

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Sustainability-Linked Securities

Pfleiderer  
22 March 2021

### VERIFICATION PARAMETERS

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<b>Type(s) of instruments contemplated</b>	Sustainability-Linked Securities
<b>Relevant standards</b>	Sustainability-Linked Bond Principles, as administered by ICMA Sustainability-Linked Loan Principles, as administered by LMA
<b>Lifecycle</b>	Pre-issuance verification
<b>Validity</b>	As long as Pfleiderer's Sustainability-Linked Financing Framework and benchmarks for the Sustainability Performance target(s) remain unchanged

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## SCOPE OF WORK

Pfleiderer ( or “the issuer”) commissioned ISS ESG to assist with its Sustainability-Linked Securities by assessing three core elements to determine the sustainability quality of the instrument:

1. The sustainability credibility of the KPIs selected and Sustainability Performance Targets (SPTs) calibrated – whether the KPIs selected are core, relevant and material to the issuer’s business model and sector, and whether the associated target are ambitious.
2. Pfleiderer’s Sustainability-Linked Financing Framework (March 2021 version) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (SLBPs), and Sustainability-Linked Loan Principles (SLLPs).
3. Sustainability-Linked Securities link to Pfleiderer’s sustainability strategy – drawing on Pfleiderer’s overall sustainability profile and related objectives.

## PFLEIDERER BUSINESSES OVERVIEW

Pfleiderer is a manufacturer of wood products, supplying furniture boards, kitchen worktops, HPL laminates and artificial walls to the furniture industry, the interior industry and construction. The company’s customers include major furniture manufacturers in Poland and the DACH region (Germany, Austria and Switzerland), and other small and medium furniture companies.

The company operates sites in Arnsberg, Baruth, Gütersloh, Leutkirch and Neumarkt, where it employs around 2,000 people. It combines the product ranges of Duropal and Thermopal.

SECTION	EVALUATION SUMMARY <sup>1</sup>
<p><b>Part 1.1:</b></p> <p><b>Carbon footprint</b></p> <p><b>KPI selection and SPT calibration</b></p>	<p><b>KPI selection: Material to issuer’s business model and sustainability profile</b></p> <p><b>Sustainability Performance Target (SPT) calibration:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambitious against the issuer’s past performance</b></li> <li>• <b>Ambitious against the issuer’s sectorial peer group</b></li> <li>• <b>Ambitious against Paris Climate Goals and in line with 1.5°C decarbonization pathway</b></li> </ul> <hr/> <p>The KPI selected is core, relevant and material to the issuer’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of Pfeleiderer.</p> <p>The SPT is ambitious against the company’s past performance as the reduction target keeps a linear decrease until 2025. Furthermore, ISS ESG finds that the SPT is ambitious compared to companies in the Furniture and Fittings sector in terms of defining a GHG emissions reduction target as it is one of the few companies to have established a GHG reduction target and belongs to the top 3 most ambitious target set by the sector in terms of average yearly reduction rate. Compared with the benchmark provided by the issuer and obtained through engagement with the Science Based Initiative, the issuer’s SPT is aligned with the Paris Climate Goals and a 1.5°C decarbonization pathway. The target is set in a clear timeline, is benchmarkable and supported by a clear strategy and action plan.</p>
<p><b>Part 1.2:</b></p> <p><b>Percentage of recycled wood used</b></p> <p><b>KPI selection and SPT calibration</b></p>	<p><b>KPI selection: Material to issuer’s business model and sustainability profile</b></p> <p><b>Sustainability Performance Target (SPT) calibration:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambitious against the issuer’s past performance</b></li> <li>• <b>Ambitious against the issuer’s sectorial peer group</b></li> <li>• <b>The SPT is not benchmarkable as there are currently no existing international standards for this KPI</b></li> </ul> <hr/> <p>The KPI selected is core, relevant and material to the issuer’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable but difficult to benchmark due to the lack of peer disclosures and international standards. This limitation cannot be attributed to the issuer. It covers a material scope of the operations and activities of Pfeleiderer.</p> <p>The SPT is ambitious against the company’s past performance. The company sets its target in a linear way, with a 2% increase per year, which shows a well defined path to achieving the 50% goal by 2025. Moreover, the target is set in a clear timeline, and supported by a clear strategy and action plan. Furthermore, the target is ambitious compared to Furniture and Fittings sector practices in terms of defining target to increase use of recycled materials. No conclusion of the ambition of the target against international target is possible due to the lack of international target, which cannot be attributed to the issuer.</p>

<p><b>Part 2:</b></p> <p><b>Alignment with the SLBPs and SLLPs</b></p>	<p><b>Aligned with ICMA SLBPs and LMA SLLPs</b></p> <p>The Issuer has defined a formal framework for its Sustainability-Linked Securities regarding the selection of KPIs, calibration of Sustainability Performance Targets (SPTs), sustainability-linked securities characteristics, reporting and verification. The framework is in line with the ICMA SLBPs and LMA SLLPs.</p>
<p><b>Part 3:</b></p> <p><b>Link to issuer's sustainability strategy</b></p>	<p><b>Consistent with issuer's sustainability strategy</b></p> <p>According to ISS ESG indicative assessment<sup>2</sup>, the company currently shows a moderate sustainability performance. For the four key ESG issues identified by ISS ESG as relevant to Pfeleiderer based on the Furniture and Fittings sector's main ESG challenges, the company has put in place measures and policies to address risks, even if further efforts could help strengthening the ESG performance.</p> <p>The KPIs selected by the issuer are related to climate change and sustainable use of resources. Climate change has been defined as one of the key priorities of the issuer in terms of sustainability strategy and ISS ESG finds that this is a material sustainability topic for the issuer. ISS ESG finds that this issuance contributes to the issuer's sustainability strategy thanks to the KPIs' clear link to the key sustainability priorities of the issuer and due to ambitious SPTs against company's past performance, peer group, and targets aligned with the Paris Climate Goals.</p>

<sup>1</sup> Pfeleiderer is not part of the ISS ESG Corporate Rating Coverage Universe. The assessment of the ESG performance and strategy of the company has been conducted by an ISS ESG analyst for the Furniture and Fittings sector. Please note that, while the assessment methodology is derived from the ISS ESG Corporate Rating methodology, the conclusion of the assessment should be considered as indicative only and differs from a full Corporate Rating.

