

Second-Party Opinion

OVS Group

Sustainability-Linked Bond Framework



Evaluation Date	October 19, 2021
Issuer Location	Venice, Italy

Evaluation Summary

Sustainalytics is of the opinion that the OVS Group Sustainability Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020 and considers the KPIs to be relevant and material to the issuer and the SPTs to be ambitious and impactful. This assessment is based on the following:

- Selection of Key Performance Indicators (KPIs)** The OVS Group Sustainability-Linked Bond Framework includes three KPIs: (i) absolute scope 1 and 2 GHG emissions, (ii) absolute scope 3 GHG emissions, and (iii) a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume (see Table 1). Sustainalytics considers KPI 1 and KPI 2, in combination, to be very strong given their combined high applicability and that they can be compared with external science-based contextual benchmarks. KPI 3 is considered strong at it follows a clear and consistent methodology, and it is an indirect measure of OVS' performance.
- Calibration of Sustainability Performance Targets (SPTs)** Sustainalytics considers the SPTs to be aligned with the Issuer's sustainability strategy. Sustainalytics considers SPT 1 and SPT 2 highly ambitious based on their alignment with a 1.5-degree climate scenario. SPT 3 is considered ambitious as it represents a significant improvement over past performance and is aligned with industry best practices.
- Bond Characteristics** OVS will link the bond's financial characteristics to the achievement of all the SPTs, namely a coupon rate step-up provision for failing to achieve the SPT.
- Reporting** OVS commits to report, on an annual basis, on its KPIs in its sustainability reporting available on its website. OVS commits to disclose relevant information that affects the KPIs' performance. The reporting commitments are aligned with the Sustainability-Linked Bond Principles 2020.
- Verification** OVS commits to having external limited assurance conducted on its KPIs performance at the communicated SPTs deadline, aligned with market expectations.

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

KPI	Baseline	SPT	Strength of the KPI	Ambitiousness of SPT
Absolute scope 1 and 2 GHG emissions (tCO _{2e})	2019	Reduce absolute scope 1 and 2 GHG emissions by 21% by 2024	Very Strong	Highly Ambitious
Absolute scope 3 GHG emissions (tCO _{2e})	2019	Reduce absolute scope 3 GHG emissions related to house brand apparel by 21% by 2024	Very Strong	Highly Ambitious
a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume	2019	a) Achieve 100% of suppliers on Higg platform by 2024 b) Purchase at least 80% of the production volume from suppliers with both Higg FEM and FSLM modules verified by a third party by 2024	Strong	Ambitious

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Scope of Work and Limitations

OVS S.p.A. (“OVS”; the “Issuer”; or the “Company”) has engaged Sustainalytics to review the OVS Group Sustainability-Linked Bond Framework (“the Framework”) and to provide an opinion on the alignment of the Sustainability-Linked Bond (SLB) with the Sustainability-Linked Bond Principles 2020 (SLBP).¹

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent² opinion on the alignment of the reviewed Framework with the SLBP, as administered by ICMA.

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

- (1) They understand it is the sole responsibility of the Issuer 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 Bond Framework and should be read in conjunction with the Bond Documents/Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and OVS S.p.A. Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Bond/Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated SPTs of KPIs but does not measure 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 favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that OVS. Has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months or until one of the following occurs:

- (1) A material change to the external benchmarks³ 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 SLB or the materiality of the KPI.

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

² 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 Benchmarks refers to science based benchmarks

Introduction

Founded in 1972, OVS is an Italian based company that develops and markets clothing for women, men, and children. The Company has a vertically integrated retail business model, and its operating segments primarily consist of OVS and UPIM. The Company manages more than 1,800 stores in Italy and abroad, with approximately 6,000 employees. Most of the Company's revenue comes from sales under the OVS brand, but it also offers in-house and third-party brands. Other brands of the Group include BluKids, Stefanel, Piombo and CROFF.

OVS intends to issue an SLB where the coupon rate is tied to the achievement of the Sustainability Performance Targets (SPTs) for three KPIs: (i) absolute scope 1 and 2 GHG emissions, (ii) absolute scope 3 GHG emissions and (iii) a) percentage of house brand apparel suppliers' participation in the Higg Index, and b) percentage of Higg verified production volume

OVS has engaged Sustainalytics to review the Framework and provide an opinion on the alignment of the SLB with the SLBP.

