

# Second-Party Opinion

## Lilly Sustainability Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Lilly Sustainability Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Pollution Prevention and Control, Energy Efficiency, Renewable Energy, Sustainable Water and Wastewater Management, Clean Transportation, Terrestrial and Aquatic Biodiversity Conservation, Access to Essential Services: Healthcare, and Socioeconomic Advancement and Empowerment – are aligned with those recognized by both the Green Bond Principles and the Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 5, 6, 7, 8, 9, 12 and 14.



**PROJECT EVALUATION / SELECTION** Lilly's internal process in evaluating and selecting projects is overseen by a committee comprised of members from the Company's Sustainability and Finance teams. The committee will be responsible for evaluating any potential relevant environmental and social risks associated with the Eligible Projects, and this is applicable to all allocation decisions made under the Framework. Sustainalytics considers the risk management system to be adequate and the project evaluation and selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** Lilly's Finance department will track net bond proceeds using its internal systems. Lilly intends to fully allocate net proceeds of its green, social and/or sustainability bonds within 24 months of issuance. Pending allocation, proceeds will be managed in line with Lilly's liquidity practices. This is in line with market practice.



**REPORTING** Lilly intends to report on the allocation of proceeds on its ESG website on an annual basis until full allocation. The allocation report will contain (i) information about the amount allocated on a category level, (ii) a list of projects financed, (iii) information on the split between new financing and refinancing, and (iv) the remaining amount of unallocated bond proceeds. In addition, Lilly intends to report on relevant impact metrics. Sustainalytics views Lilly's allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	September 1, 2021
<b>Issuer Location</b>	Indianapolis, Indiana, USA

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**For inquiries, contact the Sustainable Finance Solutions project team:**

**Daniel Sanchez (Toronto)**  
Project Manager  
daniel.sanchez@sustainalytics.com  
(+1) 647 264 6644

**Zhenyi LV (Toronto)**  
Project Support

**John-Paul Iamonaco (Toronto)**  
Project Support

**Paramjot Kaur (New York)**  
Client Relations  
susfinance.americas@sustainalytics.com  
(+1) 646 518 9623

## Introduction

Eli Lilly and Company ("Lilly", or the "Company") is a pharmaceutical company with over 34,000 full-time employees. Headquartered in Indianapolis, Indiana, USA, Lilly develops, manufactures, and markets human pharmaceutical products with a focus on neuroscience, endocrinology, oncology, and immunology. Lilly's key products include Alimta and Verzenio for cancer; Jardiance, Trulicity, Humalog, and Humulin for diabetes; and Taltz and Olumiant for immunology.

Lilly has developed the Lilly Sustainability Bond Framework (the "Framework") under which it intends to issue Green, Social and/or Sustainability Bonds (the "GSS Bonds") and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that aim to reduce the Company's overall environmental footprint, increase accessibility to healthcare worldwide and contribute to socioeconomic advancement and empowerment of women and minority communities.

The Framework defines eligible green categories in the following six areas:

1. Pollution Prevention and Control
2. Energy Efficiency
3. Renewable Energy
4. Sustainable Water and Wastewater Management
5. Clean Transportation
6. Terrestrial and Aquatic Biodiversity Conservation

The Framework defines eligible social categories in the following two areas:

1. Access to Essential Services: Healthcare
2. Socioeconomic Advancement and Empowerment

Lilly engaged Sustainalytics to review the Lilly Sustainability Bond Framework, dated September 2021, and provide a Second-Party Opinion on the Framework's environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), and Social Bond Principles 2021 (SBP).<sup>1</sup> This Framework will be published in a separate document.<sup>2</sup>

### Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.9, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Lilly's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Lilly representatives have confirmed (1) they understand it is the sole responsibility of Lilly to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and

<sup>1</sup> The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>2</sup> The Lilly Sustainability Bond Framework is available on the Lilly website at: <https://esg.lilly.com/transparency#tab-control-tab6>

<sup>3</sup> 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.

(3) that 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 Lilly.

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 impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

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 Lilly has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Lilly Sustainability Bond Framework

Sustainalytics is of the opinion that the Lilly Sustainability Bond Framework is credible, impactful and aligns with the four core components of the SBG, GBP, and SBP. Sustainalytics highlights the following elements of Lilly's Sustainability Bond Framework:

