and considering that water is a context-specific issue.

KPI 3: Ratio of waste sent to external disposal to external recovery (%)

Sustainalytics considers FIS' definition and methodology to calculate the KPI 3 to be clear and consistent. FIS has followed the GRI 306-4 and 306-5 methodology to calculate waste not destined for disposal and waste sent for disposal respectively. Sustainalytics further notes that, there is currently no applicable externally recognized benchmarks available for this KPI.

The KPI does not directly show the Company's performance on reducing waste sent to disposal or increasing waste sent to external recovery. Without discrete information on the numerator and denominator, the KPI does not reflect the Company waste management performance. Further, the KPI is not a clear representation of FIS' goal, which is to reduce the weight of waste disposal in comparison to the weight of waste recovery. Hypothetically, the Company may achieve the SPT and milestone targets without reducing the amount of waste sent to external disposal. In addition, the KPI does not inform about waste diverted from the internal incineration process and, overall, does not present a complete overview of the waste management practices of the Company.

Nonetheless, Sustainalytics notes the environmental benefits that will arise from the KPI, including the integration and subsequent reduction of indirect emissions within the Company's direct scope of emissions and the efforts deployed towards a greater waste and materials circularity.

Overall Assessment

Sustainalytics considers KPI 1 – Absolute scope 1 and 2 GHG emissions (tCO_2) to be adequate given that: (i) it speaks to a relevant and material environmental issue for the industry and is a direct measure of the Company's performance; (ii) it supports benchmarking against recognized emission reduction trajectories, but (iii) it has a limited scope of applicability based on the estimated share of scope 1 and scope 2 emissions of companies operating in the chemicals industry.

Sustainalytics considers KPI 2 – Freshwater consumption (m^3) to be strong given that: (i) it speaks to relevant and material environmental issue for the FIS's industry; (ii) it is a direct measure of the Company's performance; (iii) it applies to 100% of the Company's activities and business units; but (iv) it is not benchmarkable considering the differences in methodologies used to measure water consumption in different contexts.

Sustainalytics considers KPI 3 – Ratio of waste sent to external disposal to external recovery (%) to be adequate given that (i) it speaks to a relevant and material environmental issue for the industry; (ii) it applies to 100% of the

[16] According to the GRI 303 standard, "Water consumption measures water used by an organization such that it is no longer available for use by the ecosystem or local community in the reporting period." The GRI standard 303-5 recommends organizations to report (i) Total water consumption in megaliters at each facility in areas with water stress and (ii) Total water consumption in megaliters by suppliers with significant water-related impacts in areas with water stress. Accordingly, water consumption equals to total water withdrawal subtracted by total water discharge by the Company. See at: https://www.globalreporting.org/standards/media/1909/gri-303-water-and-effluents-2018.pdf#:~:text=Due%20to%20the%20strong%20relationship%20between%20water%20withdrawal%2C,more%20comprehensive%20overview%20of%20the%20organization%E2%80%99s%20water%20use.

Company's activities and business units; but (iii) it does not directly show the Company's sustainable waste management practices; and (iv) it is not benchmarkable against relevant external trajectories.

Absolute scope 1 and 2 GHG emissions (tCO_2)	Not Aligned	Adequate	Strong	Very strong
Freshwater consumption (m^3)	Not Aligned	Adequate	Strong	Very strong
Ratio of waste sent to external disposal to external recovery (%)	Not Aligned	Adequate	Strong	Very strong

Calibration of Sustainability Performance Targets (SPTs)

FIS has set the following SPTs for its KPIs:

- SPT 1: Reduction of absolute scope 1 and 2 GHG emissions by 20% by 2026, against a 2020 baseline
- SPT 2: Reduce freshwater consumption by 20% by 2026, against a 2020 baseline
- SPT 3: Reduction of ratio of waste sent to external disposal to external recovery by 20% by 2026, against a 2020 baseline

Alignment with Issuer's Sustainability Strategy

Since 2019, FIS's sustainability strategy is underpinned by three pillars: (i) strive for occupational wellbeing; (ii) generate sustainable value; and (iii) get involved with stakeholders. Sustainalytics notes that the Company's organizational structure includes a sustainability contact person who reports to the Industrial Operations Department. The Industrial Operations Department directly reports to the Chief Executive Officer of FIS.

FIS conducted materiality analysis through which it identified "Climate Change and Pollutant Emissions", "Water Management and Protection", and "Circular Economy", as three of the key material sustainability topics for the Company. These material sustainability topics identified as part of FIS's sustainability strategy corresponds to each of the selected KPIs and its SPTs respectively, and the prospective sustainability-linked instruments of the Framework.

Additionally, FIS has planned to increase the share of electricity sourced from renewable sources from 2021 as part of its multi-year strategic plan, to align with the targets set by the European Commission on reduction of CO_2 emissions by 2030. FIS has demonstrated increased water use efficiency as part of its water management initiatives by reducing water withdrawals in relation to actual production over the years since 2016. Furthermore, FIS intends to gradually increase the volume of waste managed internally over the next three to five years through multiple investments in new technologies, renovation of existing facilities and re-evaluation of existing processes.[17]

Strategy to Achieve the SPTs

FIS intends to achieve the SPT through the following strategy:

SPT 1: Reduction of absolute scope 1 and 2 GHG emissions by 20% by 2026, against a 2020 baseline

In 2021, FIS initiated a multi-year strategic plan to reduce its dependency on fossil fuels by purchasing energy generated from renewable sources. The Company has already begun the implementation of the strategy in 2021 and is also evaluating power purchase agreements for future strategic improvements.