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

Table 1: KPI Definitions

KPI	Definition
Absolute scope 1 and 2 GHG emissions (tCO ₂ e)	The KPI is defined as absolute scope 1 and 2 GHG emissions measured in tonnes of carbon dioxide equivalent (tCO ₂ e). OVS follows the GHG Protocol, ⁴ in calculating its scope 1 and 2 emissions
Absolute scope 3 GHG emissions (tCO ₂ e)	The KPI is defined as absolute scope 3 GHG emissions from purchased goods and services (raw materials, processing and packaging) and upstream transportation and distribution associated only with apparel house brand garments, measured in tonnes of carbon dioxide equivalent (tCO ₂ e). OVS follows the GHG Protocol in calculating its scope 3 emissions.
a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume	The KPI measures the percentage of OVS' Tier 1 house brand apparel suppliers' production volume on the Higg platform and the percentage of the production volume from suppliers with both Higg Facility Environmental Module ("FEM") and Facility Social & Labour Module ("FSLM") modules verified by a third party.

Table 2: SPTs and Past Performance

KPI	2018	2019 (baseline)	2020	SPT 2024
Absolute scope 1 and 2 GHG emissions (tCO ₂ e)	20.280	19.789	18.641	Reduce absolute scope 1 and 2 GHG emissions by 21% by 2024
Absolute scope 3 GHG emissions (tCO ₂ e)	307,805	295,909	225,641	Reduce absolute scope 3 GHG emissions related to house brand apparel by 21% by 2024
a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume	a) Higg participation: 50 b) Higg FEM verified: 18, Higg FSLM verified: 0	a) Higg participation: 44 b) Higg FEM verified: 27, Higg FSLM verified: 1	a) Higg participation: 86 b) Higg FEM verified: 31, Higg FSLM verified: 6	a) Achieve 100% of suppliers on Higg platform by 2024 b) Purchase at least 80% of the production volume from suppliers with both Higg FEM and FSLM modules verified by a third party by 2024

⁴ GHG Protocol, "Standards", (2020), at: <https://ghgprotocol.org/standards>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of Sustainability-Linked Bond Framework with the Sustainability-Linked Bond Principles.

Sustainalytics is of the opinion that the OVS Group Sustainability-Linked Bond Framework align with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP).



Selection of Key Performance Indicators (KPIs)

Relevance and Materiality of KPIs

Sustainalytics in its assessment of materiality and relevance considers i) whether an indicator speaks to a material impact of the issuer business on environment or social issues, and ii) to what portion of impact the KPI is applicable.

KPI 1: absolute scope 1 and 2 GHG emissions (tCO₂e), and KPI 2: absolute scope 3 GHG emissions (tCO₂e)

Sustainalytics recognizes that scope 1 and 2 GHG emissions alone are not material to OVS. However, the Company also considered Scope 3 GHG emissions, including raw material production, preparation, and processing. As a result, KPI 1 and KPI 2 together address all relevant direct and indirect GHG emissions related to OVS' business. As such, Sustainalytics considers KPI 1 and KPI 2 together to be material and relevant to the Company based on the following:

The fashion industry's carbon footprint accounts for approximately 10% of the global GHG emissions.⁵ Most of the industry's emissions, approximately 70%, come from upstream activities, including materials production, preparation, and processing. The remainder of emissions come from downstream retail operations, the use and end-of-life phases.⁶ In addition, OVS' Materiality Analysis conducted in 2020 identified fighting the climate crisis and managing the environmental footprint as material and relevant for OVS' sustainability strategy, including reducing its overall carbon footprint among its key corporate priorities.

In terms of applicability, Sustainalytics notes that KPI 1 and KPI 2 together covered roughly 82% of OVS' total emissions (scope 1, 2, and 3) in the baseline year 2019. While scope 1 and 2 GHG emissions covered approximately 6% of OVS' total emissions, scope 3 GHG emissions covered approximately 76% of emissions in the same period. Sustainalytics notes that OVS scope 3 GHG inventory covers all relevant categories following the Corporate Value Chain (Scope 3) Accounting and Reporting Standard.⁷

KPI 3: a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume

Sustainalytics considers KPI 3 to be material and relevant based on the following:

Clothing production has doubled in the last 15 years, driven by fast fashion and a growing middle-class population.⁸ Along with the increasing demand, consumers and regulators have been putting increased pressure on the fashion industry to create transparency and ensure environmental and social sustainability across its value chain. The fashion industry's global supply chain is associated with significant adverse environmental and social effects primarily related to water and air pollution, labour conditions, child labour, and forced labour. Transparency and traceability are important to enable companies to identify and manage environmental and social issues within

⁵ World Bank, "How Much Do Our Wardrobes Cost to the Environment?", at: <https://www.worldbank.org/en/news/feature/2019/09/23/costo-moda-medio-ambiente>

⁶ Mckinsey, "Fashion on Climate", at: <https://www.mckinsey.com/~media/mckinsey/industries/retail/our%20insights/fashion%20on%20climate/fashion-on-climate-full-report.pdf>

⁷ Corporate Value Chain (Scope 3) Accounting and Reporting Standard, at: <https://ghgprotocol.org/standards/scope-3-standard>

