

# Far Eastern New Century Corporation

## Sustainability-Linked Bond Framework (2022)



July 21<sup>st</sup>, 2022



## Company Background

Far Eastern New Century Corporation (“FENC”, “the Company”, “we”, “us”, “our”) has won world recognitions for its circular economy model. Through research, development and innovation, we infuse new life into waste PET bottles, hence reducing GHG emissions and waste in the environment; protecting land and marine habitats. It has not only been witnessed by the Sustainable Products Division from Directorate-General for the Environment of the European Commission and International Resource Panel at the United Nations Environmental Programme, but also been selected as one of the case studies for the side events during COP 25, which have enhanced Taiwan’s reputation in the international community.

To foster growth into the next stage, FENC formulate the development strategies that allow us to respond to rapid changes with agility and identified the 6 influential trends: “ Industry 4.0 , digital revolution, energy, environmental sustainability, transparency and traceability, protectionism” to follow with a keen focus on transition. Furthermore, FENC is devoted to link the said 6 influential trends into United Nation’s Sustainable Development Goal (SDGs), by connecting the group’s core business to echo these SDGs like: SDG1 (No Poverty), SDG3 (Good Health and Well-being), SDG4 (Quality Education), SDG6 (Clean Water and Sanitation), SDG7 (Affordable and Clean Energy), SDG8 (Decent Work and Economic Growth), SDG9 (Industry, Innovation and Infrastructure), SDG10 (Reduced Inequalities), SDG11 (Sustainable Cities and Communities), SDG12 (Responsible Consumption and Production), and SDG13 (Climate Action) etc.

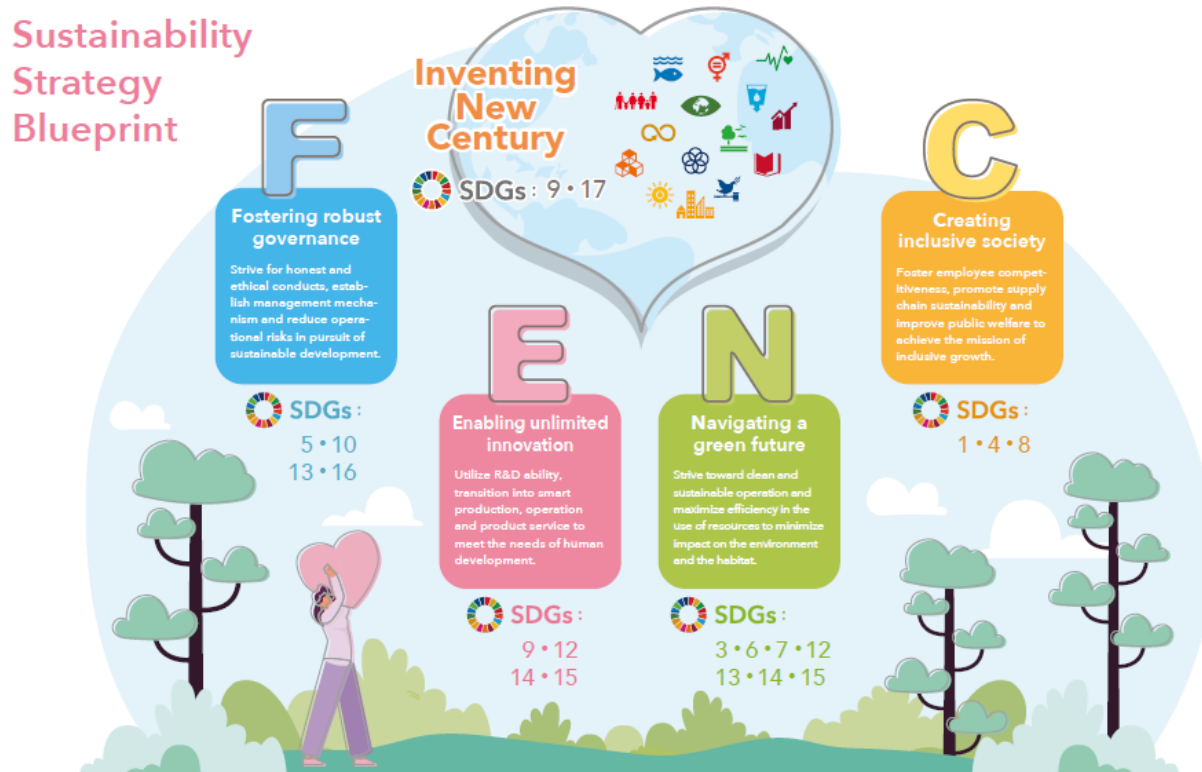
Based on six influential trends, FENC has already issued three types of sustainable bonds up till 2021 to support the needs of sustainability development, which are the first Green Bond of private enterprise in Taiwan issued in 2018, the first Sustainability Bond of enterprise in Taiwan issued in 2020, and the first Social Bond of enterprise in Taiwan issued in 2021, align FENC with the international practice and trend. Through issuing Sustainability-Linked Bond, the target and scope of action will be expanded to create a sustainable new century with society and the natural environment.