- FIS is establishing a 2.7MW trigeneration unit at its Lonigo site, which will be operated by a third party and begin its operations by 2023. The trigeneration plant will help FIS in significantly reducing its scope 1 emissions by avoiding the use of refrigerants for cooling.

[17] FIS, "Sustainability Report 2020", at: https://www.fisvi.com/en/environmental-report

- FIS plans to purchase biogas and develop afforestation projects for carbon offsetting in the year 2023-24.
- Energy efficiency projects, such as thermal recovery from condensers, optimization of water vapour grid to the production departments, thermal recovery from fridge condensers, and revamping and substitution of older electric motors with better efficiency have been identified and are planned to be implemented in 2023.

FIS has designed an internal tool in 2021, which enables a better estimation of environmental performances for its CAPEX planning. FIS plans to implement the tool to improve plants efficiency from the design phase and revamp and update its older plants and equipment.

SPT 2: Reduce freshwater consumption by 20% by 2026, against a 2020 baseline

- FIS follows similar water management practices at all three of its sites,[18] which includes: (i) water use pertaining to GMP[19] in production process including cleaning; (ii) water use in production departments for non-GMP purposes; and (iii) water for technological uses such as cooling, steam production and other purposes.
- To achieve SPT 2, FIS will continue to invest in projects to improve its water management practices, particularly focusing on technological uses to reuse water, thereby reducing its consumption. This includes surveying and eliminating small usages where water for thermoregulation is discharged and not reused.
- Furthermore, FIS plans to reuse the treated water from wastewater treatment plants by further improving its quality to enable recycling of water from technological services such as (i) washing water for sludge filter equipment; (ii) washing water for the abetment of foams in the wastewater treatment plants; and (iii) technical water of the biological tower. For example, at the Montecchio site, an intervention aimed at increasing the re-use of water is expected to reduce overall annual withdrawal from the aquifers by 20%.

SPT 3: Reduction of ratio of waste sent to external disposal to external recovery by 20% by 2026, against a 2020 baseline

FIS plans to increase the volume of incineration of waste, which is performed internally, before sending the waste for external disposal.

- FIS plans to implement optimization projects (LEAN)[20] and increase the quantities of external recoveries instead of external disposals. For instance, in 2021, the Company's LEAN team coordinated with several departments analyzing a specific waste stream, which was previously sent for external incineration after a preliminary internal neutralization with NaOH and water. FIS selected external suppliers after a complex evaluation and were able to recover as specific raw material without preliminary neutralization. From 2022, the raw material will be recovered, which is expected to save about 1,500 m^3/year of water no longer needed for neutralization and demonstrate a waste circularity approach.
- FIS intends to strengthen the internal distillation capacity which will result in reduction in quantity of solvents destined for internal incineration, hence freeing up capacity for other wastes. It will also lead to improving the quality of wastes, which will enable external recovery.
- FIS is working towards research and development of effective process designs for accurate segregation and pre-treatment of wastes before external recovery and further plans to scale up the processes to industrial level.

[18] FIS's three manufacturing sites are Montecchio, Termoli and Lonigo.
[19] Good Manufacturing Practice (GMP) is the aspect of quality assurance that ensures that medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the product specification, at: https://www.who.int/teams/health-product-and-policy-standards/standards-and-specifications/gmp US Food and Drug Administration has promulgated regulations and guidance for GMP, at: https://www.fda.gov/regulatory-information/search-fda-guidance-documents/guidance-industry-q7a-good-manufacturing-practice-guidance-active-pharmaceutical-ingredients#P480_24908
[20] Lean projects are not included in five-year strategic plans or in "R&D scale-up and optimization phase" but are activated in shorter time (months) according to specific needs/opportunities especially related to a specific chemical process when already at industrial scale. This kind of projects are on a completely different pathway as compared to planned R&D (process design/first optimization before industrialization) and engineering design projects.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers whether the SPTs go beyond business-as-usual trajectory, ii) how the SPTs compare to targets set by peers, iii) and how the SPTs compare with science.[21]

FIS has set the baselines for the SPTs in 2020 to reflect the latest available data.

SPT 1: Reduction of absolute scope 1 and 2 GHG emissions by 20% by 2026, against a 2020 baseline

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

Sustainalytics considers the target to be above FIS' historical performance. Between 2017 to 2020, the Company's absolute scope 1 and 2 GHG emissions have increased by 3% annually, whereas the SPT requires the GHG emissions to decrease at an average annual rate of 3.34%. For peer comparison, eight privately owned API[22] manufacturers having operations in Italy as well as other countries were considered. Sustainalytics notes that the majority of peer companies do not have any reported quantitative time-bound targets for reduction of CO_2 emissions. As such, Sustainalytics considers FIS' set targets to be above its peers' performance. For comparison with recognized decarbonization trajectories, Sustainalytics considered SBTi's well-below 2°C scenario.[23] This scenario requires absolute GHG emissions reduction rate of minimum 2.5%, in annual linear terms, applicable to all industries. FIS' SPT set for 2026 and has a linear annual reduction rate of 3.34%. Therefore, Sustainalytics considers FIS' short-term targets to be in alignment with the SBTi's well-below 2°C scenario.