⁸ WRI, "Economic, Social and Environmental Impacts of Fast Fashion", at: <https://www.wri.org/insights/numbers-economic-social-and-environmental-impacts-fast-fashion>

their supply chain. Sustainalytics’ ESG Risk Rating Industry Report - Textiles and Apparel, identifies “Human Rights in supply chain” and “Environmental & Social impact of product and services” as highly material ESG issues for the industry. Furthermore, the Sustainability Accounting Standards Board (SASB) identifies environmental impacts and labour conditions as material issues and relevant topics to track and disclose by the apparel, accessories and footwear industry.⁹

In terms of applicability, KPI 3 covers house brand apparel suppliers exclusively, and OVS has communicated to Sustainalytics that house brand apparel suppliers represent 91.4% of OVS’ total production volume. On this basis, Sustainalytics considers the KPI 3 to be highly applicable.

KPI Characteristics

Sustainalytics in its assessment of the KPI characteristics 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 the material environmental or social issue, and iv) if applicable, whether the methodology can be benchmarked to an external contextual benchmark.¹⁰

KPI 1: absolute scope 1 and 2 GHG emissions (tCO2e), and KPI 2: absolute scope 3 GHG emissions (tCO2e)

Sustainalytics considers OVS’ definition and methodology to calculate KPI 1 and KPI 2 to be clear and consistent with historical disclosure. OVS calculates its GHG emissions according to the GHG Protocol standards, which is commonly used in the industry and therefore supports benchmarking against external climate trajectories. Additionally, KPI 1 and KPI 2 together cover absolute scope 1, 2, and 3 GHG emissions and, therefore, it’s a direct measure of OVS’ performance regarding its material climate impact.

KPI 3: a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume

The KPI 3 measures the percentage of supplier participation and verified production volume on the Higg Index¹¹ Facility Environmental Module (FEM)¹² and Facility Social & Labour Module (FSLM)¹³, which Sustainalytics considers to be indirect indicators of OVS environmental and social performance linked to its supply chain. The KPI follows an externally recognized methodology, namely the Sustainable Apparel Coalition (SAC) Higg Index. Nonetheless, the KPI does not lend itself well to be benchmarked against external climate trajectories.

Overall Assessment

Sustainalytics overall considers KPI 1 and 2 to be very strong given they (i) directly measure OVS’ carbon footprint from its operations, purchased electricity, and upstream activities (ii) represent a material environmental issue for the Company; (iii) follow a clear and consistent definition in line with the GHG Protocol standard which supports benchmarking.

Sustainalytics overall considers KPI 3 to be strong given it (i) indirectly measures OVS’ performance linked to its supply chain, (ii) represent a material environmental and social issue for the Company, (iii) follows a clear and consistent definition.

Absolute scope 1 and 2 GHG emissions	Not Aligned	Adequate	Strong	Very strong
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⁹ SASB, “Apparel, Accessories & Footwear Industry Standard”, (2018), at: https://www.sasb.org/wp-content/uploads/2018/11/Apparel_Accessories_Footwear_Standard_2018.pdf

¹³ Johnson Controls, “Sustainability Materiality Assessment”, at: <https://www.johnsoncontrols.com>.

¹⁰ 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.

¹¹ The Higg Index is a suite of tools for the standardized measurement of value chain sustainability. Higg requires each supplier to complete FEM and FSLM modules to assess their own environmental and social performance, at: <https://apparelcoalition.org/the-higg-index/>

¹² The Higg informs manufacturers, brands, and retailers about the environmental performance of their individual facilities. The tool measures and identifies the sustainability impacts of a facility across seven areas. The Higg FEM assesses i) environmental management systems, ii) energy use and GHG emissions, iii) water use, iv) wastewater, v) emissions to air, vi) waste management, and vii) chemical management; at: <https://howtohigg.org/fem-landing/>

¹³ Higg FSLM promotes safe and fair social and labour conditions for value chain workers, through measuring the social impact of manufacturing across nine areas. The Higg FSLM assesses i) recruitment and hiring, ii) working hours, iii) wages and benefits, iv) employee treatment, v) employee involvement, vi) health and safety, vii) termination, viii) management systems and viii) empowering people and communities; at: <https://howtohigg.org/fslm-landing/>

Absolute scope 3 GHG emissions	Not Aligned	Adequate	Strong	Very strong
a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume	Not Aligned	Adequate	Strong	Very strong



Calibration of Sustainability Performance Targets (SPTs)

Alignment with Issuer’s Sustainability Strategy

OVS has set the following SPTs for its KPIs:

- Reduce absolute scope 1 and 2 GHG emissions by 21% by 2024
- Reduce absolute scope 3 GHG emissions related to house brand apparel by 21% by 2024
- a) Achieve 100% of suppliers participation on the Higg Index, and b) purchase at least 80% of the production volume from Higg verified suppliers, by 2024

Sustainalytics considers the SPTs to be aligned with OVS’s sustainability strategy (please refer to Section 2 for an analysis of the credibility of OVS’s sustainability strategy).