- Use of Proceeds:
- Lilly's green and social categories – Pollution Prevention and Control, Energy Efficiency, Renewable Energy, Sustainable Water and Wastewater Management, Clean Transportation, Terrestrial and Aquatic Biodiversity Conservation, Access to Essential Services: Healthcare, and Socioeconomic Advancement and Empowerment – are aligned with those recognized by the GBP and SBP respectively.
  - Under the Pollution Prevention and Control category, the Framework defines eligible investments as those that aim to minimize emissions to air and water and reduce waste disposed from the Company's operations.
    - Technologies and projects for waste prevention and waste reduction may include the procurement of recycled or resource-efficient material for use in packaging and manufacturing, techniques to reduce post-consumer waste products, and the expansion of recycling programs. Sustainalytics considers this to be aligned with market practice.
    - Lilly intends to finance expenditures related to a next generation bioprocessing (NGB) process equipment and/or a facility, which is expected to significantly reduce the amount of energy and water used, and waste generation compared to current facilities. This best-in-class approach is estimated to achieve a 35% reduction in facility-wide energy intensity, a 40% reduction in water use, and a 15% reduction in waste generated compared to current process. These efficiencies will improve the overall environmental footprint per kilogram of monoclonal antibody active pharmaceutical ingredient (API) produced. Sustainalytics notes that NGBs are being designed to increase the efficiencies in biopharmaceutical manufacturing. This new approach will be able to process higher volumes of material while reducing the environmental impact and

- deliver high-quality medicines.<sup>4</sup> Overall, the use of NGB is expected to enable the purification of higher productivity material.
- Lilly intends to finance equipment and/ or a facility for peptide process optimization, which will allow for a significant reduction in resources consumed and waste generated. This approach has the potential to improve the process mass intensity (PMI) by up to 50% compared to current industry benchmarks. Sustainalytics notes that PMI is considered to be one of the leading measures for evaluating and benchmarking progress towards more sustainable manufacturing in drug synthesis.<sup>5</sup>
  - Sustainalytics considers that the expected energy and resources efficiencies to be achieved through these projects to advance more sustainable processes in the pharmaceutical industry where emissions, effluents and waste have been identified as a material ESG issue<sup>6</sup>. This is in line with market practice.
- For the Energy Efficiency category, the Framework allows for financing of projects or assets that will reduce energy consumption, and promote improved energy-efficient heating, ventilation, air conditioning, refrigeration, lighting, and electrical equipment, as well as energy monitoring, control solutions, and energy assessments such as smart meters and control automation devices. Lilly has confirmed to Sustainalytics that fossil fuel powered equipment will be excluded. This is in line with market practice.
  - For the Renewable Energy category, Lilly may finance renewable energy procurement and the acquisition or development of onsite and/or off-site renewable energy.
    - Projects may include the construction and operation of solar panels and renewable energy procurement through medium- to long-term (>5 years) Power Purchase Agreements. This is in line with market practice.
  - For the Sustainable Water and Wastewater Management category, the Framework allows for investments in projects that improve water quality or water efficiency. Projects may include wastewater treatment and facilities and technologies to treat, recycle and re-use wastewater from its own operation. Sustainalytics views the criteria to be aligned with market practice.
  - For the Clean Transportation category, Lilly may finance expenditures for purchasing zero direct emission vehicles and associated infrastructure such as electric vehicle charging stations. This is aligned with market practice.
  - Under the Terrestrial and Aquatic Biodiversity Conservation category, Lilly intends to finance research and development (R&D) of an alternative method for endotoxin testing.<sup>7</sup> The current approach to endotoxin testing relies on using the blue blood from horseshoe crabs, and R&D in this area aims to develop a synthetic alternative. It is recognized that the development of an alternative synthetic compound will reduce and replace animals in medical testing and products, thereby protecting and preserving horseshoe crabs. Sustainalytics considers this to be in line with market expectations.
  - Under the Access to Essential Services category, Lilly intends to finance projects that will improve access to free or subsidized healthcare for vulnerable populations such as people living in resource-limited settings,<sup>8</sup> people living in low and/or middle-income countries, and those affected by a socioeconomic crisis, such as the COVID-19 pandemic. Sustainalytics considers, broadly, the variety of expenditures contemplated by the Framework to be aligned with market practice under the SBP category of Access to Essential Services.
    - Lilly may finance programs and partnerships that advance the Lilly 30X30 commitment<sup>9</sup> to improve access to quality health care. Sustainalytics views positively that Lilly will work with credible local, national, and international organizations towards

<sup>4</sup> European Commission "Research and Innovation", at:

<https://ec.europa.eu/research/participants/documents/downloadPublic?documentIds=080166e5b57c275d&appld=PPGMS>

<sup>5</sup> Jimenez-Gonzales, et al., (2011) "Using the Right Green Yardstick: Why Process Mass Intensity Is Used in the Pharmaceutical Industry To Drive More Sustainable Processes", ACS Publications, at: <https://pubs.acs.org/doi/10.1021/op200097d>

<sup>6</sup> This assessment has been derived from Sustainalytics' ESG Risk Ratings.