SPT 2: Reduce freshwater consumption by 20% by 2026, against a 2020 baseline

Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance and peer performance.

With regards to past performance, FIS achieved a 4.57% annual average reduction of freshwater withdrawal between 2017 and 2020 i.e. 13.57% of reduction in water consumption during the same period. However, Sustainalytics notes that FIS acquired the Lonigo production site in 2017, which materially impacted the reporting perimeter of the KPI. This consequently impacted the overall water withdrawal by FIS between 2017 and 2018. Hence, considering the material change in reporting perimeter its impact on the Company's performance between 2017 and 2018, Sustainalytics relied on the average annual reduction rate of 1.97% between 2018 and 2020 to compare the SPT with past performance.[24] To achieve the SPT, FIS must reduce water consumption by 20% by 2026, against a 2020 baseline. Notwithstanding FIS's Industrial Plan, which facilitates anticipated growth in volumes and reshoring of production, the SPT accounts for an annual average targeted reduction of 3.6% by 2026. Sustainalytics notes that the SPT is above past performance, and therefore ambitious.

FIS's targets were compared with eight peers globally from its subindustry, including three direct peers having operations in Italy, where none of its peers have reportedly set water consumption time-bound targets in line with SPT 2. Sustainalytics considers SPT 2 to be more ambitious than the targets of all considered peers of FIS.

Sustainalytics acknowledges that, in the case of SPT 2, it is difficult to compare with science-based benchmarks due to a lack of comparable mechanisms for direct comparison between water systems.

SPT 3: Reduction of ratio of waste sent to external disposal to external recovery by 20% by 2026, against a 2020 baseline

Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance and peer performance.

In terms of past performance, the ratio of waste sent to external disposal to external recovery increased by 39.31% between 2017 and 2020. However, 2017 is not representative for the analysis of the historical trend for the above reasons. The percentage ratio between waste for disposal and recovery remained flat during the following years

[21] We refer here to contextual benchmarks, that indicate the alignment of targets with ecosystem boundaries.
[22] The World Health Organization defines active pharmaceutical ingredient or active principle ingredient (API) as "any substance or combination of substances used in a finished pharmaceutical product, intended to furnish pharmacological activity or to otherwise have direct effect in the diagnosis, cure, mitigation, treatment or prevention of disease, or to have direct effect in restoring, correcting or modifying physiological functions in human beings."
[23] SBTi Corporate Manual, Version 2.0, December 2021, p. 16, at: https://sciencebasedtargets.org/resources/files/SBTi-Corporate-Manual.pdf
[24] Sustainalytics notes an anomaly in rate of change (0.58% increase) in water withdrawal between 2019 and 2020 due to breakdown of some of the refrigeration units at FIS in in July and August 2020, which could only be remedied by using tap water to provide the necessary cooling.

and deteriorated slightly in 2020, increasing at an annual average rate of 3.1% between 2018 and 2020. The SPT requires reduction of the ratio at an annual average rate of 3.33%. In this respect, Sustainalytics considers the SPT to be above historical performance.

Further, Sustainalytics assessed its sub-industry peers, and noted that peer companies have not set any defined quantitative targets in terms of waste minimization or management. Sustainalytics considers the definition of the SPT to be ambitious in consequence.

Sustainalytics could not assess the SPT against any external benchmark due to unavailability of any credible science-based benchmark for waste management at present.

Overall Assessment

Sustainalytics considers the SPTs to align with Fabbrica Italiana Sintetici's sustainability strategy and considers FIS's SPT 1 to be ambitious given that it presents a material improvement compared to past performance, is above the performance of its sub-industry peers and aligns with SBTi's well below 2°C trajectory.

Sustainalytics considers SPT 2 to be ambitious given that it is above FIS's past performance, and that the company's peers have not set water consumption time-bound targets.

Sustainalytics considers FIS's SPT 3 to be ambitious given that it is aligned with its past performance and is above the performance of its sub-industry peers.

Reduction of absolute scope 1 and 2 GHG emissions by 20% by 2026, against a 2020 baseline	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
Reduce freshwater consumption by 20% by 2026, against a 2020 baseline	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
Reduction of ratio of waste sent to external disposal to external recovery by 20% by 2026, against a 2020 baseline	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious

Bond Characteristics

Fabbrica Italiana Sintetici has disclosed that financial characteristics of any sustainability-linked bond (SLB) issued under the Framework will be linked to the achievement of the SPTs or failure to reach the SPTs and could include a coupon step-up or a higher repayment amount at maturity. In addition, adjustments in the financial characteristics may be triggered if the Issuer fails to report the performance against the KPIs and SPTs at the required notification date as per the relevant transaction document. The applicable sustainability-linked adjustment mechanism and fallback mechanisms will be detailed within the relevant transaction documentation of SLB, including in case the SPTs cannot be calculated or observed in satisfactory manner or other potential exceptional events. This is aligned with the SLBP.

Reporting

FIS commits to report on an annual basis on its performance on the KPIs and expects to include the relevant figures in its Annual Sustainability Report or in a separate report which will be publicly available on its website, which is aligned with the SLBP.