<sup>2</sup> Ibid

## ISS ESG SPO ASSESSMENT

The issuer selected two KPIs for the purposes of its Sustainability-Linked Financial Instruments.

### PART 1.1. CARBON FOOTPRINT - KPI SELECTION & SPT CALIBRATION

#### 1.1.1. KPI selection

##### KPI selected by the issuer

###### FROM ISSUER'S FRAMEWORK<sup>3</sup>

###### KPI 1: CARBON FOOTPRINT

- **KPI:** Greenhouse gas emissions scope 1 and 2 (in tCO<sub>2</sub>e) emitted by Pfeleiderer West<sup>4</sup>
- **Rationale:** Reducing GHG emissions is a key component of the company's strategy to mitigate climate change and address the climate crisis. In the search for the efficiency of its processes, Pfeleiderer has already managed to considerably reduce the emissions associated with its production. More than 90% of electricity and thermal energy produced by the group is already coming from renewable sources. Pfeleiderer is committed to Paris Agreement to limiting global warming to 1.5°C and to the required 21% CO<sub>2</sub> reduction in a five years' time horizon based on the Science Based Targets Initiative (SBTi) pathways.
- **Scope:** The KPI covers 85% of Pfeleiderer activities.
- **Calculation methodology:** Pfeleiderer used its GHG emissions inventory methodology, that was built following the guides, guidelines and calculation tools of the World Resources Institute Greenhouse Gas (GHG) Protocol.
- **External verification:** Pfeleiderer's GHG emissions inventory has been reported and verified by a third-party verification provider since 2018.

##### Materiality and relevance

Climate change mitigation is considered a key ESG issue faced by the Furniture and Fittings sector according to key ESG standards<sup>5</sup> for reporting and ISS ESG assessment. Companies of this sector are highly energy-intensive, namely in the process of producing wood-based products such as laminates, High Pressure Laminates (HPL) elements used for internal and external furniture and fittings, but also as construction materials for buildings.

ISS ESG finds that climate change mitigation and the KPI selected by the issuer, related to carbon emission footprint is:

- **Relevant** to Pfeleiderer business as its industry is highly GHG-emitting, and exposed to climate change mitigation solutions (e.g. renewable energy source, recycled wood used for production, carbon sequestration).

<sup>3</sup> This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.

<sup>4</sup> Pfeleiderer West represents the core of Pfeleiderer business and generated more than 85% of its 2020 revenues.

<sup>5</sup> Key ESG Standards include SASB and TCFD, among others.

- **Core** to the issuer's business as climate change mitigation reduction measures will impact its key processes and operations (e.g. energy efficiency in production of laminates and HPL).
- **Material** to Pfeleiderer business model from an ESG perspective as it is one of the key ESG issues faced by the Furniture and Fittings industry and has the scope of the KPI covers 85% of the total operations of Pfeleiderer in terms of revenue. Moreover, coupled with the KPI targeting increased recycled wood use, Pfeleiderer can have material impact on the issue.

### 1.1.3. Consistency with overall company's sustainability strategy

Pfeleiderer has identified climate change mitigation as one of its key ESG priorities. Over the years, the company has devoted significant resources to reduce the use of fossil fuels, and consequently reduce CO<sub>2</sub> emissions into the atmosphere. Currently, 94% of all its produced electrical and thermal energy stems from biomass fuels, and only our 6% back-up supply comes from natural gas. Utilising state-of-the-art cogeneration plants and biomass boilers has helped the issuer to reduce its CO<sub>2</sub> emissions in its CHP plants by 26% over the last 7 years.

The issuer is committed to investing further into the reduction of CO<sub>2</sub> emissions across its sites. As a first step, Pfeleiderer targets to reduce Scope 1+2 emission by 21% by 2025. In addition to this commitment, Pfeleiderer will expand its actions across the value chain to include Scope 3 emissions. With this holistic approach, the issuer will further reduce its CO<sub>2</sub> emissions in waste / wastewater treatment, consumed materials, and travelling-related emissions. Finally, Pfeleiderer is committed to compensate the remaining gap in Scope 1+2 through ETS allowances, supporting forestation projects in the Amazon, or similar compensation activities.

Pfeleiderer is a member of the initiative *Klimaschutz Holzindustrie*<sup>6</sup>. The initiative has set itself the goal of making the wood industry climate-friendly and sustainable - the participants are committed to the guidelines for sustainable and climate-friendly development.

ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

### Measurability

- **Material scope and perimeter:** The KPI selected covers about 85% of the operations and activities of the issuer. Furthermore, the KPI captures GHG emissions scopes 1 and 2 which are considered by the issuer the most relevant for the sector, representing about 79% of total emissions.
- **Quantifiable:** The KPI selected is measurable and quantifiable. Greenhouse gas emissions (tCO<sub>2</sub>e) (scopes 1, 2) is a widely disclosed KPI and standardized in the market. The issuer's GHG emissions inventory methodology follows the guides, guidelines and calculation tools of the World Resources Institute Greenhouse Gas (GHG) Protocol.
- **Externally verifiable:** The KPI selected is externally verifiable thanks to the reporting protocol mentioned above. The issuer has GHG emission data for the 2018, 2019, and 2020, which has been verified by a third-party verification provider. The issuer also commits to get

<sup>6</sup> <https://www.klimaschutzholzindustrie.de/>

a third-party verification of the KPI considered under this transaction until the SPT target year.