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# FENC Sustainability Strategy



## Sustainability Strategy

The following describes FENC’s sustainability strategy blueprints:

- Fostering Robust Governance
- Enabling Unlimited Innovation
- Navigating a Green Future
- Creating Inclusive Society

To decrease the impacts on environment in our commitment to navigating a green future, FENC set the related goals as below:

- Reducing energy consumption per unit production
- Reducing water withdrawal per unit production
- Reducing waste
- Reduction total air pollution
- Greenhouse gas reduction
- Increasing renewable energy use



In addition to the navigating a green future strategy mentioned as above, FENC also keeps developing related green products with innovative green DNA, and hopes to contribute to environmental benefits from the production. The relevant goals are as follows:

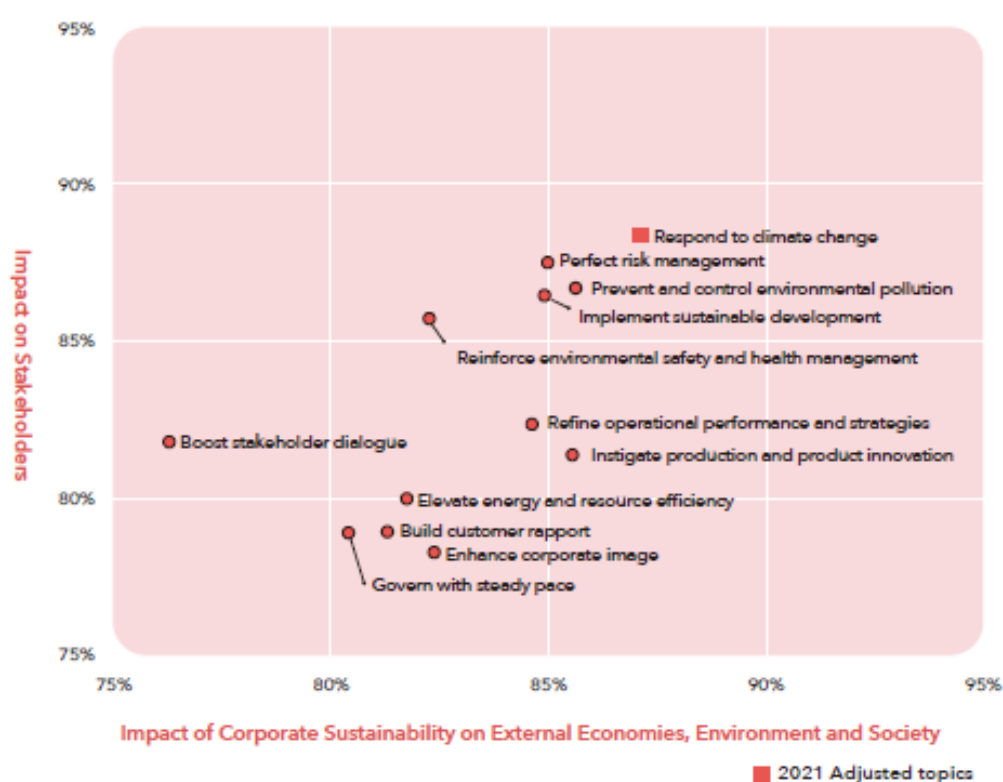
- Introducing innovative production
- Growth in green product revenue
- Growth in new product revenue
- Improving customer satisfaction



## Materiality

Each year, Sustainability Implementation Committee identifies stakeholders and material topics for FENC. A survey is administered every 3 to 4 years to collect feedbacks from external sources. The last survey was conducted in 2019, and 576 surveys were collected. The stakeholders and material topics identified are approved by high-level executives to ensure that FENC's sustainable management and the content of FENC Sustainability Report are in line with the expectations of the stakeholders.