FIS further commits to disclose relevant information that enables investors to monitor the level of ambition of the SPTs including (i) externally verified information on the performance of the selected KPI(s), baseline, scope and calculation methodology where relevant; (ii) any updated information relevant to the analysis of the KPIs and the progress against the SPTs; and (iii) verification assurance certificate confirming the performance of each KPI against the associated SPT.

Verification

FIS commits to having an external verifier provide limited assurance against each SPT for each KPI at least once a year, which is aligned with the SLBP on verification. In addition, FIS will obtain a verification assurance certificate from auditors confirming whether the performance of the KPIs meets the relevant SPTs. The verification of the performance against the SPTs will be made publicly available on FIS's website.

Alignment against the Climate Transition Finance Handbook 2020

Sustainalytics has assessed the FIS's alignment with the recommendations of the Climate Transition Finance (CTF) Handbook and considers the Company to be partially aligned overall. Sustainalytics highlights the following key elements of the assessment:

Key Elements	ICMA Recommendation	Sustainalytics' Assessment	
Issuer's climate transition strategy and governance	- Transition strategy to address climate-related risks and contribute to alignment with the goals of the Paris Agreement - Relevant interim targets on the trajectory towards long-term goal - Governance of transition strategy	- See detailed assessment in Section 2. - FIS does not have a distinct climate transition strategy, however, the Company's sustainability strategy includes climate change mitigation actions to reduce its emissions through initiatives, such as procurement of renewable electricity, energy efficiency, etc. - The Company has not set any long-term goals in terms of mitigation of climate change. - FIS has a defined a governance structure for its overarching sustainability objectives. The organizational structure for sustainability includes a Sustainability Contact Person who reports to the Industrial Operations Department, which is overseen directly by the Chief Executive Officer.	Partially aligned
Business model environmental materiality	- Transition trajectory should be relevant to the environmentally-material parts of the Issuer's business model	- Being a pharmaceutical chemical company, FIS is an energy and carbon intensive company. Therefore, the decarbonization of its operations embedded in the Company's sustainability strategy is directly relevant to the environmentally material aspects of its business model.	Aligned
Climate transition strategy to be 'science-based' including targets and pathways	- Transition strategy should reference science-based targets and transition pathways	- Through the SPT, FIS is setting a short-term emission reduction target for its scope 1 and 2 emissions, aligned with an SBTi's well below 2° scenario. - The Company has not set medium- and long-term targets that align with a credible, generic trajectory.[25] - However, the Company may adhere to Science-Based Targets and recalculate the first SPT in 2023, to account for scope 3 emissions.	Partially aligned
Implementation transparency	- Disclosure of capex and opex plans - Climate-related outcomes and impacts these expenditures are intended to result in	- FIS is committing to disclose investment relevant to its transition strategy on an annual basis, once they will be executed, and after having finalized the criteria and methodology to classify CAPEX. - In addition, FIS is committed to reporting annually on the climate-related outcomes of its strategy implementation, including performance on relevant KPIs, such as the ones defined in the Framework.	Aligned

[25] SBTi expects "to develop chemicals sector guidance and science based target-setting methods and tools in early 2022."

Section 2: Assessment of FIS's Sustainability Strategy

Credibility of FIS's Climate Transition Strategy

Sustainalytics recognizes that proceeds from bond issuances under the Framework would be for general corporate purpose use, which includes support of the Company's initiatives for transitioning towards low-carbon operations. Within this context, Sustainalytics has assessed FIS's climate transition strategy below:

Emission-Reduction Targets

FIS has set a target to reduce its scope 1 and 2 absolute GHG emissions by 20% by 2026, against a 2020 baseline. The target is considered aligned with SBTi's well below 2-degrees scenario and IEA's Net Zero Emissions by 2050 scenario for the Chemicals industry.[26] Sustainalytics notes that FIS has set only short-term emission reduction target for its scope 1 and 2 emissions and encourages the Company to set medium- and long-term targets.

Sustainalytics notes that FIS's short-term target does not encompass scope 3 emissions which may account to a considerable share in its total emissions profile.

Decarbonization Pathway and Implementation Plan

FIS has set out a multi-year strategic plan to increase its share of electricity sourced from renewable sources from 2021 and reduce the Company's dependence on fossil fuel powered generation. In addition, FIS is establishing a 2.7MW trigeneration unit at its Lonigo site that will help in significantly reducing its scope 1 emissions by avoiding use of refrigerants for cooling. The Company has also identified energy efficiency projects which are planned to be implemented from 2023 onwards, such as thermal recovery from condensers, optimization of water vapour grid to the production departments, thermal recovery from fridges condensers, and revamping/substitution of older electric motors with better efficiency ones. Moreover, FIS plans continued contributions to CO_2 emissions reductions through its objectives under LEAN initiative for engineering and procurement projects. This initiative includes optimization of design and technological development in plant efficiency, which is a continuous process since the plants' design phase. Furthermore, FIS plans to purchase biogas and develop afforestation projects for carbon offsetting in the year 2023-24.

While the Issuer has not set mid-term and long-term GHG emission reduction targets, Sustainalytics recognizes the strategic focus of the Issuer regarding GHG emissions reduction. Sustainalytics notes that some policies and projects of the Company are still in development, including the methodology to compute its scope 3 emissions which is anticipated to be included in environmental assessments of the Company by 2023. Sustainalytics further notes that FIS has not taken any formal decisions regarding disclosure of its climate-related investment plans and their impacts, including disclosures on capex and opex. FIS expects to start disclosing climate-transition investments from 2023 after finalizing the criteria and methodology to classify them accordingly.