Five pillars underpin OVS’ sustainability strategy: i) products and materials, ii) supply chain, iii) customers, iv) people, and v) stores.¹⁴ OVS’ commitment to climate change is formalized within the pillars of products and materials, supply chain, and sustainable stores, which are considered the Company’s largest environmental footprint areas. As a result, OVS has set clear targets related to the ESG practices of its suppliers, as well as for product development processes that integrate life-cycle logic and responsible use of materials, and design and energy management of stores. Finally, in 2020, OVS demonstrated commitment and progress in reducing its emissions by eliminating 18.64 tCO₂e in scope 1 and 2 emissions and 3 emissions by 225.64 tCO₂e.

Strategy to Achieve the SPTs

SPT 1: Reduce absolute scope 1 and 2 GHG emissions by 21% by 2024

- To increase the share of renewable energy within its operations, OVS aims to increase the use of solar PV systems for headquarters, warehouses and directly operated stores. Additionally, for premises where OVS has no control over the energy supply, the Company will increasingly engage its landlords to use renewable energy.
- OVS will implement a dedicated program to monitor its stores’ energy uptake and install energy-efficient technologies and alternatives such as LED lighting and efficient heaters to reduce energy consumption at its facilities.
- In relation to its car fleet, OVS will continue to increase the use of hybrid and electric cars across the organization. Its new car policy sets a maximum emission limit, updated every year, which cannot be exceeded and includes a hybrid model for each vehicle class. The new limit is expected to be fully deployed to all of OVS’s fleets by 2024.

SPT 2: Reduce absolute scope 3 GHG emissions related to house brand apparel by 21% by 2024

- To reduce the environmental impact and related emissions of materials used, OVS intends to replace the main components of its garments with organic and recycled options. OVS’s packaging materials will replace existing virgin plastic packaging materials with more sustainable options such as recycled or renewable materials.
- To increase the use of renewable energy within OVS’ supply chain, the Company will engage its suppliers to increase the adoption of low emitting technologies and renewable energy sources. By involving its

¹⁴ OVS, Sustainability Report 2020”, at: <https://wecare.ovscorporate.it/en/sustainability-report>

suppliers on the Higg Index, OVS will monitor and benchmark suppliers' emissions and work with them to reduce their overall emissions.

- To reduce emissions from transport, OVS is progressively moving away from a fast fashion approach, enriching its range through long standing and cross-seasonal products. This allows OVS to decrease the need for fast product in-bound shipping, thus reducing use of air freights and related CO₂ emissions.

SPT 3: a) Achieve 100% of suppliers on Higg platform by 2024 b) Purchase at least 80% of the production volume from suppliers with both Higg FEM and FSLM modules verified by a third party by 2024

- To increase awareness within its supply chain, OVS will engage in training and awareness sessions with its suppliers and promote the use of the Higg FEM and FSLM scoring system by participating in dedicated events and workshops. OVS will also collaborate with other members of the SAC to promote the use of the Higg Index across the industry.
- OVS intends to underline the importance of adopting Higg by gradually replacing its internal audit programme with the external verification on Higg. In each sourcing country, OVS will engage with third-party verification bodies to establish one or more frame agreements. This will allow its suppliers to reduce the costs of verification services through operational synergies within the same production area.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers i) 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.¹⁵

Considering 2020 was a disruptive year due to the COVID-19 pandemic, which significantly impacted retail operations, stores and related consumptions, OVS has set 2019 as the baseline for the SPTs, as it represents at 2019 as this represents the most recent reliable data.

SPT 1: reduce absolute scope 1 and 2 GHG emissions by 21% by 2024, and SPT 2: reduce absolute scope 3 GHG emissions related to house brand apparel by 21% by 2024

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

Although Sustainalytics could not accurately assess past performance of scope 1, 2 and 3 GHG emissions due to the limited historical data. In comparison with what is available from 2018 onwards, SPT 1 and SPT 2 still demonstrate continued improvements in the Company's performance. Furthermore, an analysis conducted on OVS' peer-group concluded that the SPT 1 and SPT 2 align with the industry's best practices.

Achieving SPT 1 and SPT 2 implies an annual linear emissions reduction of 4.2% between 2019 and 2024 - in line with the minimum reduction to keep global temperature increase well below 1.5°C, as per the SBTi's Science-Based Targets Guidance for companies in the apparel and footwear sector.¹⁶ Sustainalytics also notes that OVS is in the process of having its emissions reduction targets verified by SBTi.