- **Benchmarkable:** By referring to commonly acknowledged GHG accounting standard protocol, the KPI is easily comparable with the data reported by other companies and with international targets such as the Paris Agreement. Benchmarking of the SPT in relation with this KPI has been analysed in section 1.2.

**Opinion on KPI selection:** ISS ESG finds that KPI 1 is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of Pfeleiderer.

## 1.2. Calibration of SPT

### SPT set by the issuer

#### FROM ISSUER'S FRAMEWORK<sup>7</sup>

- **Sustainability Performance Target:** Greenhouse gas emissions scope 1 and 2 (in tCO<sub>2</sub>e) emitted by Pfeleiderer West<sup>8</sup> as defined below:

(in tCO <sub>2</sub> e)	2022MTP	2025MTP
Carbon Footprint	201,670	173,930
<i>Abs. decrease</i>	<b>-18,493</b>	<b>-46,234</b>
<i>% decrease</i>	<b>-8.4%</b>	<b>-21.0%</b>

- **Sustainability Performance Target Trigger:** is calculated as the tonnes of CO<sub>2</sub> emitted (scope 1 and 2) by Pfeleiderer West
- **Sustainability Performance Target Observation Date:** December 31 2022 (intermediate target), December 31, 2025
- **2020 Baseline:** 220,164 tCO<sub>2</sub>
- **Improvement from baseline:** – 21%
- **Factors that support the achievement of the target:** Pfeleiderer's goal is to improve the energy efficiency and overall GHG footprint of its activities by implementing a plant by plant transition from grey energy to full green energy by way of purchasing Scandinavian hydro-power certificates. A planned transition strategy has been shared on a confidential basis with ISS ESG.
- **Risks to the target:** Equipment failure, among other operational factors could lead to an increase of its overall carbon footprint

<sup>7</sup> This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.

<sup>8</sup> Pfeleiderer West represents the core of Pfeleiderer business and generated more than 85% of its 2020 revenues.



## Ambition

### Against company's past performance

Pfleiderer set the SPT to reduce its GHG emissions (scopes 1 and 2) equal to or less than 173.930 tCO<sub>2</sub>e by 2025. This equates to an estimated reduction of 21% in 5 years, from 2020 baseline year to 2025 target year. Moreover, the issuer has defined an intermediate target towards 2022 aiming to reduce its GHG emissions (scopes 1 and 2) equal to or less than 201.670 tCO<sub>2</sub>e, which equates to an estimated reduction 8.4% from the 2020 baseline.

	Actuals			SPT	
	2018	2019	2020 baseline	2022MTP	2025MTP
Scope 1+2	270,631	238,492	220,164	201,670	173,930
<b>KPI #2 (abs.)</b>	n/a	<b>-32,138</b>	<b>-18,329</b>	<b>-18,493</b>	<b>-46,234</b>
<b>KPI #2 (%)</b>	n/a	<b>-11.9%</b>	<b>-7.7%</b>	<b>-8.4%</b>	<b>-21.0%</b>

Pfleiderer's carbon reduction target, from the 2020 baseline to the 2025 target shows a yearly average reduction of 4.2%, while Pfleiderer reduction rate between 2018 and 2020 has been steeper, of 12% and 8% respectively. This is due to an improved renewable energy mix in Germany throughout the last three years, and future uncertainty about the increase of renewable installations.

Various factors could put the achievement of this target at risk, including operational risks such as equipment failure, inbound and/or outbound logistics constraints, supply deficiency from critical suppliers, change in demand, amongst other factors.

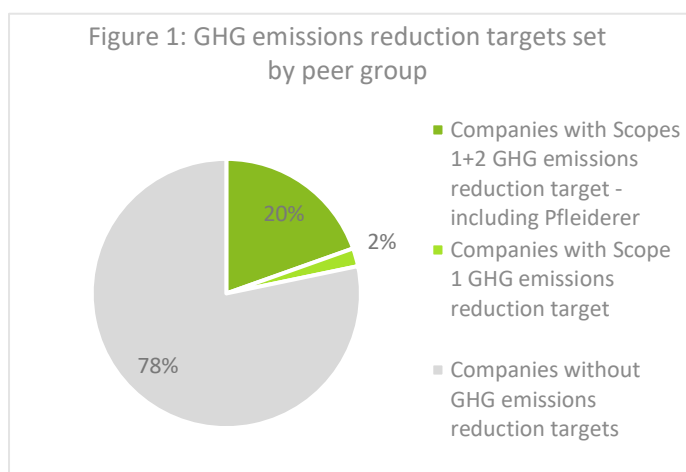
In this context and compared to the baseline year, the SPT set by Pfleiderer is perceived by ISS ESG as ambitious against the company's past performance. The gradual decrease and an intermediary target further enhance the robustness of Pfleiderer's strategy.

### Against company's sectorial peers

ISS ESG conducted a benchmarking of the SPT set by Pfleiderer against 46 Furnitures and Fittings peer group of listed companies derived from the ISS ESG Universe.

In terms of target set, Pfleiderer is one of 12 companies in its industry to have a set a GHG emission reduction target and one of the only nine companies to have set a target covering both Scopes 1 and 2 GHG emissions. It thus belongs to the top 20% tier of its sector in terms of existence of such targets. No company in the peer group has defined GHG emissions reduction targets covering scope 3 GHG emissions.

Among the companies that have set targets in a comparable scope (covering absolute GHG emissions Scopes 1+2), Pfleiderer's average yearly reduction target is in a similar order of magnitude than the two most ambitious targets defined by competitors (see table below). It must be noted however that only 1 other company (competitor 1) in the peer group has set Science Based Targets certified by the Science Based Target Initiative (SBTi), and thus align with best market practices.