FIS's Environmental and Social Risk Management

Sustainalytics recognizes that while the FIS's defined targets are impactful, it is acknowledged that achieving the SPTs bears environmental and social risks related to (i) Occupational Health and Safety (OH&S) and (ii) Environmental and Social (E&S) impact of Products and Services (P&S).

In the following section Sustainalytics comments on FIS's ability to mitigate such potential risks.[27]

- FIS's Health, Safety and Environment (HSE) Policy ensures its overall commitment to managing risks related to OH&S and E&S impact of P&S through alignment with the principles of protecting the environment and protecting the health and safety of the people.[28]
- FIS has set up three-level HSE committees to achieve the Company's HSE objectives and ensure continuous exchange of information regarding HSE issues. The top-level HSE Committee consists of managers and directors of the principal

[26] According to the IEA, "to get on track with the Net Zero Emissions by 2050 Scenario, direct emissions need to peak as soon as possible and decline almost 10% from the current level by 2030, despite a 25% increase in demand for primary chemicals. In the short to medium term, this can be achieved primarily by decreasing coal use and raising energy efficiency", IEA, "Chemical – Tracking Report", (2021), at: https://www.iea.org/reports/chemicals

[27] FIS, "Sustainability Report 2020", at: https://www.fisvi.com/en/environmental-report

[28] FIS, "HSE Policy", at: https://www.fisvi.com/en/fis-hse-policy

business functions and meets periodically according to the scope of the committees. It formulates FIS's objectives and programmes regarding HSE.[29] The board-level meeting of HSE is conducted quarterly.

- FIS's production sites at Montecchio and Termoli obtained the ISO 14001 certification In 2001, which ensure that the Company's environmental management system helps to control environmental aspects, reduce negative environmental impacts and ensures legal compliance.
- In 2009, the Company's Montecchio site obtained ISO 45001 certification.[30] The certification confirms the ability of the Company to provide safe and healthy workplaces by preventing work-related injury and proactively improving its OH&S performance. In addition, the EU Seveso I – II – III Directives aim at preventing major chemical accidents hazards in the EU Member States. Italy implemented the Seveso Directives that establish legal obligations for operators, such as elaborating and implementing a "major accident prevention policy" (MAPP).[31]
- Considering that three of the FIS's sites are classified as being of Major Accident Hazard according to the current legislation (Legislative Decree 105/2015, application of the EU "Seveso III" Directive), the Company has implemented Operational Excellence programme with an objective to consolidate risk prevention process, ensure maximum protection and safety of its people and locations of work.
- Through the Operational Excellence programme, FIS's systems have been certified according to ISO 45001:2018, 14001:2015 and 9001:2015 standards highlighting the improvement of its Quality, Environment, Safety and Health systems. FIS also aligns its operations with Good Manufacturing Practice for the industry.
- The Montecchio and Lonigo production sites are in an area heavily impacted by the pollution of a family of chemicals called PFAS[32], which may negatively impact human health because they are bioaccumulative and biopersistent with health effects that are not fully known. Although all the FIS's chemical synthesis processes and related services are free from PFAS, the Company has been using sand filtration systems to discharge treated wastewater. FIS began implementation of active carbon filtration (ACF) system for removal of PFAS in 2016, which is considered as the most suited treatment technology for PFAS removal by the US EPA.[33] In 2020, FIS expanded the process of upgradation to ACF system, which enables the Company to reach the limits of PFAS concentration in discharged wastewater.

In addition to above, Sustainalytics notes that it has found no evidence of any major environmental or social controversies related to FIS. Overall, Sustainalytics considers that FIS has adequate and appropriate management programs and policies to mitigate risks that are material to the Company's subindustry.

Section 3: Impact of the SPTs Selected

Reducing GHG emissions from the chemistry industry

The chemical industry's direct GHG emissions amounted to 1.8 Gt CO_2e in 2020 globally, representing 18% of all industrial sectors' emissions.[34],[35] In 2019, this represented 3.3% of total GHG emissions in the EU.[36] Moreover, the industry is the most significant

[29] FIS, "HSE Committee", at: https://www.fisvi.com/en/hse-committees
[30] FIS, "ISO 14001 - ISO 45001 Certifications", at: https://www.fisvi.com/en/iso-ohsas-certifications
[31] The Seveso III Directive 2012/18/EU on the control of major-accident hazards involving dangerous substances lays down the rules for prevention of major industrial accidents involving hazardous substances and for limiting the consequences of such accidents for human health and the environment. See more details at: https://echa.europa.eu/regulations/clp/understanding-seveso
[32] Perfluoroalkylated substances (PFAS) are highly resistant persistent compounds used for repelling oil, grease and water and protecting the surfaces of carpets and clothing; they are also found in fire-fighting foams. They have negative consequences for human health, although these are not fully established. at: https://www.euro.who.int/__data/assets/pdf_file/0018/340704/FINAL_pfas-report-20170530-h1200.pdf
[33] US EPA "Reducing PFAS in Drinking Water with Treatment Technologies", at: https://www.epa.gov/sciencematters/reducing-pfas-drinking-water-treatment-technologies
[34] International Energy Agency, "Energy Technology Perspectives 2020", (2020), at: https://iea.blob.core.windows.net/assets/7f8aed40-89af-4348-be19-c8a67df0b9ea/Energy_Technology_Perspectives_2020_PDF.pdf
[35] OECD/IEA, "The Future of Petrochemicals", (2018), at: https://iea.blob.core.windows.net/assets/bee4ef3a-8876-4566-98cf-7a130c013805/The_Future_of_Petrochemicals.pdf
[36] EEA, "EEA greenhouse gases - data viewer", at: https://www.eea.europa.eu/data-and-maps/data/data-viewers/greenhouse-gases-viewer

industrial consumer of oil and gas (14%) and the major industrial energy consumer globally.[37] In 2020, Italy accounted for 11.4% of the total GHG emissions in the EU, while being third European chemical producer in 2020.[38][39][40]