SPT 3: a) Achieve 100% of suppliers on Higg platform by 2024 b) Purchase at least 80% of the production volume from suppliers with both Higg FEM and FSLM modules verified by a third party by 2024

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

Sustainalytics notes OVS' target to involve its suppliers in Higg, which indicates a steep increase in the percentage of suppliers on the index from 44% in 2019 to 100% in 2024. For the Higg FEM and FSLM verified suppliers, OVS will need to increase from just 27% and 1% respectively in the next five years, indicating that the target is significantly above historical performance.

In comparison with its peers, OVS is aligned with industry best practices by setting targets in relation to its suppliers having a third-party verification from Higg FEM and FSLM.

¹⁵ We refer here to contextual benchmarks, that indicate the alignment of targets with ecosystem boundaries.

¹⁶ SBTi, Apparel and footwear sector, science-based targets guidance, at: https://sciencebasedtargets.org/resources/files/SBT_App_Guide_final_0718.pdf

Overall Assessment

Sustainalytics considers the SPTs to align with OVS’ sustainability strategy and considers SPT 1 and SPT 2 to be highly ambitious based on i) their alignment with industry’s best practices, ii) their alignment with a 1.5-degree climate trajectory and iii) them representing a continued improvement in performance for OVS.

Sustainalytics considers SPT 3 to be ambitious based on i) its alignment with the industry’s best practices and ii) it representing a significant improvement over past performance.

Reduce absolute scope 1 and 2 GHG emissions by 21% by 2024	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
Reduce absolute scope 3 GHG emissions related to house brand apparel by 21% by 2024	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
a) Achieve 100% of suppliers on Higg platform by 2024 b) Purchase at least 80% of the production volume from suppliers with both Higg FEM and FSLM modules verified by a third party by 2024	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious



Bond Characteristics

OVS has disclosed that the bond issuance under the Framework will be subject to a penalty if it fails to achieve any of the set SPTs on the observation dates as defined in the transaction documentation. A failure to meet the SPTs at the target observation dates or the Framework’s reporting and verification commitments will result in a coupon rate step-up for the remaining life of the issued security. There will be three trigger events related to the three KPIs described in the Framework, and the rate of interest for the security on the relevant issue date shall increase by the relevant step-up margin. OVS has defined the relative weight for each KPI, the step-up margin for KPI 1 and KPI 2 is 40% (individually), and for KPI 3 is 20%. If all KPIs and the reporting and verification processes outlined in the Framework are met, the financial characteristics of the security issued shall remain unchanged.

Sustainalytics notes that the SPTs need to be met to avoid an increase in the coupon rate but does not opine on the adequacy of the penalty for not achieving the SPTs.



Reporting

OVS commits to report on its performance on the KPIs on an annual basis as part of a dedicated SLB Progress Report, which will also be integrated into OVS’ annual sustainability reporting. OVS further commits to disclose other relevant information such as (i) up-to-date information on the KPIs performance, (ii) performance level against each SPT for each KPI outlined, (iii) information about recalculations, and (iv) a report relative to the KPIs outlining the performance against the SPTs and the related impact, and timing of such impact, on the bond characteristics.



Verification

OVS commits to having an independent external verifier provide limited assurance on the published KPIs figures and its performance levels against the set STPs for each fiscal year. This is aligned with the SLBP on verification. The verification report will be made public along with the SLB Progress Report on OVS’ website.

Section 2: Assessment of OVS's Sustainability Strategy

Credibility of OVS' Sustainability Strategy

OVS has been reporting on sustainability issues since FY 2016, using a management system to assess its material ESG issues. In 2014, OVS formed a Control, Risk and Sustainability Committee to oversee the Company's sustainability strategy and integration into its business activities. In 2020 the Company started implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), having committed to publish the related actions and progress in its annual sustainability report.¹⁷

Since 2017, OVS has been a member of SAC, a global multi-stakeholder nonprofit alliance for the consumer goods industry, whose mission is to expand impact using tools, collaborative partnerships, and trusted leadership for industry sustainability.¹⁸ In 2018, the Company joined the Italian National Program for Carbon Footprint Calculation - a voluntary initiative convened by the Italian Ministry of the Environment and for Protection of the Land and Sea to raise awareness among businesses regarding their environmental impact related to their economic activities. Also in 2017, OVS signed the Circular Fashion System Commitment promoted by Global Fashion Agenda to accelerate the transition to circular fashion, and later in 2020 joined the Circular Fashion Partnership to contribute to the development of a circular manufacturing in Bangladesh.¹⁹