PEER GROUP'S TARGET FOR GHG EMISSION REDUCTION				
Companies	Location	Absolute reduction target	Coverage	Yearly weighted average reduction
<b>Pfleiderer</b>	Germany	Yes, towards 2025	Scope 1&2, 85% of operations	4.2%
<b>Competitor 1</b>	USA	Yes, towards 2025	Scope 1&2, 100% of operations	5%
<b>Competitor 2</b>	USA	Yes, towards 2020	Scope 1&2, more than 80% of operations	4.2%
<b>Competitor 3</b>	Brazil	Yes, towards 2025	Only Scope 1, 100% of operation	1.9%

Given the limited number of companies having set such target, and the fact only one other company has set a target comparable to Pfleiderer (competitor 1), ISS ESG concludes that the SPT set by the issuer is ambitious compared to companies in the Furniture and Fittings sector in terms of defining a GHG emissions reduction target. The SPT belongs to the top 3 most ambitious targets defined by companies in their peer group. This is based on a weighted yearly reduction rate, thus not accounting for the actual volume of GHG emissions which could see Pfleiderer's target being the most ambitious compared to the peer group.

### Against international targets

#### Paris agreement

Pfleiderer used the Science Based Target Initiative Absolute Contraction Approach to benchmark its SPT against the Paris Climate Goals. The Science Based Target Initiative (SBTi) is a collaboration between Carbon Disclosure Project, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature, derived from Beyond 2°C Scenario (B2DS) developed by the International Energy Agency (IEA) as part of its publication, Energy Technology Perspectives (ETP) 2017 (IEA, 2017).

According to the engagement conducted by Pfleiderer with the SBTi, the minimum absolute GHG emissions reduction level for scopes 1 and 2 are the following for Furniture and Fittings sector companies to align with the above-listed decarbonization pathways:

- 2.5% of annual linear reduction required to align with a well-below a 2°C decarbonization pathway
- 4% of annual linear reduction required to align with a 1.5°C decarbonization pathway

Based on this information provided by the issuer, ISS ESG conducted a comparison between Pfleiderer's past performance for baseline year 2020 and SPT for 2025 with the two rates indicated as a guideline for alignment with decarbonization pathways on the basis of Pfleiderer's GHG emission reduction on scopes 1 and 2. The yearly reduction rate of Pfleiderer target is in fact 4.2%.

Compared with the credible benchmark provided by the issuer, ISS ESG concludes that the issuer's SPT is aligned with the Paris Climate Goals and with a 1.5°C decarbonization pathway.

#### UN Sustainable Development Goals

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDG 13 "Climate action".



#### Measurability & comparability

- **Historical data:** The issuer provided yearly GHG emissions footprint data verified by a third-party verification provider since 2018 which aligns with the SLBP of providing historical data for previous 3 years.
- **Benchmarkable:** By referring to commonly acknowledged GHG accounting protocols, the KPI is easily comparable with the data reported by other companies and other benchmarks.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

#### Supporting strategy and action plan

The issuer will take into account various operational measures with the objective to improve the energy efficiency and overall GHG footprint of its activities by implementing a plant by plant transition from grey energy to full green energy by way of purchasing Scandinavian hydra-power certificates.

A planned transition strategy has been shared on a confidential basis with ISS ESG.

**Opinion on SPT calibration:** ISS ESG finds that the SPT calibrated by Pfeleiderer is ambitious against the company's past performance as the reduction target keeps a linear decrease until 2025. Furthermore, ISS ESG finds that the SPT is ambitious compared to companies in the Furniture and Fittings sector in terms of defining a GHG emissions reduction target as it is one of the few companies to have established a GHG reduction target and belongs to the top 3 most ambitious target set by the sector in terms of average yearly reduction rate. Compared with the benchmark provided by the issuer and obtained through engagement with the Science Based Initiative, the issuer's SPT is aligned with the Paris Climate Goals and a 1.5°C decarbonization pathway. The target is set in a clear timeline, is benchmarkable and supported by a clear strategy and action plan.

## PART 1.2: RECYCLED WOOD USED - KPI SELECTION & SPT CALIBRATION

### 1.2.1 KPI selection

#### KPI selected by the issuer

##### FROM ISSUER'S FRAMEWORK<sup>9</sup>

##### KPI 1: PERCENTAGE OF RECYCLED WOOD USED

- **KPI:** Percentage of recycled wood used (post-consumer material and internal rejects)
- **Rationale:** Reducing the use of “fresh” wood in its production is fundamental to helping preserve and protect natural resources. These investments also help increase Pfeiderer’s firm-levels of material cost efficiency. Historically, the company has already managed to materially increase the use of post-consumer recycled wood within its production and it intends to further progress on that path.
- **Scope:** This KPI covers 100% of wood-based activities of Pfeiderer.
- **Calculation methodology:** Pfeiderer will calculate the KPI #1 as the tonnes of recycled wood used (post-consumer material and internal rejects) divided by the tonnes of total woods used (i.e. the sum of pre- and post-consumer recycled and fresh wood)
- **External verification:** Pfeiderer has been reporting this KPI starting in 2018. The issuer has not received any third-party on historic data, but commits to get a third-party verification of the KPI considered under this transaction until the SPT target year.

#### Materiality and relevance

Sustainable sourcing, safe and environmentally friendly production processes, overexploitation of nature and the consequences on climate change is considered a key ESG issue faced by the Furniture and Fittings sector according to ISS ESG assessment. Companies in this sector are highly dependant on raw materials, namely in the process of producing wood-based products such as laminates, High Pressure Laminates (HPL) elements used for internal and external furniture and fittings, but also as construction materials for buildings.

