

Second-Party Opinion

M+ Group Sustainability-Linked Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the M+ Group Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020. This assessment is based on the following:

- Selection of Key Performance Indicators** The M+ Group Sustainability-Linked Bond Framework includes two KPIs: (i) Absolute scope 1 and 2 GHG emissions (in tCO₂e), and (ii) percentage of women in management teams (see Table 1). Sustainalytics considers the KPIs chosen to be strong.
- Calibration of Sustainability Performance Targets** Sustainalytics considers the SPTs to be aligned with M+ Group’s sustainability strategy. Sustainalytics considers SPT 1 to be highly ambitious, based on past performance, peer performance and alignment with science-based trajectories. Sustainalytics considers SPT 2 to be ambitious based on past performance and peer performance.
- Bond Characteristics** Meritus Ulaganja d.d. will link the sustainability-linked bond’s financial characteristics, such as coupon adjustment, to achievement or failure to achieve the SPTs, which is aligned with the Sustainability-Linked Bond Principles 2020.
- Reporting** Meritus Ulaganja d.d. commits to report annually on its progress on the KPIs, and expects to include the relevant figures in its annual sustainability report. Meritus Ulaganja d.d. commits to disclose relevant information that may affect the KPIs and that enables investors to monitor the level of ambition of the SPTs. The reporting commitments are aligned with the Sustainability-Linked Bond Principles 2020.
- Verification** Meritus Ulaganja d.d. commits to have external limited assurance conducted against each SPT for each KPI at least once a year, which is aligned with the Sustainability-Linked Bond Principles 2020 on verification.

Evaluation Date	June 6, 2022
Issuer Location	Zagreb, Croatia

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

KPI	Baseline	SPT	Strength of KPI	Ambitiousness of SPT
Absolute scope 1 and 2 GHG emissions (in tCO ₂ e)	2021	Reduce absolute scope 1 and 2 GHG emissions by 25.2% to 2,148 tCO ₂ e in 2027, against a 2021 baseline	Strong	Highly Ambitious
Percentage of women in management teams	2022	Achieve 51% representation of women in management teams (including governance bodies) by the end of 2030, against a 2022 baseline	Strong	Ambitious

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Scope of Work and Limitations

Meritus Ulaganja d.d. has engaged Sustainalytics to review the M+ Group Sustainability-Linked Bond Framework dated June 2022 (the "Framework") and provide an opinion on its alignment with the Sustainability-Linked Bond Principles 2020 (SLBP).¹

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

As part of this engagement, Sustainalytics exchanged information with various members of M+ Group's management team to understand the sustainability impact of the M+ Group's business processes and SPTs, as well as the reporting and verification processes of aspects of the Framework. Meritus Ulaganja d.d.'s representatives have confirmed that:

- (1) They understand it is the sole responsibility of the issuer to ensure that the information provided is complete, accurate and up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any material information provided has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and M+ Group. Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated SPTs of KPIs but does not measure KPI performance.³ The measurement and reporting of the KPIs is the responsibility of the issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that M+ Group 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 benchmarks⁴ against which targets were set;
- (2) A material corporate action (such as a material M&A or change in business activity) which has a bearing on the achievement of the SPTs or the materiality of the KPIs.

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

²When 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 Sustainalytics has provided an opinion based on the understanding that the financial characteristics of instruments issued under this Framework will be tied to the achievement of SPTs corresponding to each of the KPIs included in the Framework.

⁴Benchmarks refers to science-based benchmarks.

Introduction

M+ Group (the “Group”) operates in the business process and technology outsourcing (BPTO) industry. The Group provides solutions linked to customer engagement platforms (contact centres) and customer experience services; customer relationship management services; IT solutions for customer support; and solutions related to human resources. The Group, headquartered in Zagreb, Croatia, offers services to more than 300 clients primarily across 35 locations in Europe and employs around 11,000 people.

M+ Group intends to issue a sustainability-linked bond through its parent and holding company, Meritus Ulaganja d.d. (the “Company” or the “Issuer”), tying the bond’s coupon rate adjustment to achievement of two SPTs for two selected KPIs. The selected KPIs refer to: (i) absolute scope 1 and 2 GHG emissions (in tCO₂e), and (ii) percentage of women in management teams.

M+ Group has engaged Sustainalytics to review the Framework and provide an opinion on its alignment with the SLBP.

The KPIs and SPTs used by M+ Group are defined in Tables 1 and 2 below:

Table 1: KPI Definitions

KPI	Definition
KPI 1: Absolute scope 1 and 2 GHG emissions (in tCO ₂ e)	Group-wide absolute GHG emissions (scope 1 and 2), calculated in line with the GHG Protocol Corporate Standard and measured in tonnes of carbon dioxide equivalent (tCO ₂ e). The KPI excludes GHG emissions from two smaller subsidiaries representing 1% of its employees. These subsidiaries represent an immaterial share of operations, operate remotely and are unable to provide data.
KPI 2: Percentage of women in management teams	This KPI is the headcount of women in management teams and supervisory boards at the Group level, and a broader group of management roles, divided by the total headcount of all management teams. The Group has identified five positions, which comprise management roles at the Group level: director, head, manager, supervisor and leader.