Matrix of FENC Material Topics



There are 12 major themes identified through the analysis of the major matrix:

1. Prevent and control environmental pollution
2. Perfect risk management
3. Implement sustainable development
4. Instigate production and product innovation
5. Refine operational performance and strategies
6. Reinforce environmental safety and health management
7. Elevate energy and resource efficiency
8. Enhance corporate image
9. Build customer rapport



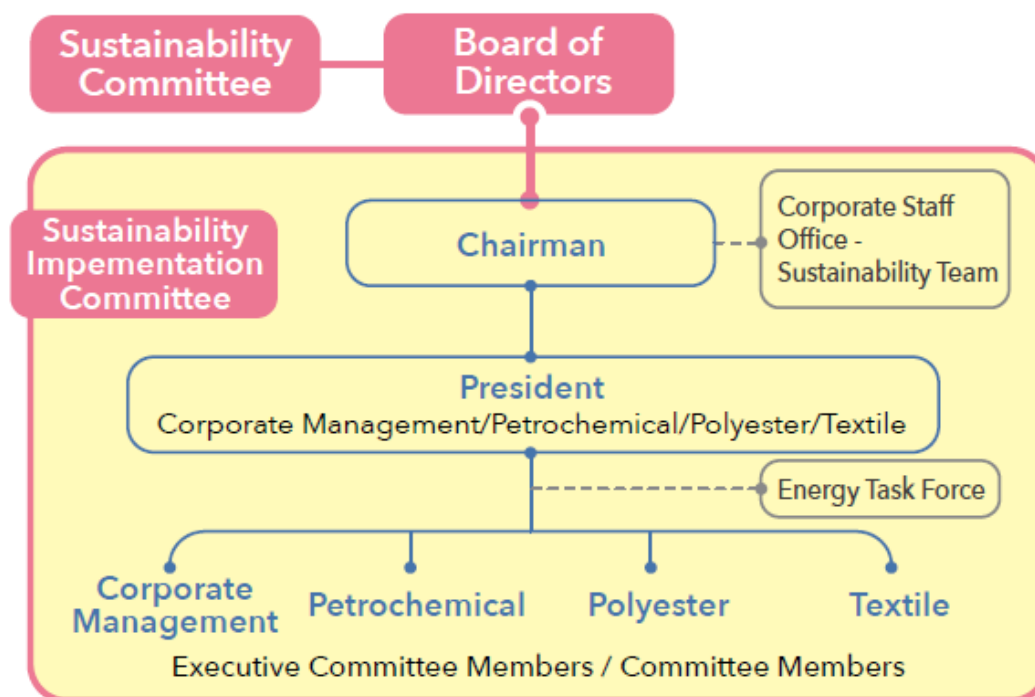
10. Govern with steady pace  
11. Boost stakeholder dialogue

12. Respond to climate  
change

The sustainability development blueprint of the FENC also echoes the analysis of major themes, and will prioritize the relevant major themes in selecting KPIs and goals related to the bond and actively respond to the sustainability development issues concerned by all stakeholders.



## Corporate Governance



In 2020, FENC demonstrated its unwavering determination to implement sustainable management by establishing Sustainability Committee and Sustainability Committee Charter. The Company also revamped the framework of sustainability organization and management policy.

At present, the Sustainability Implementation Committee is composed of 2 independent Board members and 1 external Board member directly under the board of directors, to facilitate and promote the matters related to corporate sustainability development. The Sustainability Implementation Committee consists of 220 members. The committee structure parallels the corporate structure. Among the members are Presidents and Chief Operating Officers from all Businesses, departmental managers at FENC operation sites worldwide and the 3 designated members of the Sustainability Team under Corporate Staff Office, working together to achieve FENC's sustainability development strategy and goals.

Finance Department is responsible for the issuance of this bond and the preparation of regular progress report to Chief Financial Officer with respect to the key performance indicators' selection and relevant divisions' implementation.





## Disclosure

Far Eastern New Century Corporation (“FENC”) issued its first Sustainability Report in July 2013, and beginning in 2016, the report became an annual publication issued in June. The reporting is in compliance with the Comprehensive criteria of Global Reporting Initiative (GRI) standards and has been assessed by third party verification as Type I AA1000 Assurance Standard moderate level. FENC’s Sustainability Report is made publicly available on the company’s official website

([https://csr.fenc.com/upload/csr/csr\\_20221025002.pdf](https://csr.fenc.com/upload/csr/csr_20221025002.pdf)).