<sup>7</sup> Horseshoe crabs' blue blood is the key ingredient in tests that detect endotoxin in drugs and intravenous devices, a potentially life-threatening bacterial contamination. At: <https://www.weforum.org/agenda/2020/06/coronavirus-vaccine-testing-horseshoe-crabs/>

<sup>8</sup> Lilly has communicated to Sustainalytics that it uses a bottom-up approach under country specific situation to ensure the targeted population has access to healthcare under the projects financed.

<sup>9</sup> Global Health Progress, "Lilly 30x30: Improving access to quality healthcare in resource-limited settings", (2016), at: <https://globalhealthprogress.org/collaboration/lilly-30x30-improving-access-to-quality-healthcare-in-resource-limited-settings>

its goal to increase access to health care for 30 million people annually by 2030. Programs and partnerships include work with the Bill & Melinda Gates Foundation to increase access to community-based primary healthcare for nearly 1.7 million people in up to six African countries; expanding the Academic Model Providing Access to Healthcare by establishing new sites in Mexico and Ghana; and supporting the AMR Action Fund to develop medication for antimicrobial resistance.<sup>10,11</sup> Sustainalytics recognizes Lilly's intent to enhance access to healthcare services for the target populations and views the structures and intentions in place as providing reasonable assurance of net-positive outcomes.

- This category includes financing for the Lilly Cares Foundation,<sup>12</sup> a separate, nonprofit entity aimed at providing prescribed medications such as treatments for diabetes, cancer, immunology diseases, and non-opioid treatments for pain for free for up to 12 months to qualifying US patients. The Lilly Cares Foundation has further defined patient's eligibility criteria for low- and middle-income people in the US<sup>13</sup> depending on the type of medication.<sup>14</sup> Sustainalytics anticipates that this category will generate overall positive impacts. While noting that philanthropic contributions are not generally aligned with market expectations for green, social, and sustainability bonds, Sustainalytics views these activities to be well-aligned with the corporate objectives of Lilly to provide free or subsidized healthcare to vulnerable populations.
  - In addition, this category includes financing for the provision of insulin to anyone using Lilly insulin (regardless of their insurance status) to fill their monthly prescription for USD 35; and Lilly will finance free COVID-19 diagnostic and testing in the Indianapolis community. Sustainalytics notes both services as providing positive social impact regarding the high costs these services would normally represent.
- Within the Socioeconomic Advancement and Empowerment category, Lilly intends to invest in programs and companies that support target populations such as women, ethnic/racial minorities, and the LGBTQ community.
- Sustainalytics considers the targeting of historically disadvantaged and marginalized groups as aligned with market expectations.
  - The Framework includes expenditures for the procurement of products and services from minority or women-owned (more than 50%) suppliers that are small or mid-sized enterprises (SMEs) in accordance with the North American Industry Classification System.<sup>15</sup> Sustainalytics notes that the green/social bond market generally favors expenditures directly associated with an issuer's green and/or socially beneficial assets/activities and that allocation toward procurement costs, based on the identity of suppliers rather than the nature of the products/services being supplied, is not fully aligned with market practice. Nevertheless, Sustainalytics recognizes the social benefits of supporting businesses owned/operated by members of historically disadvantaged groups through procurement and notes that suppliers need to meet Lilly's Supplier Code of Conduct<sup>16</sup> and Supply Chain Governance<sup>17</sup> principles that include social and environmental safeguards that need to be followed and notes that Lilly has communicated with Sustainalytics that the proceeds allocated to this category will be no more than 10% of the total allocation. Lilly will rely upon official definitions

<sup>10</sup> AMR Action Fund, Bridging the gap between science and patients", at: <https://amractionfund.com/>

<sup>11</sup> O'Neil, Shawn. (2020), "How to Prevent the Next Pandemic: Antimicrobial Resistance", Lilly, at: <https://www.lilly.com/news/stories/how-to-prevent-next-pandemic-antimicrobial-resistance>

<sup>12</sup> Lilly Cares Foundation, "Lilly Cares Foundation Patient Assistance Program, (2021), at: <https://www.lillycares.com/how-to-apply#check-eligibility>

<sup>13</sup> The Lilly Cares Foundation utilizes the Federal Poverty Level Guidelines. The Federal Poverty Level Guidelines are issued each year in the Federal Register by the Department of Health and Human Services (HHS). The guidelines are a simplification of the poverty thresholds for use for administrative purposes — for instance, determining financial eligibility for certain federal programs. At: [www.aspe.hhs.gov/poverty](http://www.aspe.hhs.gov/poverty)

<sup>14</sup> Lilly Cares Foundation, "Patient Assistance Program Application", at: [https://www.lillycares.com/assets/pdf/lilly\\_cares\\_application.pdf](https://www.lillycares.com/assets/pdf/lilly_cares_application.pdf)