Table 2: SPTs and Past Performance

KPI	2021	2022	SPT 2027	SPT 2030	SPT
KPI 1: Absolute scope 1 and 2 GHG emissions (in tCO ₂ e)	2,871.8 (Baseline)	n/a ⁵	2,148.0	n/a ⁶	SPT 1: Reduce absolute scope 1 and 2 GHG emissions by 25.2% to 2,148 tCO ₂ e in 2027, against a 2021 baseline
KPI 2: Percentage of women in management teams	n/a ⁵	43 (Baseline) ⁷	n/a ⁶	51	SPT 2: Achieve 51% representation of women in management teams (including governance bodies) by the end of 2030, against a 2022 baseline

⁵ Not available.

⁶ Not applicable.

⁷ The 2022 baseline denotes the actual performance of M+ Group on KPI 2 as of February 2022, in order to represent the latest data after significant expansion of the Group’s business, due to acquisitions of CMC in Turkey in 2020 and Invitel in Germany in February 2022.

Sustainalytics' Opinion

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

Sustainalytics is of the opinion that the M+ Group Sustainability-Linked Bond Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2020.



Selection of Key Performance Indicators

Relevance and Materiality of KPIs

In its assessment of materiality and relevance, Sustainalytics considers: i) whether an indicator speaks to a material impact of the issuer's business on environmental or social issues, and ii) to what extent the KPI is applicable.

KPI 1: Absolute scope 1 and 2 GHG emissions (in tCO₂e)

Sustainalytics considers KPI 1 to be material and relevant based on the following:

Sustainalytics identifies Carbon - Own Operations as a material ESG issue (MEI) for the software and services industry,⁸ and considers KPI 1 to be material to the Group. The Sustainability Accounting Standards Board (SASB) identifies the environmental footprint of hardware infrastructure as a relevant issue to track and disclose for the software and IT services⁹ industry, based on the substantial amount of energy associated with IT hardware infrastructure and operations.

M+ Group has 34 operating subsidiaries¹⁰ in 12 countries serving 58 markets globally, making the reduction of GHG emissions relevant for the Group and its stakeholders. In this context, reducing GHG emissions is a key strategic pillar in M+ Group's commitment to meet the Paris Climate Agreement. Therefore, Sustainalytics considers the KPI to be relevant to M+ Group.

In terms of applicability, KPI 1 covers the Group's scope 1 and 2 GHG emissions, which accounted for 2,871.2 tCO₂e in the baseline year (FY2021), with scope 2 accounting for a majority (2,476 tCO₂e). With regard to scope 3 GHG emissions, M+ Group has only measured emissions from category 6 within scope 3 (business travel), which amounted to 83 tCO₂e in FY2021. Considering the absence of relevant scope 3 GHG emissions, Sustainalytics estimates, based on industry research, that M+ Group's scope 1 and 2 GHG emissions are likely to be in the range of 30-50% of the total GHG emissions.

The KPI excludes GHG emissions from two of its smaller subsidiaries, representing 1% of the Group's employees, as these subsidiaries represent an immaterial share of operations, operate remotely and are unable to provide data. In addition, M+ Group has disclosed that KPI 1 does not include currently Invitel's operations due to its M&A with the Group in February 2022. Sustainalytics notes that the Group will include Invitel's GHG emissions in its reporting boundary from 2023 onwards. On this basis, Sustainalytics considers the KPI to have a high scope of applicability.

KPI 2: Percentage of women in management teams

Sustainalytics considers KPI 2 to be material and relevant based on the following:

⁸ Sustainalytics MEI - Carbon - Own Operations refers to a company's management of risks related to its own operational energy use and GHG emissions (scope 1 and 2).

⁹ SASB, "Software & IT Services Sustainability Accounting Standard" (2018), at: https://www.sasb.org/wp-content/uploads/2018/11/Software_IT_Services_Standard_2018.pdf

¹⁰ In April 2022, M+ Group acquired two new companies, each employing fewer than 50 people. These two acquisitions are not included in the boundary of the KPIs as they were occurred in April 2022 and do not represent a material share of the business.

Sustainalytics considers Human Capital as a highly material ESG issue (MEI) for the software and services industry.¹¹ Moreover, the Sustainability Accounting and Standards Board (SASB) identifies Human Capital and the sub-topic of employee engagement, diversity and inclusion, as a relevant issue for the software and IT services industry.¹²

In its materiality assessment in 2020, M+ Group identifies employee equality and diversity as a material topic and, hence, categorizes it as a “high priority” issue, on the scale of medium, high and very high priority categories.¹³ Moreover, gender equality and diversity are among M+ Group’s strategic priorities linked to the social aspect of the Group’s overall sustainable development.¹⁴

In terms of applicability, KPI 2 accounts for approximately 8% of all M+ Group employees (2022). Nevertheless, Sustainalytics considers that increasing the percentage of women in these management roles would have positive impacts across all Group operations and assesses this KPI to be highly applicable in scope.