## Recent Recognitions

- Constituent of MSCI ESG Leaders Index
- Constituent of FESE4Good Emerging Indexes
- Constituent of FTSE4Good TIP Taiwan ESG Index
- Constituent of TWSE CG 100 Index
- Constituent of Greater China Business Sustainability Index (GCBSI) Top 10
- Sustainalytics Top 3% of Commodity Chemicals Industry
- 《Global Views Monthly》 CSR Award – Model Award at Manufacturing Industry
- TSAA Gold Award, Bronze Award
- TCSA The Most Prestigious Sustainability Awards
  - Top 10 Domestic Corporates
  - Best Performance of Specific Categories
    - Circular Economy Leadership Award/ Growth through Innovation Leadership Award/ People Development Leadership Award
  - Sustainability Report Award – Platinum Award
- GCSA (Global Corporate Sustainability Awards)
  - World Class-Outstanding Practice
  - Special Award for Pandemic Response
  - Sustainability Reporting - Silver
- AREA (Asia Responsible Enterprise Awards)
  - Circular Economy Leadership / Investment in People/ Corporate Governance/ Corporate Sustainability Reporting





# Sustainability-Linked Bond Framework

This Framework has been established in accordance with Sustainability-Linked Bond Principles (SLBP 2020) established in June 2020, administered by the International Capital Market Association (ICMA), and Taipei Exchange Operation Directions for Sustainable Bonds (the “Operation Directions”) amended on the 8th of July, 2022, administered by the TPEX.

The following five components form the basis of the Framework in alignment with SLBP 2020:

- Selection of Key Performance Indicator (KPI)
- Calibration of Sustainability Performance Target (SPT)
- Bond Characteristic
- Reporting
- Verification

Ernst & Young will provide a Second Party Opinion on the 5 core components in this Sustainability-Linked Bond Framework mentioned as above, which will be made publicly available at Market Observation Post System (<https://mops.twse.com.tw/>)

The investments in sustainability has always been an integral part of FENC’s strategy for future success, linking our newly established bond to our critical sustainability goals. This Sustainability-linked bond (SLB) will contribute to the practice within all functions of the FENC to set-out our goals and accomplish the commitment, as well as offer an opportunity to communicate with investors and other stakeholders about our work within this area.

## Selection of KPI

The selection of KPIs reflects the sustainability development strategy and major themes of the FENC, as well as mirror the environmental challenges currently faced by the textile and fiber industry

The formulation of this framework will focus on the strategies of "navigating a green future" and "driving unlimited innovation" in FENC's Sustainability Strategy Blueprint, while also demonstrating FENC's positive commitment to the environment. FENC believes that through the development of green products and innovations in manufacturing processes, the industry can be more adapted to the era of low carbonization, and the waste and consumption of energy resources can also be avoided. FENC will also focus on the display of relevant indicators in the selection of KPIs in this framework, expecting to show positive actions and exert green influence.

- **Navigating a green future**



### **KPI 1 : Scope 1 & Scope 2 GHG Emissions**



FENC has long been committed to GHG emission reduction actions, actively promoting comprehensive GHG emission inventory and control, formulating reduction targets according to local conditions, and gradually increasing the use of renewable energy to slow down the global warming caused by GHG emissions, and actively move towards Paris Agreement goals

KPI 1 contributes to SDG12 "Responsible consumption and production" that requires to significantly reduce waste generation through prevention, reduction, recycling and reuse and SDG13 "Climate Action" to improve the ability to adapt to climate change and related management

- **Enabling Unlimited Innovation**



### **KPI 2 : Revenue Growth of Green Products**



FENC green products include two series; climate change series and eco-friendly series. The climate change series is mainly developed with the theme of replacing petroleum raw materials with recycled materials, while the eco-friendly series is based on the use of non-toxic raw materials or related process additives to reduce process pollutant emissions and reduce the impact of products on the environment.

KPI 2 contributes to SDG9 “Industry, Innovation and Infrastructure” to adopt clean and environmentally friendly technology and industrial processes, SDG12 “Responsible consumption and production” that requires to significantly reduce waste generation through prevention, reduction, recycling and reuse and SDG13 “Climate Action” to improve the ability to adapt to climate change and related management .