Concerning responsible consumption and production, OVS aims to procure 100% of its cotton from the Better Cotton Initiative (BCI) by the end of 2021. The Company recognizes that polyester is a petroleum derivative product widely used to create garment fabrics such as fleece. In this view, OVS reported that 100% of the fleece it uses is recycled from reclaimed plastic bottles to reduce the Company's environmental footprint. OVS also aims to eliminate the use of potassium permanganate and adopt waterless technologies to reduce water use by 95% in its denim production by 2025. Moreover, in 2021, OVS eliminated 100% virgin plastic from its products containers and replaced it with recycled plastic for all logistics bags. In 2019, OVS replaced 100% plastic display packaging with cardboard or recycled plastic packaging, resulting in the elimination of more than 27 t of previously used plastic between bags and product boxes in 2020.²⁰

Furthermore, OVS aims to use more than 90% of the material in its production line from certified low-impact supply chains by 2025. To advance towards this goal and enable OVS to review the performance of its suppliers, since 2020, OVS only accepts new suppliers whose data is available on the Higg Index. The Company has also launched the "Eco Valore" index in 2020, a set of indicators that provides details on the environmental impact of the entire life cycle for each garment enabling customers to make informed decisions while purchasing a product. The index provides details on the amount of water used to produce the item, the CO₂ emissions generated during production, and the recyclability of a specific item.²¹

Based on the above, Sustainalytics considers OVS to have a strong sustainability strategy and initiatives and considers that the sustainability-linked bond eventually issued under the Framework will further support OVS' efforts.

OVS's Environmental and Social Risk Management

Sustainalytics recognizes that OVS' defined targets are impactful and are anticipated to deliver positive environmental and social impacts, however, achieving the SPTs also bears environmental and social risks primarily related to issues involving worker rights, occupational health and safety, community relations from sourcing and supply chain, and environmental impact of products.

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

- OVS has a risk management system to identify, monitor and manage risks within the organization and to ensure compliance with laws and safeguard corporate assets. In this regard, the Company has implemented the following set of policies: Labour and Human Rights Policy, Code of Conduct Policy, Code of Ethics Policy, Environment and Local Community Policy.
- The Labour and Human Rights Policy lays out the guidelines from all those who work with regarding labour practices, human rights and health and safety. The policy also outlines the Company's safety measures to minimize occupational injuries from its operations. OVS implements emergency controls and advanced procedures and measures in its

¹⁷ OVS, "Sustainability Report, 2020"

¹⁸ SAC, "Members", at: <https://apparelcoalition.org/brands-retailers/>

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

operations to ensure a safe environment for its employees. OVS has also established a safety management system to protect workers from occupational risks.²²

- The Code of Conduct Policy provides comprehensive details of the rights, duties and responsibilities of all those who work or collaborate with the Company. This policy describes binding requirements for suppliers on transparency and environmental and social sustainability. In addition, the policy also provides guidelines on measures for factories and plants to reduce the use of energy, natural resources and minimize negative environmental impacts. Suppliers also need to comply with the thresholds expressed in the Manufacturing Restricted Substance List of Zero Discharge of Hazardous Chemicals with respect to chemical substances in wastewater.²³
- OVS' Environmental and Local Community Policy provides guidelines on biodiversity and conservation of natural resources, waste production and recycling processes, water consumption and water footprint, use of chemicals, and animal welfare. The policy states that OVS does not use raw materials that include species at risk listed in the Convention on International Trade in Endangered Species or the IUCN Red List as Critically Endangered, Endangered or Vulnerable. The Company also has each of its products compliant with the Restricted Substances List (RSL), following the European Union directives concerning product safety.²⁴
- In 2020, OVS started the REUSEME program, which focuses on reusing packaging material such as cardboard used in logistics centres. Furthermore, OVS has defined specific operating procedures under its Green Procurement initiative that establish minimum requirements for purchasing consumables. As part of this initiative, the Company prioritizes recycled or certified paper.²⁵ In addition, OVS has the initiative "Healthy Seas" to preserve marine biodiversity, which includes recycling fishing nets and other plastic material from the ocean into econyl yarn, an alternative to nylon OVS uses in its garments.²⁶

In addition to the above, Sustainalytics notes that it has found no evidence of any major environmental or social controversies related to OVS. Overall, Sustainalytics considers that OVS has strong management programs and policies to mitigate risks that could arise from its operations.