KPI Characteristics

In its assessment of the KPI’s characteristics, Sustainalytics considers: i) whether it uses a clear and consistent methodology; ii) whether it follows an externally recognized definition; iii) whether the KPI is a direct measure of the issuer’s performance on the material environmental or social issue; and iv) if applicable, whether the methodology can be benchmarked against an external contextual benchmark.¹⁵

KPI 1: Absolute scope 1 and 2 GHG emissions (in tCO₂e)

Sustainalytics considers M+ Group’s definition and methodology to calculate the performance of KPI 1 to be clear and consistent with the baseline year 2021. The Group follows the GHG Protocol Corporate Accounting and Reporting Standard for calculating and reporting scope 1 and 2 GHG emissions.¹⁶ This approach is considered an industry standard and supports benchmarking against external emission reduction trajectories such as those developed by the Science Based Target initiative (SBTi).

Sustainalytics considers KPI 1 to be directly linked to the climate performance of the Group regarding its material environmental impact, as it measures scope 1 and 2 GHG emissions in absolute terms.

KPI 2: Percentage of women in management teams

Sustainalytics considers M+ Group’s definition and methodology to calculate the performance of KPI 2 to be clear and consistent based on the ease of calculation and replicability. Sustainalytics notes that the KPI measures the share of women in the management team, which broadly comprises director, head, manager, supervisor and leader roles in the Group. In addition, Sustainalytics considers KPI 2 to be directly linked to the Group’s performance on human capital regarding material social impact. Sustainalytics notes that M+ Group does not follow an externally defined methodology to calculate the performance of KPI 2.

Sustainalytics further notes that while there are no applicable external recognized benchmarks for this KPI, it enables comparability across various industry players.

Overall Assessment

Sustainalytics considers KPI 1, absolute scope 1 and 2 GHG emissions (in tCO₂e), to be strong given that: (i) it is a direct measure of the Group’s climate performance and speaks to a material ESG issue; (ii) it has a high scope of applicability; (iii) it follows a clear and consistent methodology with an external reference; and (iv) it is comparable with external contextual benchmarks.

Sustainalytics considers KPI 2, percentage of women in management teams, to be strong given that: (i) it is a direct measure of the Group’s ESG performance on a highly material ESG issue; (ii) it has a high scope of applicability; (iii) it follows a clear and consistent methodology; and (iv) it is non-benchmarkable in the absence of a benchmark.

¹¹ Sustainalytics MEI - Human Capital refers to a company’s management of risks related to scarcity of skilled labour as well as labour relations, such as non-discrimination, working hours and minimum wages.

¹² SASB, “Software and IT Services Sustainability Accounting Standard” (2018), at: [https://www.sasb.org/standards/materiality-finder/find/?industry\[\]=TC-SI&lang=en-us](https://www.sasb.org/standards/materiality-finder/find/?industry[]=TC-SI&lang=en-us)

¹³ M+ Group, “Sustainability Report” (2020), at: <https://mplusgrupa.com/event/meritus-ulaganja-d-d-sustainability-report-for-2020-year/?msclkid=6f6ede24cf9011ec8e4ded38eec2f84>

¹⁴ Ibid.

¹⁵ External contextual benchmarks provide guidance on alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

¹⁶ The Greenhouse Gas Protocol, “Corporate Standard” at: <https://ghgprotocol.org/corporate-standard>

KPI(s)	Strength of KPI(s)			
	Not Aligned	Adequate	Strong	Very strong
KPI 1: Absolute scope 1 and 2 GHG emissions (in tCO₂e)	Not Aligned	Adequate	Strong	Very strong
KPI 2: Percentage of women in management teams	Not Aligned	Adequate	Strong	Very strong



Calibration of Sustainability Performance Targets

M+ Group has set the following SPTs for its KPIs:

- SPT 1: Reduce absolute scope 1 and 2 GHG emissions by 25.2% to 2,148 tCO₂e in 2027, against a 2021 baseline.
- SPT 2: Achieve 51% representation of women in management teams (including governance bodies) by the end of 2030, against a 2022 baseline.

Alignment with M+ Group’s Sustainability Strategy

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

- Regarding SPT 1, M+ Group has identified three fundamental commitments under its environment pillar, each supported by a plan of action, including: (i) environmental management, (ii) technologies, activities and processes with less waste production and energy savings, and (iii) training and awareness. These form a crucial part to achieve M+ Group’s overarching commitment to meet the Paris Agreement.
- Regarding SPT 2, M+ Group’s Diversity Policy stipulates standards for ensuring diversity by gender, age, educational background, skills and others, which is expected to improve the process and quality of decision-making within the Group, especially regarding female representation on the Management and Supervisory Board. The Group has identified gender equality and diversity as among the Group’s strategic priorities under the human capital pillar of its sustainability strategy. In addition to SPT 2, the Group has set a target to achieve 33% female representation within its management board and 29% female representation within its supervisory board by 2024, fostering a more balanced gender representation within its management teams.^{17,18} Moreover, M+ Group has developed a diversity policy focusing on female representation on the management and supervisory boards.¹⁹

Strategy to Achieve the SPTs

SPT 1: Reduce absolute scope 1 and 2 GHG emissions by 25.2% to 2,148 tCO₂e in 2027, against a 2021 baseline

M+ Group intends to achieve SPT 1 through the following strategy:

- M+ Group aims to reduce its scope 1 GHG emissions by installing solar panels, wherever feasible and transitioning its car fleet to electric vehicles by 2027, including hybrids in the interim period. In the baseline year 2021, the carbon footprint of M+ Group’s car fleet was 249.1 tCO₂e. The Group plans to educate its employees and raise awareness on public transportation, car sharing and options other than driving from 2022 onwards.
- M+ Group aims to reduce its scope 2 GHG emissions by gradually switching to renewable energy, through the procurement of bundled or unbundled Guarantee of Origin certificates or Power Purchasing Agreements. M+ Group has communicated to Sustainalytics that it is in the process of developing its sustainability strategies and targets.
- The Group aims to implement smart solutions for energy-saving initiatives, such as sensor lights and LED lightning from 2022 onwards.