### **KPI 3 : Capacity Increase of rPET Capacity**

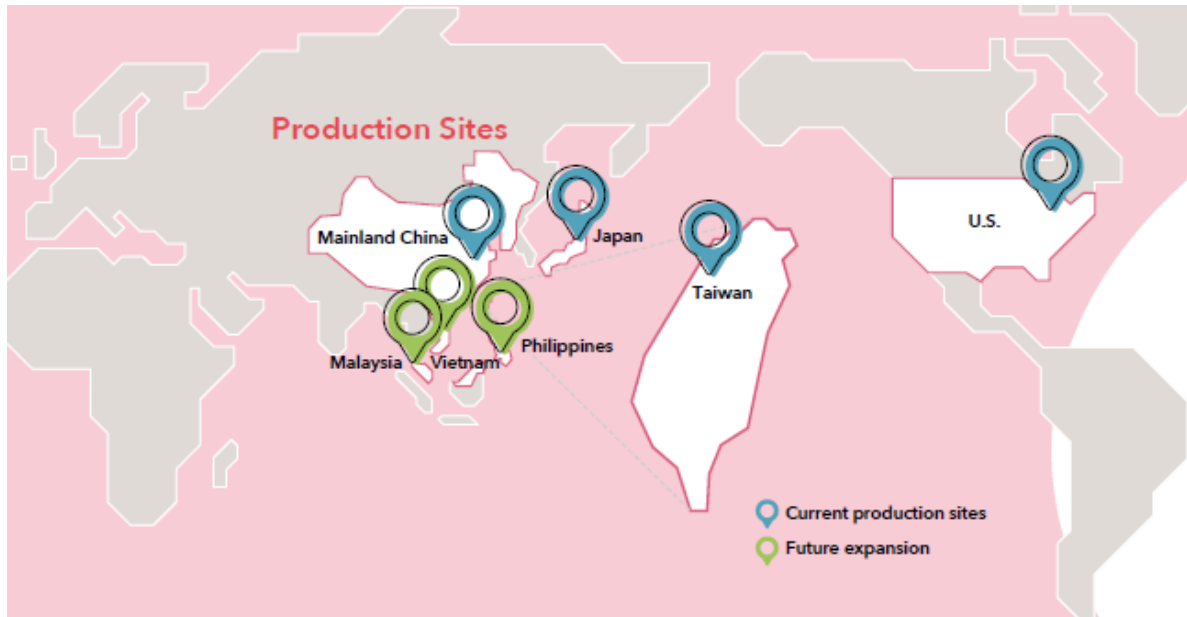


rPET is the recycling of waste PET bottles, by washing, de-labeling, heating, dissolving, and physical treatment, to reproduce into recycled polyester. Compared with virgin PET (also known as VPET), which is extracted from crude oil and undergone through a very complicated refining process, rPET, on the other hand, can reduce up to 60% of carbon emissions. The development of rPET is one of the keys to whether the food and beverage, toy, textile, shoe and other manufacturing industries can achieve carbon neutrality goals or not. FENC expects to reduce the carbon emissions of the product life cycle by increasing the production capacity of rPET.

KPI 3 contributes to SDG9 “Industry, Innovation and Infrastructure” to adopt clean and environmentally friendly technology and industrial processes, SDG12 “Responsible consumption and production” that



requires to significantly reduce waste generation through prevention, reduction, recycling and reuse and SDG13 "Climate Action" to improve the ability to adapt to climate change and related management.





## Methodology for KPI measurement

The calculation of Scope 1 and Scope 2 GHG emissions in KPI 1 includes the data of all 21 production sites mentioned in FENC's Sustainability Report, calculated mainly with ISO 14064-1:2018 methodology, including CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, PFCs, HFCs, SF<sub>6</sub> and NF<sub>3</sub>.

KPI 2 is the total revenue of two series of green products defined as below:

- (1) Climate change series: With replace (fossil fuel), recycle (and reuse) and reduce (resource consumption) as the core concept, products in this series aim to mitigate climate change.
- (2) Eco-friendly series: This series offers a wide range of products that are friendly to the environment by using non-toxic materials, catalysts and additives to reduce pollutants emitted during production and minimize negative environmental impacts

Details of green products can be referred in the official website of FENC ([link](#)). The relevant statistical scope is consistent with the production sites mentioned as P.2 of FENC's 2021 Sustainability Report ([link](#)).