Section 3: Impact of the SPTs Chosen

Importance of Sustainability in the Global Fashion Industry

The fashion industry is responsible for approximately 10% of annual GHG emissions globally, more than international flights and maritime shipping emissions combined. These emissions are expected to rise by almost 50% by 2030 as the fashion industry is projected to continue growing.²⁷ The industry is resource-intensive, ranking as the second-largest consumer of the world's water supply and producing nearly 20% of wastewater globally,^{28, 29} and it is estimated that its water use will increase by 50% by 2030, driven by the industry's growth.³⁰ Other significant environmental impacts are primarily associated with the extensive use of chemical substances, waste production, and microplastic generation.³¹

To reach the 1.5-degree pathway identified in the Paris Climate Agreement, the global fashion industry would need to intensify its abatement actions and scale up existing decarbonization efforts to reduce annual emissions to around 1.1 billion tonnes in 2030.³²

²² OVS, "Labour and Human Rights Policy", assessed on October 7, 2021, at: https://wecare.ovscorporate.it/pdf/OVS_HR_Policies_EN.pdf

²³ OVS, "Code of Conduct Policy", (2020), at: https://wecare.ovscorporate.it/pdf/code-of-conduct/Code-of-Conduct-2020_ENG.pdf

²⁴ OVS, "Environmental and Local Community Policy", assessed on October 7, 2021, at:

https://wecare.ovscorporate.it/pdf/OVS_Environmental_policies_EN.pdf

²⁵ Certified paper under the Forest Stewardship Council (FSC) or Program for the Endorsement of Forest Certification (PEFC).

²⁶ OVS, "Sustainability Report, 2020"

²⁷ The World Bank, "How Much Do Our Wardrobes Cost to the Environment?", (2019), at:

<https://www.worldbank.org/en/news/feature/2019/09/23/costo-moda-medio-ambiente>

²⁸ The Business Insider, "The fashion industry emits more carbon than international flights and maritime shipping combined. Here are the biggest ways it impacts the planet", (2019), at: <https://www.businessinsider.in/science/news/the-fashion-industry-emits-more-carbon-than-international-flights-and-maritime-shipping-combined-here-are-the-biggest-ways-it-impacts-the-planet/articleshow/71640863.cms>

²⁹ UNECE, "UN Alliance aims to put fashion on path to sustainability", (2018), at: <https://unece.org/forestry/press/un-alliance-aims-put-fashion-path-sustainability>

³⁰ Fashion United, "Wastewater: fashion's grotesk sustainability problem", (2020), at: <https://fashionunited.uk/news/fashion/wastewater-fashion-s-grotesk-sustainability-problem/2020050548770>

³¹ Jacometti, Valentina. (2019). Circular Economy and Waste in the Fashion Industry. Laws. 8. 27. 10.3390/laws8040027.

³² Mckinsey & Company, "Fashion on climate", (2020), at: <https://www.mckinsey.com/industries/retail/our-insights/fashion-on-climate>

This accelerated abatement requires fashion industry stakeholders to reduce emissions from upstream production and processing through retail operations across the entire value chain.³³

In 2020, Italy announced further strengthening of its climate commitment to reduce its national GHG emissions by 60% by 2030 compared to 1990 levels.³⁴ To limit the overall growth of emissions, the European Commission adopted the new Circular Economic Action Plan (CEAP) in 2020, focusing on packaging, plastics and textiles sectors that use most resources with high potential for circularity.³⁵ In 2021, the Italian government announced that they would be using the United Nations Economic Commission for Europe (UNECE) policy recommendations to develop legislation on circularity in the garment industry.³⁶

Given the large presence of OVS in Italy, OVS’ commitment to reducing scopes 1, 2 and 3 GHG emissions and increasing transparency and traceability within its supply chain will have a positive impact in aiding Italy reach its climate goals and overall positive impact on the fashion industry in Italy. Sustainalytics is of the opinion that OVS’ efforts to improve energy efficiency, increase the use of renewable energy and improve the environmental and social performance of its supply chain will positively contribute to the Company’s sustainability goals and support the objectives of Italy’s climate reduction plans.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were adopted in September 2015 and form part of an agenda for achieving sustainable development by the year 2030. The sustainability-linked bonds eventually issued under the Framework are expected to contribute to the following SDG goals and targets:

KPI	SDG	SDG Target
Absolute Scope 1 and 2 GHG emissions	7. Affordable and clean energy	7.3 By 2030, increase substantially the share of renewable energy in the global energy mix
Absolute Scope 3 GHG emissions	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
a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources

³³ McKinsey Sustainability, “The fashion industry can reduce emissions across the entire value chain”, (2020), at: <https://www.mckinsey.com/business-functions/sustainability/our-insights/sustainability-blog/the-fashion-industry-can-reduce-emissions-across-the-entire-value-chain>

³⁴ REUTERS, “Italy says it plans to cut carbon emissions by 60% by 2030”, (2021), at: <https://www.reuters.com/article/us-italy-climate-minister-idUSKBN2B31ML>

³⁵ European Commission, “Circular economy action plan”, (2021), at: https://ec.europa.eu/environment/strategy/circular-economy-action-plan_en

³⁶ UNECE, “The Sustainability Pledge is gathering momentum with commitments from across the garment and footwear industry, government, campaign groups and academia”, (2021), at: <https://unece.org/media/Trade/press/359969>