¹⁷ M+ Group, “Sustainability Report” (2020), at: <https://mplusgrupa.com/event/meritus-ulaganja-d-d-sustainability-report-for-2020-year/?msclid=6f6ede24cf9011ec8e4ded38eec2f84>

¹⁸ In comparison to SPT 2, this target is set in line with the Croatian Stock Exchange Corporate Codex which requires listed companies to integrate rules on female representation on their boards and refers to the female representation in the Company’s management board and supervisory board only. SPT 2 involves a broader group of management roles in addition.

¹⁹ Ibid.

- From 2022 onwards, M+ Group plans to train its employees on energy efficiency and reduced energy consumption. Some of the initiatives include acquiring energy-efficient HVAC systems, regular maintenance and switching to automated solutions, such as, thermostats. In order to achieve maximum energy efficiency, the Group intends to explore options with its office landlords for building renovations. This includes initiatives to avoid leaks and improve building insulation.
- M+ Group aims to rent office spaces in green buildings that meet energy efficiency standards, as prescribed in LEED or BREEAM. Furthermore, the Group plans to use equipment with a high energy rating and maintain and repair its electronic equipment in a timely manner to avoid having to make replacements.

SPT 2: Achieve 51% representation of women in management teams (including governance bodies) by the end of 2030, against a 2022 baseline

M+ Group intends to achieve SPT 2 through the following strategy:

- M+ Group is committed to implementing more diversity and inclusion policies and practices at the Group level, raising awareness among and training its employees, and empowering women, in particular, to apply for managerial positions (especially at the top management level) through relevant approaches and initiatives. One approach is to encourage women to apply for management roles by improving work-life balance. This could help to encourage women who are mothers to consider managerial positions by assuring them that the Group will support them in balancing their private and professional roles.
- Through its HR practices, M+ Group will place a special focus on its recruitment process to ensure the implementation of policies, programmes and measures related to gender balance, such as bridging the gender pay gap. However, the Group will avoid positive discrimination.
- M+ Group has established a diversity policy to ensure diverse governance bodies. The policy includes necessary standards that ensure, among other factors, gender diversity, and may help improve the process and quality of decision-making within the Group.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers: i) whether the SPTs go beyond a business-as-usual trajectory, ii) how the SPTs compare to targets set by peers, and iii) how the SPTs compare with science.²⁰

SPT 1: Reduce absolute scope 1 and 2 GHG emissions by 25.2% to 2,148 tCO₂e in 2027, against a 2021 baseline

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

M+ Group has set 2021 as the baseline for SPT 1 to reflect the latest data available, which incorporates more than 95% of the Group's recent business expansion.

In terms of past performance, sufficient historical data on GHG emissions is not available, as the Group only began accounting fully for its GHG emissions from 2021 onwards. Sustainalytics notes that the Group has GHG emissions data for 2020; however, this data is not as detailed as 2021 in coverage. Sustainalytics, therefore, has not considered this data to assess past performance. While noting the lack of historical data on the performance against the SPT to provide an accurate assessment, Sustainalytics compared the SPT against the baseline year. Furthermore, Sustainalytics notes that the achievement of SPT 1 represents an average annual reduction in absolute scope 1 and 2 GHG emissions of 4.2% between the baseline year, 2021, and 2027. This reduction represents a continuous and significant improvement.

In addition, based on a comparative assessment of 10 peer companies in the industry, two peers have set targets that are lower compared to SPT 1. The remaining companies have not publicly disclosed quantitative targets for GHG emissions reduction. Sustainalytics, therefore, considers the SPTs to be above their peers' targets.

For comparison with recognized decarbonization trajectories, Sustainalytics notes that the SPT is aligned with the SBTi's 1.5°C scenario using an Absolute Contraction Approach.²¹ This model requires a minimum GHG

²⁰ We refer here to contextual benchmarks that indicate the alignment of targets with ecosystem boundaries.

²¹ The absolute contraction approach is a method for companies to set emissions reduction targets that are aligned with the global, annual emissions reduction rate that is required to meet the 1.5°C or well-below 2°C targets.

emissions reduction rate of 4.2% annually in absolute terms.²² M+ Group’s SPT is aligned with this minimum reduction rate.

SPT 2: Achieve 51% representation of women in management teams (including governance bodies) by the end of 2030, against a 2022 baseline

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

M+ Group has set 2022 as the baseline for SPT 2 to reflect the latest data available in the context of the Group’s expansion both in 2020 and 2022 due to M&A. Hence, considering significant fluctuations in headcount within the last few years, M+ Group has confirmed to Sustainalytics that the 2022 baseline indicates the actual performance as of February 2022.