ISS ESG finds that the percentage of recycled wood used KPI selected by the issuer is:

- **Relevant** to Pfeiderer’s business as its industry is highly reliant on wood for the production of laminates, and HPL elements and exposed to circular economy solutions (e.g. use of recycled wood).
- **Core** to the issuer’s business as the increase of recycled wood used will impact key processes and operations as the use of wood applies to all Pfeiderer’s operations.
- **Material** to Pfeiderer from an ESG perspective as it is one of the key ESG issues faced by the Furniture and Fittings industry and as the KPI covers 100% of the operations of the issuer. Hence Pfeiderer can have material impact on circular economy and sustainable sourcing.

<sup>9</sup> This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.

### Consistency with overall company's sustainability strategy

Pfleiderer has a longstanding commitment related to sustainability, especially regarding its wood-based production. Pfleiderer recognised years ago that cascade utilisation and recycling management are the only economic models that can guarantee sustainable production of high-quality wood products in the future.

The company has brought its wood mix to consist of ~15% fresh wood fractions, and even then are usually by-products such as thinning and residual wood. The remainder comprises ~45% pre-consumer recycled material such as sawmill residues, and ~40% post-consumer recycled material such as processed waste wood.

Regarding its wood sourcing, the company uses material from sustainable forestry and partners without exception. Starting in 2007, it has consistently achieved certification according to FSC® (FSC® license code: FSC-C011773) and PEFC (PEFC/04-32-0828).

This also means that the following types of wood are not procured:

- Wood from illegal logging
- Wood from areas in which cultural and civil rights are violated
- Wood from forests which due to poor forest management are classified as endangered, and are under special protection
- Wood produced from the conversion of natural forests into plantations or non-forest uses
- Wood from forests that have been grown from genetically modified tree species
- Wood from areas in which one of the ILO basic principles is violated, as defined in the ILO declaration on fundamental rights at work from 1998

The approximately 5 million tonnes of wood processed by Pfleiderer annually come from sustainably managed and certified forests, within a maximum proximity to its plants of 200 kilometers.

The definition of a recycled wood use KPI is consistent with Pfleiderer's strategy of increasing the use of recycled wood in its production process, especially post-consumer material and internal rejects, helping preserve and protect natural resources and also help increase its firm-levels of material cost efficiency.

ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

### Measurability

- **Material scope and perimeter:** The KPI selected covers 100% of the issuer's operations.
- **Quantifiable:** The KPI selected is measurable and quantifiable. The issuer defines recycled wood as post-consumer material and internal rejects, and defines a methodology to calculate the percentage of recycled wood used as the tonnes of recycled wood used (post-consumer material and internal rejects) divided by the tonnes of total woods used (i.e. the sum of pre- and post-consumer recycled and fresh wood).

- **Externally verifiable:** The KPI selected is externally verifiable, but the past performance on this KPI has not been verified by a third-party. The issuer commits to get a third-party verification of its calculation of the KPI considered under this transaction.
- **Benchmarkable:** This KPI is comparable, but complicate to benchmark due to the lack of international standards and targets. Also, the KPI is not commonly reported by companies of the Furniture and Fittings sector. Benchmarking of the SPT in relation with this KPI has been analysed in section 2.

**Opinion on KPI selection:** ISS ESG finds that the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable but difficult to benchmark due to the lack of peer disclosures and international standards. This limitation cannot be attributed to the issuer. It covers a material scope of the operations and activities of Pfeleiderer.

## 1.2.2. Calibration of SPT

### SPT set by the issuer

#### FROM ISSUER'S FRAMEWORK<sup>10</sup>

- **Sustainability Performance Target:** Increasing the proportion of recycled wood used in its overall production to 44% (669.3 kilo tonnes) by intermediate target year 2022, and 50% (772.8 kilo tonnes) by 2025
- **Sustainability Performance Target Trigger:** is calculated as follows: the tonnes of recycled wood (post-consumer material and internal rejects) used divided by the tonnes of total woods used (i.e. the sum of recycled and fresh wood)
- **Sustainability Performance Target Observation Date:** December 31 2022 (intermediate target), and December 31, 2025
- **2020 Baseline:** 40.3% (545.5 kilo tonnes)
- **Improvement from baseline:** + 9.7 percentage points
- **Factors that support the achievement of the target:** Increasing the use of post-consumer recycled wood (and therefore the percentage in our production) is fully embedded in the company's strategy and improves profitability.
- **Risks to the target:**
  - The post-consumer recycled wood used is also linked to the recycling plant capacity - this could therefore create a bottleneck in the event of a surge in demand, forcing the company to use fresh wood instead of recycled wood; in case of demand surge, the target is considered achieved if the absolute amount of recycling wood is used regardless the %-ratio
  - As some of its products cannot be produced using recycled wood, there is a risk that, subject to the demand, the percentage of recycled wood used will decrease because of the increasing demand of products that are made of fresh wood only

<sup>10</sup> This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.

## Ambition

### Against company's past performance

Pfleiderer sets the SPT to increase the share of recycled wood used (defined as post-consumer material and internal rejects) in its total operation to reach 50% in FY 2025. This equates to an increase of +9.7% by December 2025 compared to the 2020 baseline.

The company provided past performance data starting from 2018, as can be seen in the table below.

	Actuals			SPT	
	2018	2019	2020 baseline	2022MTP	2025MTP
Recycled Wood (in kt)	536.6	562.6	545.5	669.3	772.8
Total Wood (in kt)	1,411.4	1,346.2	1,354.6	1,521.2	1,545.6
<b>KPI #1</b>	<b>38.0%</b>	<b>41.8%</b>	<b>40.3%</b>	<b>44%</b>	<b>50%</b>

Moreover, the company set its target in a linear way, with a 2% yearly average increase, which shows a well defined path to achieving the 50% goal by 2025. Past performance would indicate a similar or major increase between years, with the exception of 2020, which was possibly influenced by the macro-economic and demand shift due to the COVID 19 pandemic.