Scope 1 and 2 emissions accounted for 23% of the GHG emissions from the chemical industry in 2020.[41] Among them, a large source of carbon emissions comes from fossil fuel combustion. According to the SBTi, scope 1 and 2 mitigation options for the chemical industry include electrification (e.g., of naphtha or steam crackers), new catalysts (e.g., to produce ethylene from methane), energy efficiency improvements, and green hydrogen feedstock use. In addition, electricity accounted for approximately 10% of the sector's energy use in 2019. [42] Sustainalytics notes that FIS plans to reduce its scope 1 and 2 emissions include increasing the share of electricity generated from renewable sources, making significant investments in energy efficiency, and developing projects for CO_2 off-setting and bio-gas purchase, which is in line with recommendations set by SBTi.[43]

However, as explained in the SPT 1 assessment, scope 3 emissions are expected to represent the majority of the Company's emissions, limiting the positive environmental contribution of the scope 1 and 2 emissions target. Nevertheless, initiatives resulting from the KPI 2 and the KPI 3 are expected to decrease the Company's indirect emissions. For instance, regarding KPI 3, Sustainalytics notes that decreasing external recovery of waste is expected to reduce indirect transportation-related emissions from third-party companies and emissions related to external incineration. The increasing use of internal incineration will increase direct emissions that are subject to the SPT 1.

Based on the above, Sustainalytics is of the opinion that FIS's efforts to reduce its scope 1 and 2 GHG emissions is expected to contribute to the decarbonization of the company and more broadly, advance the transition of the chemical sector to a low-carbon economy.

Reducing industrial freshwater withdrawal in Italy

Water stress affects 20 % of the European territory and 30% of the European population annually[44]. Southern European countries are expected to face a progressive decrease in water availability, with Italy being among the eight most vulnerable countries.[45] In 2017, 9 % of the annual renewable freshwater resources were extracted in Europe to serve the needs of various sectors.[46] In addition, FIS's three production plants are based in Italy, which is considered a high-water stress region in 2021.[47][48] About 34% of Italy's total annual freshwater was withdrawn in 2017, 22.5% for direct industrial use.[49] Industrial water withdrawal decreased by 33.6% between 2007 and 2018. However, the share of industrial water withdrawal in total water withdrawal remained constant during the same period.[50]

The chemical industry is one of the most water-intensive industries because water is a key physical input for production. Cooling is the most water-intensive process: its physical and chemical properties allow it to be widely used for heat exchange operations

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[37] Science-Based Targets, "Barriers, Challenges, and Opportunities for Chemical Companies to Set Science-Based Targets", (2020), at: https://sciencebasedtargets.org/resources/files/SBTi-Chemicals-Scoping-Document-12.2020.pdf
[38] CEFIC, "Landscape of the European chemical industry - Italy", (2020), at: https://cefic.org/a-pillar-of-the-european-economy/landscape-of-the-european-chemical-industry/italy/#h-chemical-industry-snapshot
[39] European Parliament, "EU progress on climate action – How are the Member States doing? - Climate action in Italy", (2021), at: https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/690663/EPRS_BRI(2021)690663_EN.pdf
[40] Italy's Ministry of the Environment and Protection of Natural Resources and the Sea, "Integrated national energy and climate plan", (2019), at: https://ec.europa.eu/energy/sites/default/files/documents/it_final_necp_main_en.pdf
[41] CDP, "Running Hot - Accelerating Europe's path to Paris", (2021), at: https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/005/578/original/Running_hot_-_accelerating_Europe%27s_path_to_Paris.pdf?1615190423
[42] Science-Based Targets, "Barriers, Challenges, and Opportunities for Chemical Companies to Set Science-Based Targets", (2020), at: https://sciencebasedtargets.org/resources/files/SBTi-Chemicals-Scoping-Document-12.2020.pdf
[43] The Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework will be available on Fabbrica Italiana Sintetici's website at: https://www.fisvi.com/en
[44] EEA, "Water resources across Europe - confronting water stress: an updated assessment", (2021), at: https://www.eea.europa.eu/publications/water-resources-across-europe-confronting
[45] European Commission, "Climate change and Europe's water resources", (2020), at: https://ec.europa.eu/jrc/sites/default/files/pesetaiv_task_10_water_final_report.pdf
[46] EEA, "Water resources across Europe - confronting water stress: an updated assessment", (2021), at: https://www.eea.europa.eu/publications/water-resources-across-europe-confronting
[47] Fabbrica Italiana Sintetici, "Productions Plants", at: https://www.fisvi.com/en/production-plants
[48] World Resources Institute, "Aqueduct 3.0 Country Rankings", (2020), at: https://www.wri.org/data/aqueduct-country-rankings
[49] The World Bank, "Italy annual freshwater withdrawals", at: https://data.worldbank.org/indicator/ER.H2O.FWDM.ZS?locations=IT
[50] FAO, "AQUASTAT Database", (2022), at: https://www.fao.org/aquastat/statistics/query/index.html;jsessionid=9809AF649B77E836F7FD773417790AE1

in chemical processing.[51][52] At FIS plants, water is taken from the ground table, cooled through the evaporation towers, and then continuously reused.[53]