Due to the lack of historical data and reporting, past performance against the SPT cannot be accurately measured. However, the SPT represents a continuous and significant improvement linked to the Group’s human capital performance, implying an annual average increase of 2%. Thus, Sustainalytics notes that it represents a continuous improvement.

In addition, based on a comparative assessment against 10 peer companies in the industry, there is only one peer with more ambitious targets, while M+ Group remains above most of its peers’ targets.

Overall Assessment

Sustainalytics considers the SPTs to align with M+ Group’s sustainability strategy and considers SPT 1 to be highly ambitious given that: (i) it represents a continuous and significant improvement; (ii) it is above peers’ targets; and (iii) it is aligned with the SBTi’s 1.5°C scenario.

Sustainalytics considers M+ Group’s SPT 2 to be ambitious given that: (i) it represents a continuous and significant improvement; and (ii) it is above peers’ targets.

SPT(s)	Ambitiousness of SPT(s)			
SP1: Reduce absolute scope 1 and 2 GHG emissions by 25.2% to 2,148 tCO ₂ e in 2027, against a 2021 baseline	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
SP2: Achieve 51% representation of women in management teams (including governance bodies) by the end of 2030, against a 2022 baseline	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious



Bond Characteristics

M+ Group has disclosed that the financial characteristic of the sustainability-linked bond issued under the Framework will be linked to the achievement of all SPTs defined in the Framework. The financial characteristics may include a coupon adjustment in the form of a step-up in the coupon rate on failure to achieve the SPTs. The details of the coupon adjustment will be specified in the bond prospectus. Sustainalytics notes that the relevant characteristics of the sustainability-linked bond are aligned with the SLBP.



Reporting

M+ Group commits to report annually on its progress on the KPIs, and expects to include the relevant figures in its annual sustainability report, which is aligned with the SLBP. M+ Group also commits to disclose relevant information enabling investors to monitor the level of ambition of the SPTs and if there are material changes to the KPIs’ performance, which may include: (i) information on the performance of the selected KPIs, including the baseline where relevant; (ii) a verification assurance report on the KPIs’ performance and the related impact, including the timing of such impact, on a security financial performance; (iii) qualitative or quantitative explanation

²² SBTi, “SBTi Corporate Manual, Version 2.0” (2021), at: <https://sciencebasedtargets.org/resources/files/SBTi-Corporate-Manual.pdf>

of the contribution of the main factors, including Merger and Acquisition activities, impacting the KPIs; and (iv) reassessments of KPIs and/or restatement of the SPTs and/or pro-forma adjustments of baselines or the scope of the KPIs.



Verification

M+ Group commits to have an external verifier provide limited assurance against each SPT for each KPI at least once a year, which is aligned with the SLBP on verification.

Section 2: Assessment of M+ Group's Sustainability Strategy

Credibility of M+ Group's sustainability strategy

In line with its mission, "contributing to a cleaner environment and reducing its carbon footprint", M+ Group has demonstrated a commitment to integrating sustainability considerations through its operations under the following four pillars: (i) environment, (ii) human capital, (iii) corporate governance, and (iv) communities. As part of its environment pillar, M+ Group formulated an environmental and community impact risks policy in 2020 which outlines principles to reduce and manage risks related to negative environmental impacts and to incorporate measures including a rational use of energy.

A materiality assessment was carried out in 2020 along with a stakeholder survey to help identify and prioritize all material issues relevant to the Group. M+ Group aims to decarbonize its supply chain by promoting responsible and green procurement. M+ Group is in the process of exploring options to provide sustainable outsourcing services along with improving the health and safety of its employees. Under its human capital pillar, M+ Group fosters equal opportunity and diversity through the promotion of gender equality within the Group. The Group's diversity policy sets out standards for promoting diversity of gender, age, educational background and skills, among other factors, to improve the process and quality of decision-making within the Group. In 2020, women comprised 60% of the total workforce and 55% of new hires. Moreover, M+ Group's diversity policy focuses on female representation on the Management and Supervisory Board. The Group has set an interim target of 33% and 29% female representation on the Management and Supervisory Boards, respectively, by 2024. Under its corporate governance pillar, M+ Group has adopted a governance code in order to ensure responsible management, business supervision and protection of all investors and stakeholders. Furthermore, the code mandates that the Supervisory Board and the Management Board should include the potential impact of the Group's activities on the environment in their strategies.^{23, 24}

M+ Group started sustainability reporting in 2021 based on international standards, such as the principles of the UN Global Compact, SDGs and GRI reporting standards.²⁵ Furthermore, M+ Group has communicated to Sustainalytics that as part of its sustainability strategy, it intends to set a medium-term target to reduce its absolute scope 1 and 2 GHG emissions by 58.8% in 2035, against a 2021 baseline. While Sustainalytics recognizes the sustainability-focused efforts of M+ Group, Sustainalytics encourages M+ Group to establish gender pay gap-related policies, initiatives and targets and to set short and long-term GHG emission reduction targets. Sustainalytics is of the opinion that the Framework is aligned with M+Group's overall sustainability initiatives and will further the Group's action on its key environmental and social priorities.