Achieving this target represents a clear increase of recycled wood percentage relative to the baseline year and past performance of the company.

While some macro-economic factors and trends will support the achievement of this target, e.g. increased customers awareness on and willingness to act upon sustainable material use and climate change mitigation, and the sustainability strategy of the issuer pointing at the continued increase of both certified "fresh" material and recycled wood, some other factors will likely pose challenges for Pfleiderer to systemically achieve the SPT set by 2025. The main factor relates to the demand, both due to quantity of demand and type of demand, which could push the company to use "fresh" material instead of recycled wood.

In this context and compared to the baseline year, the SPT set by Pfleiderer on its total operations is perceived by ISS ESG as ambitious against the company's past performance.

### Against company's sectorial peers

Recycled wood share in total material use is not commonly reported by companies in the Furniture and Fittings sector. Pfleiderer set its target independently, without relying on peers comparison.

ISS ESG compared the target set by the issuer with other targets set by the peer group related to use of recycled material, not considering wood solely. ISS ESG believes that the comparison Pfleiderer's target against use of recycled material targets set by companies in peer group remains insightful as Pfleiderer's production relies mainly on wood.

In terms of target set, Pfleiderer is one of five companies in its industry to have set a target to increase use of recycled materials in production processes. The target set by Pfleiderer is the most ambitious among the peer group in terms of yearly average increase of use of recycled material and of target year performance.



ISS ESG concludes that the SPT set by the issuer is ambitious compared to Furniture and Fittings sector practices in terms of defining target to increase use of recycled materials.

#### Against international targets

Pfleiderer did not benchmark its SPT against any international targets. This is due to the lack of relevant standards guiding companies in establishing thresholds for the use of recycled wood in their operations.

Nonetheless, Pfleiderer has obtained relevant sustainability certifications for its products, including the Nordic Swan, Blue Angel, and Cradle-to-Cradle labels. Regarding wood sourcing specifically, the company has consistently achieved certification according to FSC and PEFC, even though the percentage of certified wood not clear. While these certifications do not take into account any measurements for recycled wood usage, they show ambition to follow best market practices regarding wood based products.

No conclusion of the ambition of the target against international target is possible due to the lack of international target.

#### Measurability & comparability

- **Historical data:** The issuer has provided historical data for the past three years, but has not received any third-party on historic data. It commits to get a third-party verification of the KPI considered under this transaction until the SPT target year.
- **Benchmarkable:** This KPI is comparable, but complicate to benchmark due to the lack of international standards and targets. Also, the KPI is not very commonly reported by companies of the Furniture and Fittings sector. This limitation cannot be attributed to the issuer.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

#### Supporting strategy and action plan

Pfleiderer will further enhance its technologies and develop new processes to be set up along the entire value-added chain, to support the increased use of recycled wood.

Pfleiderer applies the “cascade use” within its recycling management which can guarantee sustainable production of high-quality wood products in the future. This is why it has and will keep implementing intelligent wood cycles at its production sites. Sawing residues from the sawmill and recycled wood are collected at its locations and prepared for further processing. In the production process, new wood-based panels are created.

The cascade use primarily helps to relieve the burden on sustainable forestry and save resources through the multiple processing of wood – the added value thus increases by a factor of 4 to 9.

**Opinion on SPT calibration:** ISS ESG finds that the SPT calibrated by Pfleiderer is ambitious against the company’s past performance. The company sets its target in a linear way, with a 2% yearly average increase, which shows a well defined path to achieving the 50% goal by 2025. Moreover, The target is



*set in a clear timeline, and supported by a clear strategy and action plan. Furthermore, the target is ambitious compared to Furniture and Fittings sector practices in terms of defining target to increase use of recycled materials. No conclusion of the ambition of the target against international target is possible due to the lack of international target, which cannot be attributed to the issuer.*

## PART 2: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES

### Rationale for Framework

#### FROM ISSUER'S FRAMEWORK

Pfleiderer understands the positive role that it can play in combating the climate crisis by providing climate change mitigation through reduction of its greenhouse gas emissions, and protecting natural resources by increasing the proportion of recycled wood in its products. As such, the company intends to issue Sustainability-Linked Securities ("SLSs"), which may include Sustainability-Linked Bonds ("SLBs"), Sustainability-Linked Loans (SLLs) or any other Sustainability-Linked instruments (Commercial Paper, derivatives instruments, etc.). This approach links Pfleiderer's sustainability strategy with its funding policy incentivizing the achievement of pre-determined Sustainability Performance Targets (SPTs) - leveraging ambitious timelines to achieve sustainability performance that is relevant, core and material to its business. The framework provides a high-level approach to its Sustainability-Linked Securities and investors should refer to relevant documentation for any securities transactions.

**Opinion:** ISS ESG considers the Rationale for Issuance description provided by Pfleiderer as aligned with the SLBPs and SLLPs.