Increasing water efficiency is therefore a significant challenge for the chemical industry. Most effective approaches include decreasing water abstraction and the associated reduction in wastewater disposal by encouraging water reuse and incorporating alternative water resources. In particular, the reuse of water in industry is an essential element of the circular economy. In addition, wastewater is increasingly seen as a potential resource, and its use or recycling after treatment is a potential means to reduce stress on water resources.[54]

Sustainalytics is of the opinion that the second SPT will help the Company reducing its freshwater consumption and assist Italy in reducing the amount of water withdrawn from the environment for industrial purposes.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. The Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework advances the following SDG goals and targets:

KPI	SDG	SDG Target
Absolute scope 1 and 2 GHG emissions (tCO_2)	7. Affordable and clean energy	7.2. By 2030, increase substantially the share of renewable energy in the global energy mix 7.3. By 2030, double the global rate of improvement in energy efficiency
	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
Freshwater consumption (m^3)	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.
Ratio of waste sent to external disposal to external recovery	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

[51] D. Bekker, et al., (2019), "Integrated Industrial Water Management – Challenges, Solutions, and Future Priorities", at: https://www.spire2030.eu/sites/default/files/users/user500/becker_et_al._2019.pdf
[52] Bosaq, "The water challenges of the chemical industry", (2020), at: https://bosaq.com/water-and-chemicals/
[53] FIS, "Sustainability Report 2020", at: https://www.fisvi.com/en/environmental-report
[54] D. Bekker, et al., (2019), "Integrated Industrial Water Management – Challenges, Solutions, and Future Priorities", at: https://www.spire2030.eu/sites/default/files/users/user500/becker_et_al._2019.pdf

Conclusion

FIS has developed the Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework under which it may issue sustainability-linked bonds.

Through its issuance of sustainability-linked bonds, the Fabbrica Italiana Sintetici intends to tie the coupon step-up or a higher repayment amount to the achievements of the following SPTs:

(1) Reduction of absolute scope 1 and 2 GHG emissions by 20% by 2026, against a 2020 baseline;

(2) Reduce freshwater consumption by 20% by 2026, against a 2020 baseline;

(3) Reduction of ratio of waste sent to external disposal to external recovery by 20% by 2026, against a 2020 baseline;

Sustainalytics considers the KPIs to be relevant, material and aligned with the Company's sustainability strategy. Sustainalytics considers KPI 1 – Absolute scope 1 and 2 GHG emissions (tCO_2) to be adequate; KPI 2 – Freshwater consumption (m^3) to be strong; and KPI 3 – Ratio of waste sent to external disposal to external recovery to be adequate. Sustainalytics considers SPT 1 and SPT 2 and SPT 3 to be ambitious. In addition, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Furthermore, Sustainalytics is of the opinion that the Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework is aligned with the Sustainability-Linked Bond Principles 2020. Sustainalytics has also assessed Fabbrica Italiana Sintetici's alignment with the recommendations of the Climate Transition Finance Handbook and considers the Company's overall transition strategy to be partially aligned. Based on the above, Sustainalytics is confident that Fabbrica Italiana Sintetici is well-positioned to issue sustainability-linked bonds.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Fabbrica Italiana Sintetici 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: January 17, 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:

☒ assessed all the following elements (complete review)

- ☒ Selection of Key Performance Indicators (KPIs)
- ☒ Calibration of Sustainability Performance Targets (SPTs)
- ☒ Verification

☐ only some of them (partial review):

- ☒ Bond characteristics (acknowledgment of)
- ☒ Reporting

☒ and confirmed their alignment with the SLBP.

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

- ☒ Second Party Opinion
- ☐ Verification
- ☐ Certification
- ☐ 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)*

FIS has developed the Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework under which it may issue sustainability-linked bonds.

Through its issuance of sustainability-linked bonds, the Fabbrica Italiana Sintetici intends to tie the coupon step-up or a higher repayment amount to the achievements of the following SPTs:
(1) Reduction of absolute scope 1 and 2 GHG emissions by 20% by 2026, against a 2020 baseline;
(2) Reduce freshwater consumption by 20% by 2026, against a 2020 baseline;
(3) Reduction of ratio of waste sent to external disposal to external recovery by 20% by 2026, against a 2020 baseline;

Sustainalytics considers the KPIs to be relevant, material and aligned with the Company's sustainability strategy. Sustainalytics considers KPI 1 – Absolute scope 1 and 2 GHG emissions (tCO_2) to be adequate; KPI 2 – Freshwater consumption (m3) to be strong; and KPI 3 – Ratio of waste sent to external disposal to external recovery (%) to be adequate. Sustainalytics considers SPT 1 and SPT 2 and SPT 3 to be ambitious. In addition, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Furthermore, Sustainalytics is of the opinion that the Fabbrica Italiana Sintetici Sustainability-Linked Bond Framework is aligned with the Sustainability-Linked Bond Principles 2020. Sustainalytics has also assessed Fabbrica Italiana Sintetici's alignment with the recommendations of the Climate Transition Finance Handbook and considers the Company's overall transition strategy to be partially aligned. Based on the above, Sustainalytics is confident that Fabbrica Italiana Sintetici is well-positioned to issue sustainability-linked bonds.