The production capacity of rPET in KPI 3 includes the total production capacity of rPET in the domestic and overseas production sites in the financial year, and includes the part of external sales and self-use within FENC Group



## Calibration of SPT

- **SPT 1.1 : Reduce greenhouse gas emissions (Scope 1 + Scope 2) by 20% by the end of 2025 compared to 2020**
- **SPT 1.2 : Reduce greenhouse gas emissions (Scope 1 + Scope 2) by 40% by the end of 2030 compared to 2020**

All FENC production sites must comply with ISO 14064-1 standards as well as local regulations on GHG inventory and quantification. In addition, third-party verifications must be conducted once every 3 years.

**Benchmark:** FENC's greenhouse gas emissions (Scope 1 + Scope 2) in 2021 are 2,486 ktCO<sub>2</sub>e. If reduced by 20% based on 2020 data, it will reach 1,945.6 ktCO<sub>2</sub>e, and if reduced by 40%, it will reach 1491.6 ktCO<sub>2</sub>e. If using the science-based carbon reduction target (SBTi) of Well below 2°C (WB2C) as the standard, it requires at least 25% reduction within 10 years of the base year. The target of 40% reduction in 2030 is relatively positive compared to the 2.5% average annual minimum reduction requirement of SBTi WB2C.

**Target Vision:** The recent data of this KPI has been much lower than that of domestic peers, but FENC will take foreign benchmarks and related standards as the goal, and strive to reduce GHGs in Scope 1 and Scope 2. It has surpassed the minimum carbon reduction requirements of SBTi WB2C. In addition to expecting to achieve the goal of international initiatives as soon as possible, FENC also looks forward to establishing a model for textile and fiber industry in the country.

**Strategy to achieve:** FENC will achieve relevant goals through digital upgrade and the installation of energy-saving and carbon-reducing equipment, aiming to reduce Scope 1 GHG emissions with smart green plants, and strive to build solar power plants and use renewable energy to reduce scope 2 GHG emissions.



- **SPT 2.1 : Green product revenue to grow by 80% by the end of 2025 compared to 2015<sup>1</sup>**
- **SPT 2.2 : Green product revenue to grow by 100% by the end of 2030 compared to 2015**

FENC is a global leader in the polyester spinning fiber industry. In addition to continuing to improve and expand its existing business, it also strives to increase its long-term competitiveness, spare no effort to improve innovation and research and development, create green business opportunities with circular economy thinking, and ensure that all there is no experimental test on humans and animals in product development

**Benchmark:** FENC has been aggressively developing green products since 2015. The revenue from green products in that year was NTD 21.76 billion, and the targets are aggressively set as follows: 50% revenue growth in 2020 and 80% revenue growth in 2025, 100% revenue growth in 2030. Compared with 2015, the performance in the past three years is a 60% increase in 2019, a 50% increase in 2020, and a green product revenue of NTD 38.33 billion in 2021, an increase of 76%, exceeding the original target. Considering that FENC's green product revenue is already better than its peers and the target setting is relatively positive, it will continue to push towards the 2025 and 2030 goals.

**Target Vision:** Considering the relevant production capacity and value chain of FENC, it is not an easy goal to increase the revenue of green products by 80% in ten years, but it is possible to achieve it. FENC will actively develop and promote the sales of related green products, and take reducing the environmental impact of products as its own responsibility to achieve the cost target.

**Strategy to achieve:** FENC will develop innovative products through the following two modes to increase green product revenue:

- (1) Independent R&D units such as Far Eastern Group R&D Center (R&D Center) in Taiwan and Sharon Center in the U.S are

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<sup>1</sup> The base line selected as 2015 for this SPT is in accordance with the resolution of the FENC's Sustainability Implementation Committee, which is the year when FENC's green product portfolio was established and data began to be collected to set out the medium and long-term ambitious goals of FENC.





established to develop next-generation products. With the assistance of the production and sales units, the products are then commercialized and marketed;

- (2) Internal product development department such as IDM is established to engage in close contact and in-depth communication with customers, identify their needs and develop products accordingly.





- **SPT 3.1 : 870,000 metric tons of rPET capacity by the end of 2025**
- **SPT 3.2 : 1,500,000 metric tons of rPET capacity by the end of 2030**

FENC is the world's second largest rPET supplier, with a production capacity of more than 300,000 metric tons in 2021. Among them, the production capacity of polyester long fiber for food-grade recycling and marine recycling is the world's largest. Its main customers include global consumer brands such as food and apparel. Since 2016, the company has cooperated with brand owners on the marine recycling yarn project, and has collected more than 11,000 tons of marine waste plastics so far. FENC believes that rPET is the new green future of fiber materials, so it actively promotes related production and sets this goal as the direction of its efforts.