### 2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of KPI selection available in section 1 of this report.

**Opinion:** ISS ESG considers the Selection of KPIs as per the description provided by Pfleiderer as aligned with the SLBPs and SLLPs:

- *KPI 1 (Carbon footprint) is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of Pfleiderer.*
- *KPI 2 (Percentage of recycled wood used) is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable but difficult to benchmark due to the lack of peer disclosures and international standards. This limitation cannot be attributed to the issuer. It covers a material scope of the operations and activities of Pfleiderer.*

## 2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of SPT is available in section 1 of this report.

**Opinion:** ISS ESG considers the Calibration of Sustainability Performance Target (SPT) description provided by Pfleiderer as aligned with the SLBPs and SLLPs:

- *SPT 1 (Carbon footprint) is ambitious against the company's past performance as the reduction target keeps a linear decrease until 2025. Furthermore, ISS ESG finds that the SPT is ambitious compared to companies in the Furniture and Fittings sector in terms of defining a GHG emissions reduction target as it is one of the few companies to have established a GHG reduction target and belongs to the top 3 most ambitious target set by the sector in terms of average yearly reduction rate. Compared with the benchmark provided by the issuer and obtained through engagement with the Science Based Initiative, the issuer's SPT is aligned with the Paris Climate Goals and a 1.5°C decarbonization pathway. The target is set in a clear timeline, is benchmarkable and supported by a clear strategy and action plan.*
- *SPT 2 (Percentage of recycled wood used) is ambitious against the company's past performance. The company sets its target in a linear way, with a 2% increase per year, which shows a well defined path to achieving the 50% goal by 2025. Moreover, The target is set in a clear timeline, and supported by a clear strategy and action plan. Furthermore, the target is ambitious compared to Furniture and Fittings sector practices in terms of defining target to increase use of recycled materials. No conclusion of the ambition of the target against international target is possible due to the lack of international target, which cannot be attributed to the issuer.*

## 2.3. Sustainability-Linked Securities Characteristics

### FROM ISSUER'S FRAMEWORK

The proceeds of Pfleiderer's Sustainability-Linked instruments (covering bonds, loans or any other type of financing instruments) will be used for general corporate purposes. Its Sustainability-Linked Securities have a sustainability-linked feature that will result in a coupon adjustment if its performance does not achieve the stated Sustainability Performance Targets.

Pfleiderer's Sustainability-Linked instruments could have different structures, as stated below, so the company encourage investors to read this Framework in conjunction to the relevant instrument's legal documentation:

KPI #1 and KPI #2 will have independent step up:

- If KPI #1 does not meet its SPT: coupon step up of 12.5bps
- If KPI #2 does not meet its SPT: coupon step up of 12.5bps

**Opinion:** ISS ESG considers the Sustainability-Linked Securities Characteristics description provided by Pfleiderer as aligned with the SLBPs and SLLPs. The issuer describes the potential variation of the

*Sustainability- Linked Securities financial or structural characteristics and defined clearly the KPI and SPT, including calculations methodology.*

## 2.4. Reporting

### FROM ISSUER'S FRAMEWORK

Pfleiderer's various SPTs will be reported by the group at least on an annual basis on its website, Annual or Sustainability Reports.

Reporting may include:

- Up-to-date information on the performance of the selected KPI, including the baseline where relevant;
- A verification assurance report relative to the SPT outlining the performance against the SPT and the related impact, and timing of such impact, on a financial instrument performance; and
- Any relevant information enabling investors to monitor the progress of the SPT.

Information may also include when feasible and possible:

- Qualitative or quantitative explanation of the contribution of the main factors, including M&A activities, behind the evolution of the performance/KPI on an annual basis;
- Illustration of the positive sustainability impacts of the performance improvement; and/or
- Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope, if relevant.

**Opinion:** ISS ESG considers the Reporting description provided by Pfleiderer as aligned with the SLBPs and SLLPs. This will be made publicly available annually and include valuable information, as described above.

## 2.5. Verification

### FROM ISSUER'S FRAMEWORK

Pfleiderer's performance of its various KPIs, according to the relevant SPTs at the relevant reference date, will be verified by an External Verifier. "External Verifier" means qualified provider of third-party assurance or attestation services (e.g. auditing firm) appointed by the Issuer to review the Issuer's relevant KPIs and SPTs.

Pfleiderer's Sustainability-Linked Financing Framework has been reviewed by ISS ESG who provided a second party opinion, confirming the alignment with the Sustainability-Linked Bond Principles (SLBP) administered by the ICMA, and Sustainability-Linked Loan Principles (SLLP), administered by LMA.

Additional KPIs/SPTs may be added over time and other SPTs, for the various KPIs mentioned above, will be added over time.

**Opinion:** *ISS ESG considers the Verification description provided by Pfleiderer as aligned with the SLBPs and SLLPs. The issuer plans on having the performance values of the SPT published and verified at the 2022 and 2025 target years. This will outline the performance against the SPT, the related impact and timing of such impact on the securities financial characteristics.*

## PART 3: LINK TO PFLEIDERER'S SUSTAINABILITY STRATEGY

Pfleiderer is not part of the ISS ESG Corporate Rating Coverage Universe. The below assessment of the ESG performance and strategy of the company has been conducted by an ISS ESG analyst for the Furniture and Fittings sector. Please note that, while the assessment methodology is derived from the ISS ESG Corporate Rating methodology, the below assessment should be considered as indicative only and differs from a full Corporate Rating.

COMPANY	SECTOR
PFLEIDERER	FURNITURE & FITTINGS

### *Key ESG issues of the industry:*

Key Challenges faced by companies in term of sustainability management in this sector are displayed the following:

- Design for environment
- Sustainable sourcing
- Safe and environmentally friendly production processes
- Customer health and safety

### *Indicative ESG risk and performance assessment*

Pfleiderer is a manufacturer of wood products, supplying furniture boards, kitchen worktops, HPL laminates and artificial walls to the furniture industry, the interior industry and construction. The company's customers include major furniture manufacturers in Poland and the DACH region (Germany, Austria and Switzerland), and other small and medium furniture companies.