<sup>15</sup> The definition for small or mid-sized enterprises is consistent with those set by the US. Small Business Administration ("SBA"). At:

<https://www.sba.gov/document/support-table-size-standards>

<sup>16</sup> Lilly, "Lilly Supplier Code of Business Conduct", (2020), at:

[https://assets.ctfassets.net/1o78rkh3da6/ec7EutEH1WBsRubHcS792/bb5bc7cda78cf73cbf0af0aefacdc6f2/Lilly\\_Supplier\\_Code\\_of\\_Business\\_Conduct\\_2020.pdf](https://assets.ctfassets.net/1o78rkh3da6/ec7EutEH1WBsRubHcS792/bb5bc7cda78cf73cbf0af0aefacdc6f2/Lilly_Supplier_Code_of_Business_Conduct_2020.pdf)

<sup>17</sup> Lilly, "Supply Chain Management", (2020), at: <https://esg.lilly.com/governance#tab-control-tab3>

- to determine eligibility as an SME<sup>18</sup> which is considered to be aligned with market practice.
- In addition, this category includes investment through venture capital firms<sup>19</sup> to startups and small businesses with growth potential. Lilly has confirmed that companies financed will meet the SME criteria outlined above and the VC firms have a clear mandate to finance firms that are minority- or women-owned or led. Sustainalytics recognizes that the financing provided will enhance access to capital for entrepreneurs that have historically faced barriers to venture capital.
  - Lilly may invest in programs that promote the recruitment, hiring, and training of a diverse workforce, such as Lilly's Racial Justice Initiative,<sup>20</sup> which includes its Professional Apprenticeship Program aimed at increasing opportunities for Black/African Americans. Sustainalytics recognizes the potential impacts of investment in diversity recruitment for Lilly's own workforce and in particular, notes the importance of developing diverse talent within the pharma industry. In addition, Lilly may finance workforce development and empowerment projects and initiatives that seek to support women and minorities to reach managerial positions. While noting the potential impact for the identified target populations, Sustainalytics notes that allocation to internal employee programs is not a commonly accepted practice within the social bond market.
- Project Evaluation and Selection:
    - Lilly will establish a committee comprised of members from the Company's Sustainability and Finance teams to assess and select Eligible Projects based on the Framework eligibility criteria. The committee members will conduct internal project identification and verification as well as ongoing monitoring and follow-up for all projects financed. Lilly's Chief Financial Officer will be responsible for ultimate review and approval.
    - The Committee will be responsible for evaluating any potential relevant environmental and social risks associated with Eligible Projects, and ensuring that projects are aligned with Lilly's Health, Safety, and the Environment (HSE) statements, procedures, and standards.<sup>21</sup> These are applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. For additional details, see Section 2.
    - Based on a well-defined governance structure, Sustainalytics considers this process to be in line with market practice.
  - Management of Proceeds:
    - Net proceeds allocated to Eligible Projects will be tracked by Lilly's Finance department in accordance with its internal system. Pending allocation, bond proceeds will be managed in line with the Company's liquidity practices.
    - Lilly intends to fully allocate bond proceeds of any GSS bonds within 24 months of issuance.
    - Based on clear definitions of how proceeds will be tracked, held, and disbursed, Sustainalytics considers this process to be in line with market practice.
  - Reporting:
    - Lilly intends to provide publicly available allocation and impact reporting on an annual basis until full allocation of the proceeds on the Company's ESG site. The allocation report will contain information about the amount allocated on a category level, projects financed, information on the split between new financing and refinancing, and the remaining amount of unallocated proceeds.
    - Where feasible, the annual reporting will include reporting on relevant environmental and social impact metrics for the categories of Eligible Projects to which proceeds have been allocated, such as waste recycled or re-used before and after the project in percentage of total waste, annual GHG emissions reduced/avoided (tCO<sub>2</sub>e), the percentage increase or decrease of

<sup>18</sup> Lilly will rely on the definition of small or mid-sized enterprises in accordance with those set by the US. Small Business Administration ("SBA"). SBA, "Table of size standards", (2019), at: <https://www.sba.gov/document/support-table-size-standards>

<sup>19</sup> Lilly intends to invest in Sixty8 Capital and Lynx Capital which focus on advancing minority or women-owned or led (more than 50%) SMEs.