M+ Group's environmental and social risk management

Sustainalytics recognizes that while M+ Group's defined targets are impactful, achieving the SPTs bears environmental and social risks related to Human Capital,²⁶ Data Privacy and Security²⁷ and Business Ethics.²⁸

²³ M+ Grupa, "Code of Corporate Governance" (2020), at: <https://mplusgrupa.com/wp-content/uploads/2020/10/Meritus-ulaganja-d.d.-Code-of-Corporate-Governance.pdf>

²⁴ M+ Grupa, "Sustainability Report 2020" (2021), at: <https://eho.zse.hr/fileadmin/issuers/MRUL/COI-MRUL-75ac57c3cfd809c102f5bbfc8055e04c.pdf?fbclid=IwAR0YQU3XMRg779-FnPWIMW6Ew4r7nOgg6hqP7clSscYZjCtui94FGvykYw>

²⁵ Ibid.

²⁶ Sustainalytics' material ESG issue Human Capital focuses on the management of risks related to scarcity of skilled labour as well as labour relations, such as non-discrimination, working hours and minimum wages.

²⁷ Sustainalytics' material ESG issue Data Privacy and Security focuses on data governance practices, including how companies collect, use, manage and protect data.

²⁸ Sustainalytics' material ESG issue Business Ethics focuses on the management of ethical considerations applicable to most or all sectors, such as taxation and accounting, anti-competitive practices and intellectual property issues.

Sustainalytics comments below on M+ Group's ability to mitigate such potential risks.²⁹

- Human Capital:** The Group's "policy on the protection of human rights and the rights of workers" includes prohibiting forced labour and ensuring compliance with applicable laws on work hours and remuneration. The policy also prescribes promoting diversity through fair hiring, salary and promotion, and through prohibition of any form of discrimination, unfair treatment, harassment, abuse, disparaging and inappropriate behaviour. The Group's "code of ethics policy" ensures that its employees comply with the Group's ethical rules and labour laws, stakeholders adopt the Group's ethical rules, and human rights and dignity are respected. The Group sets out company-level training and education plans specific to the country or region of operation on personal performance at the individual employee level with the aim of helping to achieve the Group's business goals. These training and education plans include: initiatives to train employees on necessary applications; familiarizing them with service offerings; soft skills training; General Data Protection Regulation (GDPR) and ISO standards-related education; new services and procedures; supervisor coaching; and safety at work. In addition, the Group provides various benefits to full-time employees, such as healthcare, disability and invalidity coverage, parental leave, retirement plan, etc.
- Data Privacy and Security:** M+ Group's risk management of data privacy and security is governed mainly by its "privileged information management policy" and "ordinance on the protection of personal data and business secrets". These govern the management and handling of privileged and price-sensitive corporate information pertaining to the Group's business operations and public disclosure and communication to third parties, and the latter governs measures and procedures for protecting business secrets and personal data, in line with the EU's General Data Protection Regulation³⁰ and other applicable laws. The Group's Quality and Information Management System is expected to ensure the quality and security of its operations. One of the Group's companies, Meritus Plus d.o.o., has adopted a security of information and communication system policy to protect its information and communication systems, and similar policies have been adopted by the Group's other subsidiaries. The Group has been certified to ISO 27001:2013, an Information Security Management System that covers its operations in Croatia, Hungary, Serbia, Slovenia and Turkey.
- Business Ethics:** M+ Group has established policies and rules to ensure prevention and management of business ethics-related risks. The Group's "ordinance on the procedure for reporting irregularities" outlines mechanisms for reporting irregularities and ensuring whistleblower protection. The Group's "corporate governance code" outlines standards of corporate management and transparency, responsible management and supervision of business and management functions for the protection of investors and other stakeholders. M+ Group's "rules of conduct" guides ethical decision making and responsible business conduct. The Group's "policy on the prevention and sanctioning bribery and corruption" creates mechanisms to identify and prevent potential cases of corruption.

In addition to the above, Sustainalytics has found no evidence of major environmental or social controversies related to M+ Group. Sustainalytics encourages M+ Group to disclose and implement policies, programmes and measures related to addressing the gender pay gap. Overall, Sustainalytics considers M+ Group's management programmes and policies to be strong and expects the Group to be able to mitigate the risks mentioned above.

Section 3: Impact of the SPTs

Role of BPTOs in achieving climate action goals

Sustainalytics notes that M+ Group operates predominantly in the BPTO sector, focused on software and IT services, a subset of the information and communications technology ("ICT") industry. As per the UNEP Emissions Gap Report 2021, global GHG emissions need to decline by 7.5% each year between 2020 and 2030 to meet the goals of the Paris Agreement.³¹ The IEA estimates that total CO₂ emissions would need to fall by 45% compared to 2010 levels by 2030 to achieve net zero emissions by 2050, signaling the need for accelerated action in all sectors and industries.³² In order to reach the Paris Agreement's goals, businesses need to commit to significantly reducing their emissions. In particular, the International Telecommunication Union has highlighted that a 45% GHG emissions reduction between 2020 and 2030 by the ICT sector is needed to align with the Paris Climate Agreement's goals.³³