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)*:
Sustainalytics considers KPI 1 – Absolute scope 1 and 2 GHG emissions (tCO_2) to be adequate given that: (i) it speaks to a relevant and material environmental issue for the industry and is a direct measure of the Company's performance; (ii) it supports benchmarking against recognized emission reduction trajectories, but (iii) it has a limited scope of applicability based on the estimated share of scope 1 and scope 2 emissions of companies operating in the chemicals industry.

Sustainalytics considers KPI 2 – Freshwater consumption (m3) to be strong given that: (i) it speaks to relevant and material environmental issue for the FIS's industry; (ii) it is a direct measure of the Company's performance; (iii) it applies to 100% of the Company's activities and business units; but (iv) it is not benchmarkable considering the differences in methodologies used to measure water consumption in different contexts.

Sustainalytics considers KPI 3 – Ratio of waste sent to external disposal to external recovery to be adequate given that (i) it speaks to a relevant and material environmental issue for the industry; (ii) it applies to 100% of the Company's activities and business units; but (iii) it does not directly show the Company's sustainable waste management practices; and (iv) it is not benchmarkable against relevant external trajectories.

List of selected KPIs:

- Absolute scope 1 and 2 GHG emissions (tCO_2)
- Freshwater consumption (m^3)
- Ratio of waste sent to external disposal to external recovery

Definition, Scope, and parameters

☒ Clear definition of each selected KPIs ☒ Clear calculation methodology

☐ Other (please specify):

Relevance, robustness, and reliability of the selected KPIs

- ☒ Credentials that the selected KPIs are relevant, core and material to the issuer's sustainability and business strategy.
- ☒ Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis
- ☒ Evidence that the KPIs are externally verifiable
- ☐ Evidence that the KPIs can be benchmarked
- ☒ Other (*please specify*): KPI 1 is benchmarkable. KPI 2 and KPI 3 not benchmarkable considering the differences in methodologies in different contexts, or there are no applicable externally recognized benchmarks available.

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (*if applicable*):
Sustainalytics considers the SPTs to align with Fabbrica Italiana Sintetici 's sustainability strategy and considers FIS's SPT 1 to be ambitious given that it presents a material improvement compared to past performance, is above the performance of its sub-industry peers and aligns with SBTi's well below 2°C trajectory.

Sustainalytics considers SPT 2 to be ambitious given that it is above FIS's past performance, and it represents a more ambitious target than the ones set by the Company's peers.

Sustainalytics considers SPT 3 to be ambitious given that it is above past performance and is above the performance of its sub-industry peers.

Rationale and level of ambition

- ☒ Evidence that the SPTs represent a material improvement
- ☒ Evidence that SPTs are consistent with the Issuer's sustainability and business strategy
- ☒ Credentials on the relevance and reliability of selected benchmarks and baselines
- ☒ Credentials that the SPTs are determined on a predefined timeline
- ☐ Other (please specify):

Benchmarking approach

- ☒ Issuer own performance
- ☐ reference to the science
- ☒ Issuer's peers
- ☒ Other *(please specify):* There is a considerable difficulty in comparing with science-based benchmarks due to a lack of comparable mechanisms for SPT 2 and SPT 3

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*):
Fabbrica Italiana Sintetici has disclosed that financial characteristics of any sustainability-linked bond (SLB) issued under the Framework will be linked to the achievement of the SPTs or failure to reach the SPTs and could include a coupon step-up or a higher repayment amount at maturity. This is aligned with the SLBP.

Financial impact:

☒ variation of the coupon

☐ …

☐ Other (*please specify*):

Structural characteristic:

☐ …

☐ …

☐ Other (*please specify*):

3-4 REPORTING

Overall comment on the section (*if applicable*):
FIS commits to report on an annual basis on its performance on the KPIs and expects to include the relevant figures in its Annual Sustainability Report or in a separate report which will be publicly available on its website, which is aligned with the SLBP.

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

☐ Information published in financial report

☐ Information published in ad hoc documents

☒ Information published in sustainability report

☒ Other (please specify): Information published in FIS's Annual Sustainability Report be publicly available on its website

☐ Reporting reviewed *(if yes, please specify which parts of the reporting are subject to external review)*:

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

Level of Assurance on Reporting

☒ limited assurance

☐ reasonable assurance

☐ Other *(please specify)*:

USEFUL LINKS (*e.g. to review provider methodology or credentials, to the Issuer's documentation, etc.*)

https://www.fisvi.com/en/environmental-report

Section 4. Post-issuance verification

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

Information reported:

☐ limited assurance
☐ reasonable assurance
☐ Other (please specify):

Frequency:

☐ Annual
☐ Semi-annual
☐ Other (please specify):

Material change:

☐ Perimeter
☐ KPI methodology
☐ SPTs calibration

Disclaimer

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Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 800 staff members, including more than 300 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

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