<sup>20</sup> Lilly and Company. (2021), "Racial Justice Initiative: Confronting Racial Inequities Head On", at: <https://www.lilly.com/news/stories/racial-justice-initiative-confronts-inequities>

<sup>21</sup> Lilly, "Corporate Governance", (2020), at: <https://esg.lilly.com/governance#tab-control-tab2>



- wastewater treated, re-used or avoided water or recycled water before and after the project, estimated total beneficiaries from social programs, and the number of diverse suppliers utilized.
- Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### **Alignment with Sustainability Bond Guidelines 2021**

Sustainalytics has determined that the Lilly Sustainability Bond Framework aligns with the four core components of the GBP and SBP. For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## **Section 2: Sustainability Performance of Lilly's Sustainability Strategy**

### **Contribution of Framework to Eli Lilly and Company's sustainability performance strategy**

Sustainalytics is of the opinion that Lilly demonstrates a commitment to sustainability with a focus on five key environmental and social areas: (i) increasing access to medicines, (ii) improving lives and communities, (iii) empowering a diverse workforce, (iv) minimizing environmental impact, and (v) operating ethically and responsibly.<sup>22</sup>

Lilly's ESG strategy and efforts are guided by its impact framework, which includes transparent sustainability and social impact reporting with respect to its ESG targets and goals. The Company has expressed clear and quantifiable environmental targets, including carbon neutrality, zero waste to landfill, and no adverse impacts to water-stressed areas by 2030.<sup>23</sup> It tracks and reports ESG related performance through the annual Lilly ESG Report, which includes both historical and future goals and achievements. With respect to climate goals, in 2013 Lilly established the goals of reducing both energy intensity and GHG emissions intensity by 20% by 2020.<sup>24</sup> It fell short of its energy intensity target, with only a 6.2% decrease in 2020, but it surpassed its GHG emissions intensity target with a 22.2% reduction. These emissions reductions were achieved through a combination of direct emissions reductions, energy and process efficiencies, and changes in Lilly's energy supply mix. In addition to conducting energy assessments and evaluating alternative energy sources and new technologies for GHG emission reductions, Lilly also participates in local, regional, and national forums, such as the US Environmental Protection Agency's (EPA's) ENERGY STAR Pharmaceutical Focus Group, to integrate energy management best practice and support responsible policy development.

With respect to social approach, Lilly's primary goal is to expand access to quality health care for people with limited resources, including reaching 30 million people annually in resource-limited settings by 2030, increasing community engagement, and increasing the current representation of Black employees in Lilly's U.S. workforce from approximately 10% to 13%.<sup>25</sup> For example, to facilitate public access and affordability of medicines, the Issuer's Framework incorporates the Lilly 30x30 initiative, which is governed by a steering committee of five executive members and the head of Social Impact. This committee reports to the CEO and manages key priorities and operational milestones with respect to program performance. In 2020, the 30x30 program was estimated to reach approximately 7.3 million people, representing an increase of about 2.3 million since 2015.

Given the Issuer's quantitative goals and corporate-wide strategy, Sustainalytics is of the opinion that the Lilly Sustainability Bond Framework is aligned with the company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental and social priorities.

### **Well-positioned to address common environmental and social risks associated with the projects**

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include occupational health and safety, community relations/stakeholder participation, supply chain management, and land use and biodiversity issues associated with large-scale infrastructure development.

Sustainalytics is of the opinion that Lilly is able to manage and/or mitigate potential risks through implementation of the following:

<sup>22</sup> Lilly, "Lilly's ESG Strategy", (2020), at: <https://esg.lilly.com/strategy>

<sup>23</sup> Lilly, "Lilly's 2030 Environmental Goals", (2020), at: <https://esg.lilly.com/environmental>

<sup>24</sup> Measured per unit of site space as compared to Lilly's 2012 baseline.

<sup>25</sup> Lilly, "Lilly's 2030 Social Goals", (2020), at: <https://esg.lilly.com/social>

- Development of a globally integrated process safety management (GIPSM) program to manage process safety risks beyond the regulatory standards established by the US Occupational Safety and Health Administration, US Environmental Protection Agency, and EU directives and regulations.<sup>26</sup> In 2013, the Company established 2020 goals for occupational safety metrics, including recordable injuries, lost-time injuries, and motor vehicle collisions. All global safety goals were exceeded, with the total recordable injury and illness rate declining by over 60%, and lost time injury rate declining by over 70%. Lilly's new safety goal is to achieve zero severe injuries and focus on continuous improvement using predictive indicators and tracking of key safety metrics. Injuries are tracked and reported in accordance with OSHA regulations<sup>27</sup> and the ASTM Standard for Reporting Injuries and Illnesses.<sup>28</sup>
- Lilly regularly engages with shareholders and other stakeholders on sustainability topics of interest, including advocacy organizations, employees, Lilly's Executive Committee, non-governmental organizations, shareholders, as well as students and prospective employees.
- The Company has implemented several initiatives to mandate ethical behavior and ensure appropriate risk management oversight across its supply chain, namely: The Pharmaceutical Supply Chain Initiative (PSCI)<sup>29</sup> and Pharmaceutical Industry Principles for Responsible Supply Chain Management (the PSCI Principles).<sup>30</sup> These initiatives aim to reduce potential risks to Lilly's global supply chain by providing the industry with consistent supplier performance standards related to ethics, labor, health and safety, and the environment. In addition, risk mitigation efforts include conducting EHS reviews of suppliers on a routine basis and providing direct education and engagement around HSE topics in compliance with Lilly's Supplier Code of Business Conduct.<sup>31</sup>
- Lilly conducts peer benchmarking to integrate industry and sustainability trends and leverage relevant sustainability reporting frameworks, including the Sustainability Accounting Standards Board (SASB),<sup>32</sup> and the Task Force on Climate-related Financial Disclosures (TCFD).<sup>33</sup> The ESG topics prioritized by Lilly are aligned with the SASB standards for the Biotechnology and Pharmaceuticals industry, as well as the environmental issues addressed by TCFD.