So far, most of Pfleiderer's ESG-relevant data and information have been available only for Pfleiderer Deutschland GmbH, representing its Core West operation (hereafter: Pfleiderer Deutschland). This subsidiary demonstrates an overall comprehensive approach to health and safety, environment, and energy management via an integrated management system certified to ISO 45001, ISO 14001, and ISO 50001 implemented at all its production plants. Further, Pfleiderer Deutschland has been striving to improve the material efficiency of its production processes through using recycled materials such as sawdust and sawing residues as well as waste wood for both manufacturing and energy generation. The subsidiary has also obtained relevant sustainable certifications for some of its product ranges, including the Blue Angel, Nordic Swan, and Cradle-to-Cradle labels, which certify its products' positive impacts on the environment. With regard to sustainable sourcing, the subsidiary has made a commitment to avoid procuring wood from controversial origins, such as from illegal harvesting and areas where genetically modified trees are planted. Pfleiderer Deutschland has also achieved FSC and PEFC certifications for its production plants in Germany. However, as these certifications rather cover aspects such as chain of custody, controlled wood, and sourcing of reclaimed materials, they do not

directly show how much of the wood materials used by the company actually come from forests that are certified according to a sustainability standard.

In terms of substances of concern and product safety, the subsidiary has reduced the amount of certain chemicals, e.g., formaldehyde, conservative agents, and organic solvents, in its manufacturing processes. However, a comprehensive action plan with targets and progress reports for reducing or phasing out substances of concern still seems to be missing, and the company does not publish safety data sheets to inform customers of risks related to its products' materials. Also, eco-efficiency related data, including energy and water use consumption, greenhouse gas emissions, and waste generation, is not available.

As all the above-mentioned measures apply to Pflaiderer Deutschland only, it remains unclear whether the same practices are implemented at the company's Core East operations in Poland.

### *Indicative product portfolio assessment*

**Social impact of the product portfolio:** Pflaiderer's product portfolio does not have any positive or negative social impact on the achievement of global sustainability goals.

**Environmental impact of the product portfolio:** Pflaiderer has integrated recycled materials into its manufacturing as well as obtained relevant sustainability certifications for its products, including the Nordic Swan, Blue Angel, and Cradle-to-Cradle labels. These products have a positive impact on optimizing material use and thus contribute towards SDG 12: Responsible Consumption and Production. However, the revenue share of such products is estimated to be rather low. It seems that only a small share of wood used in the company's products originates from FSC-certified forests, which would positively impact sustainable agriculture and forestry, relating to SDGs 2: Zero Hunger and 15; Life on Land.

### *Controversy risk assessment*

Based on a review of controversies in the period of 1 January 2019 – 9 March 2021, the greatest risk reported against companies operating in the Furniture and Fittings sector relate to activities that may have adverse impacts on the environment and human rights. This is closely followed by the failure to respect labor rights. The top three issues that have been reported against companies within the industry are as follows: alleged failure to prevent deforestation/illegal logging, failure to assess environmental impacts and poor stakeholder consultation. This is closely followed by the alleged failure to respect indigenous rights, failure to mitigate climate change impacts and failure to prevent air pollution.

There is no indication of Pflaiderer being involved in the above mentioned controversies.

### *Additional comments*

The assessment is based on data and information of Pflaiderer Deutschland GmbH, a subsidiary representing the Core West operation of the Pflaiderer Group. Additional data and information of Pflaiderer Polska sp. z.o.o., representing the group's Core East operation in Poland, if available, could benefit the rating.

*Issuer's commitment to address climate change<sup>11</sup>*

KPI SELECTED	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Percentage or recycled wood used in operation	✓	✓	Contribution to a material objective
GHG emissions reduction	✓	✓	Contribution to a material objective

**Opinion:** ISS ESG finds that the proposed issuance is consistent with the issuer's sustainability strategy thanks to KPIs related to the key sustainability priorities of the issuer and to an ambitious SPT.

<sup>11</sup> Please note that this part is not extracted from ISS ESG Indicative Corporate Assessment. This assessment has been conducted with the Project Team based on Pfeleiderer's press release and external commitment publicly available.



## DISCLAIMER

1. Validity of the SPO: As long as Pfleiderer's Sustainability-Linked Financing Framework and benchmarks for the Sustainability Performance target(s) remain unchanged
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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## ANNEX 1: Methodology

### Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles, as administered by ICMA

ISS ESG reviewed the Sustainability-Linked Financing Framework of Pfleiderer, as well as the concept and processes for issuance against the Sustainability-Linked Bond Principles administered by the ICMA. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond market by clarifying the approach for issuance.

ISS ESG reviewed the alignment of the concept of the Pfleiderer's issuance with mandatory and necessary requirements as per the Appendix II - SLB Disclosure Data Checklist of those principles, and with encouraged practices as suggested by the core content of the Principles.

### Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Bond Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT. ISS ESG analysed if the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. ISS ESG also reviewed if the KPI is appropriately measurable by referring to key GHG reporting protocols and against acknowledged benchmarks.

ISS ESG analysed the ambition of the SPT against Pfleiderer's own past performance (according to Pfleiderer's reported data), against Furniture and Fittings peers (as per ISS ESG Peer Universe and data) and the UN SDGs (according the ISS ESG proprietary methodology). Finally, ISS ESG evaluated the measurability & comparability of the SPT, and the supporting strategy and action plan of Pfleiderer.

## ANNEX 2: Quality management processes

### SCOPE

Pfleiderer commissioned ISS ESG to compile a Sustainability-Linked Financing SPO. The Second Party Opinion process includes verifying whether the Sustainability-Linked Financing Framework aligns with the ICMA Sustainability-Linked Bond Principles and to assess the sustainability credentials of its Sustainability-Linked Securities, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- Sustainability-Linked Bond Principles, administered by the ICMA

### ISSUER'S RESPONSIBILITY

Pfleiderer's responsibility was to provide information and documentation on:

- Framework
- Rationale and supporting calculations and methodologies for KPI selection and SPT setting
- Documentation of ESG strategy, policies and measures implemented by Pfleiderer

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability-Linked Securities to be issued by Pfleiderer based on ISS ESG methodology and in line with the Sustainability-Linked Bond Principles administered by the ICMA.

The engagement with Pfleiderer took place in February and March 2021.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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