²⁹ M+ Grupa, "Sustainability Report 2020", (2021), at: <https://eho.zse.hr/fileadmin/issuers/MRUL/COI-MRUL-75ac57c3cfd809c102f5bbfc8055e04c.pdf?fbclid=IwAR0YQU3XMRg779-FnPWIMW6Ew4r7nOgg6hqP7clSscYZjCtui94FGvykYw>

³⁰ Regulation (EU) 2016/679, "General Data Protection Regulation", at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R0679>

³¹ UNEP, "Emissions Gap Report", (2021), at: <https://www.unep.org/resources/emissions-gap-report-2021>

³² IEA, "Achieving Net-Zero Emissions by 2050", at: <https://www.iea.org/reports/world-energy-outlook-2020/achieving-net-zero-emissions-by-2050>

³³ ITU, "ICT industry to reduce greenhouse gas emissions by 45 per cent by 2030", (2020), at: <https://www.itu.int/en/mediacentre/Pages/PR04-2020-ICT-industry-to-reduce-greenhouse-gas-emissions-by-45-percent-by-2030.aspx>

Over the past decade, digital services have been on the rise and are expected to continue their significant growth, with global internet traffic expected to double by 2022 from 2020 levels to 4.2 zettabytes per year.³⁴ According to the SBTi, from 2020 to 2030, the two key elements of the main strategy to decarbonize the ICT sector at the pace necessary to align with a 1.5°C trajectory includes: (i) continued implementation of energy efficiency plans; and (ii) a switch to renewable or low-carbon electricity supply.³⁵ Moreover, the ICT sector's carbon footprint could be reduced by over 80% if all electricity consumed is derived from renewable energy sources.³⁶

Sustainalytics is of the opinion that M+ Group's focus on and efforts to reduce scope 1 and 2 emissions will positively contribute to reducing the carbon footprint of the software and IT services industry and support the ambitions of the Paris Agreement.

Importance of gender equality, diversity and inclusion in senior management

Gender diversity in leadership roles has yet to be widespread, despite women entering the workforce in increasing numbers.³⁷ The proportion of women in managerial decision-making positions remained relatively constant at 28% between 1995 and 2019. According to Deloitte, the global average of women on boards in 2021 was 19.7%, an increase of just 2.8 percentage points from 2019.³⁸ Furthermore, the proportion of women in the technology sector is lower than that of women in the overall workforce.³⁹ Ensuring the full development and appropriate deployment of half of the world's total talent pool has a vast bearing on the growth, competitiveness and future-readiness of economies and businesses worldwide.⁴⁰

In both developing and developed economies, companies with more diversity in their leadership teams report greater returns in innovation and earnings.⁴¹ Investing in programmes that advance income-generating activities for women can return USD 7 on every dollar spent.⁴² Moreover, companies that achieve gender diversity in leadership can potentially exceed less diverse companies in terms of higher operating margin, higher return on sales, higher earnings per share and making better business decisions.⁴³ Recent research indicates that appointing women in senior leadership positions can help bridge the gender gap by mitigating the gender stereotype.⁴⁴ Increasing women's participation in senior management has shown to have a positive cascading effect that empowers subordinates and other women; facilitate better management of conflicts; and improves decision making and performance.⁴⁵

Sustainalytics is of the opinion that M+ Group's goal of achieving 51% percent of women in management teams (including governance bodies) is expected to help promote gender diversity in the Group's workforce and more broadly in the ICT sector in Europe.

Alignment with/contribution to SDGs

The Sustainable Development Goals were adopted by the United Nations General Assembly in September 2015 and form part of an agenda for achieving sustainable development by 2030. The sustainability-linked bond issued under the Framework is expected to help advance the following SDGs and targets:

³⁴ IEA, "Tracking Data Centres and Data Transmission Networks 2020", (2020), at: <https://www.iea.org/reports/tracking-data-centres-and-data-transmission-networks-2020>

³⁵ SBTi, "Guidance for ICT Companies Setting Science Based Target" (2020), at: https://sciencebasedtargets.org/resources/legacy/2020/04/GSMA_IP_SBT-report_WEB-SINGLE.pdf

³⁶ Ericsson, "A quick guide to your digital carbon footprint", (2020), at: <https://www.ericsson.com/en/reports-and-papers/industry/industry-lab/reports/a-quick-guide-to-your-digital-carbon-footprint>

³⁷ Fyle, D., (2020), "Diversity wins- how inclusion matters", McKinsey & Company, at: <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

³⁸ Deloitte, "Women in Boardroom a Global Perspective", (2022), at: <https://www2.deloitte.com/global/en/pages/risk/articles/women-in-the-boardroom-a-global-perspective-seventh-edition.html>

³⁹ Deloitte, "Women in the tech industry: Gaining ground, but facing new headwinds", (2021), at: <https://www2.deloitte.com/xe/en/insights/industry/technology/technology-media-and-telecom-predictions/2022/statistics-show-women-in-technology-are-facing-new-headwinds.html>

⁴⁰ World Economic Forum, "Gender Gap Report", (2021), accessed on September 2, 2021, at: http://www3.weforum.org/docs/WEF_GGGR_2021.pdf