Based on the implementation of clear policies and standards related to public and business ethics, supplier code of conduct, transparency, and the protection of people and the environment, Sustainalytics is of the opinion that Lilly has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

#### The impact of improving Lilly's operational environmental performance

A study conducted in 2019 found that the pharmaceutical industry's emission intensity is approximately 55% higher than that of the automotive industry,<sup>34</sup> with its total global emissions amounting to approximately 52 megatonnes of CO<sub>2</sub>e in 2015.<sup>35</sup> In line with mitigation pathways outlined by the Intergovernmental Panel on Climate Change (IPCC), the study further states that the pharmaceutical sector would need to reduce its emissions by 58.6%, from 2015 levels, by 2025 in order to comply with reduction targets outlined in the Paris Agreement. Lilly has stated its intention to allocate net proceeds from its bonds to investments intended to improve the environmental performance of its manufacturing processes, specifically towards minimizing

<sup>26</sup> Lilly, "Employee Well-Being", (2020), at: <https://esg.lilly.com/social#tab-control-tab4>

<sup>27</sup> United States Department of Labor, "Occupational Safety and Health Administration", (2021), at: <https://www.osha.gov/laws-regs>

<sup>28</sup> ASTM International, "Standard Guide for Recording Occupational Injuries and Illnesses", (2021), at: <https://www.astm.org/Standards/E2920.htm>

<sup>29</sup> PSCI, "Building responsible supply chains in the pharmaceutical industry", (2021) at: <https://pscinitiative.org/home>

<sup>30</sup> PSCI, "PSCI Principles", (2021), at: <https://pscinitiative.org/resource?resource=1>

<sup>31</sup> Lilly, "Lilly Supplier Code of Business Conduct", (2020), at:

[https://assets.ctfassets.net/1o78rkh13da6/ec7EutEH1WBsRubHcS792/bb5bc7cda78cf73cbf0af0aefafcdc6f2/Lilly\\_Supplier\\_Code\\_of\\_Business\\_Conduct\\_2020.pdf](https://assets.ctfassets.net/1o78rkh13da6/ec7EutEH1WBsRubHcS792/bb5bc7cda78cf73cbf0af0aefafcdc6f2/Lilly_Supplier_Code_of_Business_Conduct_2020.pdf)

<sup>32</sup> Value Reporting Foundation, "SASB Standards", (2018), at: <https://www.sasb.org/standards/>

<sup>33</sup> Task Force on Climate-related Financial Disclosures, "Climate change presents financial risk to the global economy", at: <https://www.fsb-tcfd.org/>

<sup>34</sup> Belkhir, L. (2019), "Carbon footprint of the global pharmaceutical industry and relative impact of its major players", Journal of Cleaner Production, at: <https://www.sciencedirect.com/science/article/pii/S0959652618336084>

<sup>35</sup> Belkhir, Lotfi. (2019), "Big Pharma emits more greenhouse gases than the automotive industry", The Conversation, at: <https://theconversation.com/big-pharma-emits-moregreenhouse-gases-than-the-automotive-industry-115285>



emissions to air and water, improving energy efficiency, limiting waste disposal, and improving wastewater management and treatment. For example, Lilly expressed that it would incorporate both process development and specific facility/equipment upgrades that are estimated to reduce facility-wide energy intensity by up to 35%, reduce water usage by up to 40%, and reduce waste generation by up to 15% compared to Lilly's current processes. Given the energy and water-intensive nature of manufacturing facilities in the pharmaceutical sector in which Lilly operates, Sustainalytics is of the opinion that such investments have the potential to decrease the Company's overall environmental footprint and yield positive environmental impacts.