Conclusion

OVS intends to issue a Sustainability-Linked Bond which will tie the coupon rate to the achievements of the following SPTs:

- (1) Reduce absolute scope 1 and 2 GHG emissions by 21% by 2024
- (2) Reduce absolute scope 3 GHG emissions related to house brand apparel by 21% by 2024
- (3) a) Achieve 100% of suppliers on Higg platform by 2024 and b) Purchase at least 80% of the production volume from suppliers with both Higg FEM and FSLM modules verified by a third party by 2024

Sustainalytics considers the KPI 1 and 2 to be very strong based on a clear and consistent methodology on a material environmental issue while having a high scope of applicability. KPI 3 is considered to be strong based on a clear and consistent methodology on a material social and environmental issue. The SPT 1 and 2 are also considered to be highly ambitious based on a favorable comparison against targets set by peers while aligned with a 1.5-degree climate scenario. Sustainalytics considers SPT 3 to be ambitious based on past performance, and favourable comparison against OVS' peers.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers OVS S.p.A.'s SLB Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the prospective of achievement of the SPTs to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: OVS S.p.A.

Sustainability-Linked Bond ISIN: XS2393520734

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

Completion date of second party opinion pre-issuance: October 19, 2021

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) only some of them (partial review):
- Selection of Key Performance Indicators (KPIs) Bond characteristics (acknowledgment of)
 - Calibration of Sustainability Performance Targets (SPTs) Reporting
 - Verification
- and confirmed their alignment with the SLBP.

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

- Second Party Opinion Certification
- Verification 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)

OVS intends to issue sustainability-linked bonds where the coupon rate is tied to the achievement of the Sustainability Performance Targets (SPTs) for three KPIs: (i) absolute scope 1 and 2 GHG emissions, (ii) absolute scope 3 GHG emissions and (iii) a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume

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):
Sustainability Linked Bond Framework includes three KPIs: (i) absolute scope 1 and 2 GHG emissions , (ii) absolute scope 3 GHG emissions, and (iii) a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume percentage of Higg Tier 1 house brand apparel suppliers production volume and related verified production volume (see Table 1). Sustainalytics considers KPI 1 and 2 in combination to be very strong based on its combined high scope of applicability, clear and consistent methodology, and ability to be assessed against external benchmarks. KPI 3 is considered strong given it is indirectly connected to OVS’ performance on a material issue with a clear and consistent methodology.

List of selected KPIs:

- Absolute scope 1 and 2 GHG emissions
- Absolute scope 3 GHG emissions
- a) Percentage of Higg Tier 1 house brand apparel suppliers production volume b) Related verified production volume

Definition, Scope, and parameters

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

Relevance, robustness, and reliability of the selected KPIs

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

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (if applicable):
Sustainalytics considers the SPTs to be aligned with the Issuer’s sustainability strategy. Sustainalytics considers SPT 1 and 2 to be highly ambitious based on alignment with a 1.5-degree climate scenario. SPT 3 is considered ambitious as it represents a significant improvement over past performance and is aligned with industry best practices.

Rationale and level of ambition

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

Benchmarking approach

- | | |
|--|--|
| <input type="checkbox"/> Issuer own performance | <input checked="" type="checkbox"/> Issuer’s peers |
| <input checked="" type="checkbox"/> reference to the science | <input type="checkbox"/> Other <i>(please specify)</i> : |

Additional disclosure

- | | |
|--|--|
| <input checked="" type="checkbox"/> potential recalculations or adjustments description | <input checked="" type="checkbox"/> issuer’s strategy to achieve description |
| <input type="checkbox"/> identification of key factors that may affect the achievement of the SPTs | <input type="checkbox"/> Other <i>(please specify)</i> : |

3-3 BOND CHARACTERISTICS

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

OVS will link the bond’s financial characteristics to the achievement of the SPTs, namely a coupon rate step-up provision for failing to achieve the SPT. To avoid triggering the coupon rate step-up, the SPTs need to be achieved at the relevant target observation date along with the reporting and verification commitments.

Financial impact:

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

Structural characteristic:

- Other *(please specify)*:

3-4 REPORTING

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

OVS commits to report on an annual basis on its performance on the KPIs in a separate report which will be included in OVS’ annual sustainability reporting available on its website. OVS commits to disclose relevant information that affects the KPI performance. The reporting commitments are aligned with the Sustainability-Linked Bond Principles 2020.

Information reported:

- | | |
|--|---|
| <input checked="" type="checkbox"/> performance of the selected KPIs | <input checked="" type="checkbox"/> verification assurance report |
| <input checked="" type="checkbox"/> level of ambition of the SPTs | <input type="checkbox"/> Other <i>(please specify)</i> : |

Frequency:

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

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other (please specify):
- 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 issuer’s documentation, etc.)*

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

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