**Benchmark:** FENC's rPET production capacity is 214,000 metric tons in 2019, 278,000 metric tons in 2020, and 324,000 metric tons in 2021. It needs to increase by 169% to 870,000 metric tons in 2025 and 1.5 million metric tons in 2030. An increase of 363% is a positive goal that FENC must strive to achieve. It is hoped that through such a goal, it will contribute to global recycling and carbon reduction.

**Target Vision:** Comparing domestic and foreign peers, no peers can achieve the same production capacity, so it is determined that this target is relatively benchmark and will make a significant contribution to global greenhouse gas reduction

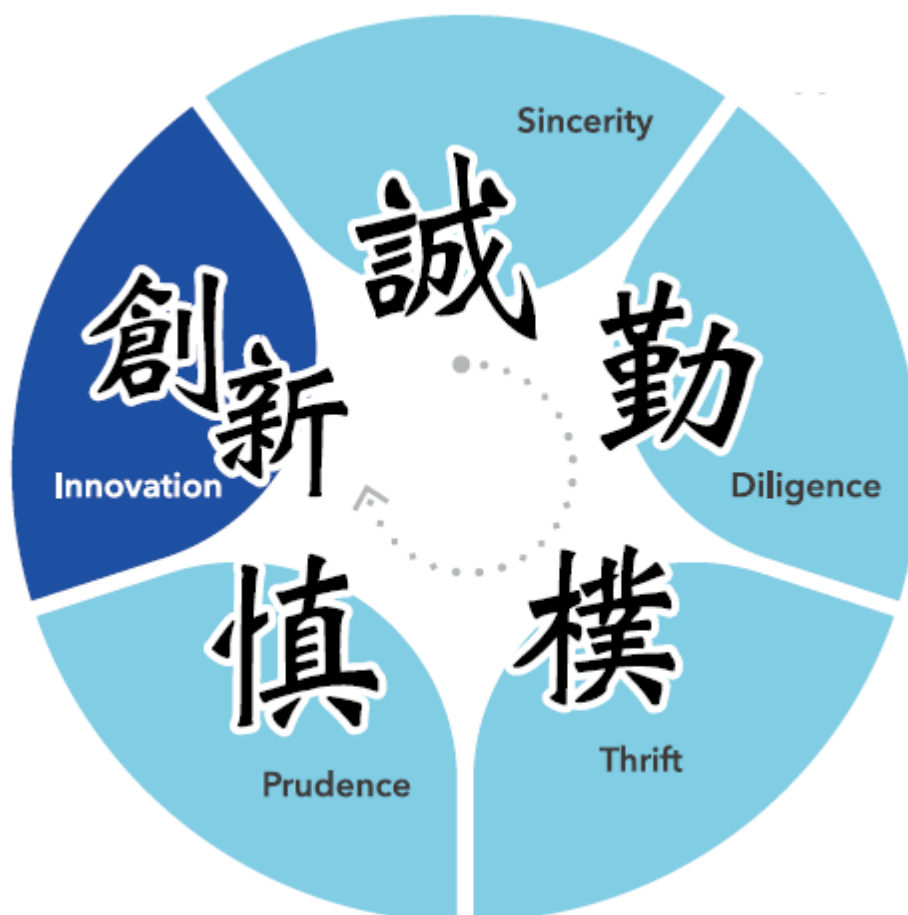
**Strategy to achieve:** FENC will gradually expand the production capacity of rPET in various production sites around the world, and cooperate with brand owners and retailers to establish recycling systems to ensure the sources of waste PET bottles. Meanwhile, FENC also considers the automatic production process in each factory, so as to avoid the production reduction caused by the shortage of manpower, and increase the rPET production capacity through the high efficiency of machinery automation



## Historical KPI Performance

KPI	Description	Unit	Base-line	2019	2020	2021
1	GHG emissions (Scope 1+2)	ktCO <sub>2</sub> e	2,432	-	2,432	2,486
2	Revenue growth of green products	NTD bn	21.76	34.75	32.77	38.38
3*	Capacity increase of rPET capacity	K metric tons	-	214	278	324

\*In 2022, the company has established that the existing 21 production sites will be the target scope of greenhouse gas reduction. However, due to the gradual expansion of the production scope in recent years, some production bases were newly established after 2020, so the data only goes back to 2020





## Bond Characteristics

The financial characteristics and the adjustment of the coupon rate resulting from the Trigger Event(s) of any bonds issued under this framework will be provided in details in their corresponding statutory documents.