### The importance of increasing healthcare patient accessibility

It is estimated that approximately 1 million people in Africa could die annually from cancer by 2030, with 70% of all current cancer deaths taking place in low-and-middle-income countries.<sup>36</sup> In order to combat cancer in Africa and other debilitating diseases in low-and-middle-income countries around the world, the Company is supporting initiatives like Lilly's 30x30 commitment, which is a company-wide goal to provide improved access to quality health care for 30 million people annually in resource-limited settings by 2030.<sup>37</sup> This commitment includes a five-year, \$90 million investment to accelerate the Company's international, national and local partnerships and to expand research and development of diabetes, tuberculosis, and cancer therapies.

According to the Centers for Disease Control and Prevention (CDC), antibiotic-resistant infections are one of the most important public health challenges of our time, killing 35,000 people in the US each year,<sup>38</sup> and more than 700,000 people worldwide.<sup>39</sup> Antimicrobial Resistance-related deaths are projected to increase to 10 million people globally by 2050. Lilly has committed to investments in the AMR Action Fund for antibiotic development,<sup>40</sup> including a contribution of \$100 million aimed at bringing two to four new antibiotics to patients by 2030.

Sustainalytics views Lilly's investments into increasing accessibility to healthcare products and services, specifically to underserved communities and vulnerable populations, as aligned with providing positive social outcomes. As outlined above, Lilly demonstrates a strong commitment to dedicating financial capital and expertise in order to increase access to care on a global scale.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds issued under the Lilly Sustainability Bond Framework advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Pollution Prevention and Control	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 re-use
Energy Efficiency	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency

<sup>36</sup> Dent, J., et al., (2017), "Africa's Emerging Cancer Crisis: A Call to Action", BVGH, at: <https://bvgh.org/wp-content/uploads/2017/07/Africas-Emerging-Cancer-Crisis-A-Call-to-Action.pdf>

<sup>37</sup> Lilly, "Lilly's ESG Goals", (2020), at: <https://esg.lilly.com/goals>

<sup>38</sup> Centers for Disease Control and Prevention, "Antibiotic / Antimicrobial Resistance", at: <https://www.cdc.gov/drugresistance/index.html>

<sup>39</sup> Review on Antimicrobial Resistance, "Tackling drug-resistant infections globally", (2016), at:

[https://amr-review.org/sites/default/files/160518\\_Final%20paper\\_with%20cover.pdf](https://amr-review.org/sites/default/files/160518_Final%20paper_with%20cover.pdf)

<sup>40</sup> AMR Action Fund, "Bridging the gap between science and patients", (2021), at: <https://www.amractionfund.com/>

Renewable Energy	7. Affordable and clean energy	7.a By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology
Sustainable Water and Wastewater Management	6. Clean water and sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe re-use globally
Clean Transportation	7. Affordable and clean energy	7.a By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology
Terrestrial and Aquatic Biodiversity Conservation	14. Life Below Water	14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
Access to Essential Services: Healthcare	3. Good health and well-being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Socioeconomic Advancement and Empowerment	5. Gender equality  8. Decent work and economic growth	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life  8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

## Conclusion

Lilly has developed the Lilly Sustainability Bond Framework under which it intends to issue Green, Social and/or Sustainability Bonds (the "GSS Bonds") and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that aim to reduce the Company's overall environmental footprint,

increase patient accessibility to healthcare worldwide, and contribute to socioeconomic advancement and empowerment of women and minority communities. Sustainalytics considers that the projects financed will provide positive environmental and social impacts.

Lilly's Sustainability Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals, in particular Goal 3, 5, 6, 7, 8, 9, 12 and 14. Additionally, Sustainalytics is of the opinion that Lilly has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Eli Lilly and Company is well-positioned to issue GSS Bonds and that the Framework is robust, transparent, and in alignment with the four core components of the Sustainability Bond Guidelines 2021, the Green Bond Principles 2021, and the Social Bond Principles 2021.

## Appendix

### Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

#### Section 1. Basic Information

<b>Issuer name:</b>	Eli Lilly and Company
<b>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</b>	Lilly Sustainability Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	September 1, 2021
<b>Publication date of review publication:</b>	

#### Section 2. Review overview

##### SCOPE OF REVIEW

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

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |                                                            |                                                                                  |
|------------------------------------------------------------|----------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |                                                                                 |                                        |
|---------------------------------------------------------------------------------|----------------------------------------|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
|---------------------------------------------------------------------------------|----------------------------------------|

- Verification  Rating
- Other (please specify):

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

**EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)**

Please refer to Evaluation Summary above.

**Section 3. Detailed 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.

**1. USE OF PROCEEDS**

Overall comment on section (if applicable):

The eligible categories for the use of proceeds – Pollution Prevention and Control, Energy Efficiency, Renewable Energy, Sustainable Water and Wastewater Management, Clean Transportation, Terrestrial and Aquatic Biodiversity Conservation, Access to Essential Services: Healthcare, and Socioeconomic Advancement and Empowerment – are aligned with those recognized by both the Green Bond Principles and the Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 5, 6, 7, 8, 9, 12 and 14.

**Use of proceeds categories as per GBP:**

- |                                                                                                                                                    |                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Renewable energy                                                                                               | <input checked="" type="checkbox"/> Energy efficiency                                                    |
| <input checked="" type="checkbox"/> Pollution prevention and control                                                                               | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation                                                              | <input checked="" type="checkbox"/> Clean transportation                                                 |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management                                                                    | <input type="checkbox"/> Climate change adaptation                                                       |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input type="checkbox"/> Green buildings                                                                 |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):                                                         |

If applicable please specify the environmental taxonomy, if other than GBPs:

**Use of proceeds categories as per SBP:**

- |                                                                                                                                                   |                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Affordable basic infrastructure                                                                                          | <input checked="" type="checkbox"/> Access to essential services                                   |
| <input type="checkbox"/> Affordable housing                                                                                                       | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security                                                                                                            | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment                      |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):                                                   |

If applicable please specify the social taxonomy, if other than SBP:

**2. PROCESS FOR PROJECT EVALUATION AND SELECTION**

Overall comment on section (if applicable):

Lilly's internal process in evaluating and selecting projects is overseen by a committee comprised of members from the Company's Sustainability and Finance teams. The committee will be responsible for evaluating any potential relevant environmental and social risks associated with the Eligible Projects, and this is applicable to all allocation decisions made under the Framework. Sustainalytics considers the risk management system to be adequate and the project evaluation and selection process to be in line with market practice.

**Evaluation and selection**

- |                                                                                                                             |                                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available                | <input type="checkbox"/> Other (please specify):                                                                              |

**Information on Responsibilities and Accountability**

- |                                                                                                                |                                              |
|----------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):                                                               |                                              |

**3. MANAGEMENT OF PROCEEDS**

Overall comment on section (if applicable):

Lilly's Finance department will track net bond proceeds using its internal systems. Lilly intends to fully allocate net proceeds of its green, social and/or sustainability bonds within 24 months of issuance. Pending allocation proceeds will be managed in line with Lilly's liquidity practices. This is in line with market practice.

**Tracking of proceeds:**

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

**Additional disclosure:**

- Allocations to future investments only
- Allocations to both existing and future investments
- Allocation to individual disbursements
- Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Other (please specify):

**4. REPORTING**

Overall comment on section (if applicable):

Lilly intends to report on the allocation of proceeds on its ESG website on an annual basis and until full allocation. The allocation report will contain (i) information about the amount allocated on a category level, (ii) projects financed, (iii) information on the split between new financing and refinancing, and (iv) the remaining amount of unallocated bond proceeds. In addition, Lilly is committed to reporting on relevant impact metrics. Sustainalytics views Lilly allocation and impact reporting as aligned with market practice.

**Use of proceeds reporting:**

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

**Information reported:**

- Allocated amounts
- Sustainability Bond financed share of total investment
- Other (please specify):  
Split between new financing and refinancing and the remaining amount of unallocated proceeds



**Frequency:**

- Annual  Semi-annual  
 Other (please specify):

**Impact reporting:**

- Project-by-project  On a project portfolio basis  
 Linkage to individual bond(s)  Other (please specify):

**Information reported (expected or ex-post):**

- |                                                             |                                                                            |
|-------------------------------------------------------------|----------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings                         |
| <input checked="" type="checkbox"/> Decrease in water use   | <input checked="" type="checkbox"/> Number of beneficiaries                |
| <input checked="" type="checkbox"/> Target populations      | <input checked="" type="checkbox"/> Other ESG indicators (please specify): |
|                                                             | Waste prevented, re-used or recycled                                       |
|                                                             | Annual renewable energy generated                                          |
|                                                             | Number of individuals tested for COVID-19                                  |

**Frequency:**

- Annual  Semi-annual  
 Other (please specify):

**Means of Disclosure**

- |                                                                                                                                   |                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| <input type="checkbox"/> Information published in financial report                                                                | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents                                                                | <input checked="" type="checkbox"/> Other (please specify):             |
|                                                                                                                                   | Information will be available on the company's ESG website              |
| <input type="checkbox"/> 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.

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

<https://esg.lilly.com>

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- Consultancy (incl. 2<sup>nd</sup> opinion)  Certification

- Verification / Audit  Rating
- Other (*please specify*):

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. **Second-Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

## Disclaimer

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