The Trigger Event is the result of an observation as to whether, or not, each of the three KPIs individually has achieved their respective SPTs. An adjustment of the coupon shall be triggered if:

- any KPI has, or hasn't, achieved the SPT on the Target Observation Date, or
- the reporting does not meet the requirements as set out in the reporting section of this Framework, or
- the verification of the SPTs has not been provided and made public by the time of the Reporting End Date.

For the avoidance of doubt, if all three KPIs have achieved their respective SPTs, and reporting and verification for all the SPTs have been provided and made public in accordance with the reporting and verification sections of this Framework, the issuance rules of any security issued by FENC under this Framework shall remain unchanged.

The above detailed information will be based on the prospectus of the bond

### ◆ **Fallback mechanism**

The KPIs and SPTs set out in this framework will remain applicable throughout the tenor of any bond issued under this framework. Any new or updated Sustainability-Linked Bond Framework will only be relevant to capital market transactions after its release and will not have any impact on bonds issued under this framework. During the tenor of the bond, if FENC has major changes in the legal environment, corporate structure or sustainability development strategy, the KPIs and SPTs of this framework need to be adjusted accordingly (including but not limited to calculation methods, data availability, current and past data has been changed and corrected), there shall be a third-party verification by the external reviewer(s) and be publicly disclosed with respect to the impact of the relevant changes on the bonds



## Reporting

In order to provide investors and other stakeholders with adequate information about FENC's implementation of our sustainability strategy in general, the progress made on the KPIs, and the achievement or not of the SPTs set out in this Framework and in the security specific documentation, FENC will provide relevant reporting (SLB Progress Report).

The SLB Progress Report shall be published regarding the actual performance related to the KPIs/SPTs in the previous year on Market Observation Post System (<https://mops.twse.com.tw/>) no later than September 30<sup>th</sup> every year.

The Target Observation Date of the KPIs and SPTs listed in this framework is set out on December 31, 2025 or December 31, 2030, respectively, and Report End Date is before September 30, 2026 or September 30, 2031.

The SLB Progress Report will contain all the relevant information needed to assess if any changes to the security characteristics are to be made, including but not limited to:

- the performance of the KPIs, as per the relevant reporting period and when applicable, as per the Target Observation Date including the calculation methodology and baselines where relevant;
- if applicable, the description of changes in calculation methods or relevant benchmarks and the impact on bonds issued under this framework
- a verification report relative to the KPIs outlining the performance against the SPTs and the related impact, and timing of such impact, on the bond characteristics;
- any relevant information on any updates to FENC's sustainability strategy or governance with an impact on the KPIs and SPTs.



## Verification

In order to provide transparency to investors and other stakeholders and in alignment with the SLBP, FENC will mandate the external reviewer(s) with relevant expertise to perform the limited assurance report by ISAE 3000 standards for its actual and hereafter performance level against each SPT for each KPI. The verification shall be conducted in the limited assurance by the external reviewer(s).

The verification of the actual performance related to the SPTs shall be made public together with FENC's SLB Progress Report on Market Observation Post System (<https://mops.twse.com.tw/>) no later than September 30<sup>th</sup> every year till the Reporting End Date.

Failure to provide the ex-post verification made by external reviewer(s) before the Reporting End Date or external reviewer(s) has concern with respect to the disclosure or achievement of the SPTs in the assurance report, shall result in an occurrence of "the verification of the SPTs has not been provided and made public by the time of the Reporting End Date" as outlined in the bond characteristics section of this Framework

### ● External Review

#### **Pre-issuance: A limited assurance for SLB framework**

This framework has been reviewed by Ernst & Young (EY) who provided the limited assurance, confirming the alignment with the Sustainability-Linked Bond Principles (SLBP) administered by SLBP and ISAE 3000 standards.

#### **Post-issuance: SLB Progress Report**

The SLB Progress Report for this framework will be commissioned by Ernst & Young (EY) for limited assurance in accordance with SLBP and ISAE 3000 standards. Relevant reports are expected to be verified and disclosed annually from September 30, 2023 until the expected Target Observation Year of the selected SPTs.



**Issuer: Far Eastern New Century  
Corporation  
Chairman: Douglas Hsu**