⁴¹ Boston Consulting Group, "How Diverse Leadership Teams Boost Innovation", (2018), at: <https://www.bcg.com/en-us/publications/2018/how-diverse-leadership-teams-boost-innovation>

⁴² UNDP, "Financing solutions for SDG 5", at: <https://www.sdfinance.undp.org/content/sdfinance/en/home/sdg/goal-5-gender-equality.html>

⁴³ World Economic Forum, "How gender diversity at the top can boost the bottom line - and improve the world", at: <https://www.weforum.org/agenda/2019/04/gender-diversity-makes-great-business-sense/>

⁴⁴ Lawson, A. et al. (2022), "Hiring Women into Senior Leadership Positions is Associated with a Reduction in Gender Stereotypes in Organizational Language", The Proceedings of the National Academy of Sciences (PNAS), at: <https://www.pnas.org/doi/10.1073/pnas.2026443119>

⁴⁵ Ibid.

KPI	SDG	SDG Target
Absolute scope 1 and 2 GHG emissions	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Percentage of women in management teams	5. Gender Equality	5.5 Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life

Conclusion

Meritus Ulaganja d.d. has developed the M+ Group Sustainability-Linked Bond Framework, under which it intends to issue a sustainability-linked bond tying financial characteristics such as coupon adjustment, margin adjustment or premium payment to the achievement of the following SPTs:

- (1) To reduce absolute scope 1 and 2 GHG emissions by 25.2% to 2,148 tCO₂e in 2027, against a 2021 baseline.
- (2) To achieve 51% representation of women in management teams (including governance bodies) by the end of 2030, against a 2022 baseline.

The M+ Group Sustainability-Linked Bond Framework defines two KPIs: (1) Absolute scope 1 and 2 GHG emissions (in tCO₂e), and (2) Percentage of women in management teams. Sustainalytics considers both KPIs to be strong, based on their materiality, relevance, scope of applicability and adequacy to external benchmarking. Sustainalytics considers the SPTs to be aligned with M+ Group's sustainability strategy. Sustainalytics considers SPT 1 to be highly ambitious based on past performance, peer performance and alignment with science. Sustainalytics considers SPT 2 to be ambitious based on past performance and peer performance. Furthermore, Sustainalytics considers the Framework's reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers the M+ Group Sustainability-Linked Bond Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the prospective achievement of the SPTs to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Meritus Ulaganja d.d.

Sustainability-Linked Bond ISIN: Not known at time of publication.

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

Completion date of second party opinion pre-issuance: June 6, 2022

Independent External Review provider's name for post-issuance verification (section 4): Not known at time of publication.

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):
- | | |
|--|--|
| <input checked="" type="checkbox"/> Selection of Key Performance Indicators (KPIs) | <input checked="" type="checkbox"/> Bond characteristics (acknowledgment of) |
| <input checked="" type="checkbox"/> Calibration of Sustainability Performance Targets (SPTs) | <input checked="" type="checkbox"/> Reporting |
| <input checked="" type="checkbox"/> Verification | |
- and confirmed their alignment with the SLBP.

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

- | | |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> 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)

Meritus Ulaganja d.d. has developed the M+ Group Sustainability-Linked Bond Framework, under which it intends to issue a sustainability-linked bond tying financial characteristics such as coupon adjustment, margin adjustment or premium payment to the achievement of the following SPTs:

- (1) To reduce absolute scope 1 and 2 GHG emissions by 25.2% to 2,148 tCO₂e in 2027, against a 2021 baseline.
- (2) To achieve 51% representation of women in management teams (including governance bodies) by the end of 2030, against a 2022 baseline.

The M+ Group Sustainability-Linked Bond Framework defines two KPIs: (1) Absolute scope 1 and 2 GHG emissions (in tCO₂e), and (2) Percentage of women in management teams. Sustainalytics considers both KPIs to be strong, based on their materiality, relevance, scope of applicability and adequacy to external benchmarking. Sustainalytics considers the SPTs to be aligned with M+ Group’s sustainability strategy. Sustainalytics considers SPT 1 to be highly ambitious based on past performance, peer performance and alignment with science. Sustainalytics considers SPT 2 to be ambitious based on past performance and peer performance. Furthermore, Sustainalytics considers the Framework’s reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers the M+ Group Sustainability-Linked Bond Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the prospective achievement of the SPTs to be impactful.

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

Overall comment on the section (if applicable):
 Sustainalytics considers KPI 1, absolute scope 1 and 2 GHG emissions (in tCO₂e), to be strong given that: (i) it is a direct measure of the Group’s climate performance and speaks to a material ESG issue; (ii) it has a high scope of applicability; (iii) it follows a clear and consistent methodology with an external reference; and (iv) it is comparable with external contextual benchmarks.

 Sustainalytics considers KPI 2, percentage of women in management teams, to be strong given that: (i) it is a direct measure of the Group’s ESG performance on a highly material ESG issue; (ii) it has a high scope of applicability; (iii) it follows a clear and consistent methodology; and (iv) it is non-benchmarkable in the absence of a benchmark.

List of selected KPIs:

- Absolute scope 1 and 2 GHG emissions (in tCO₂e)
- Percentage of women in management teams

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 align with M+ Group’s sustainability strategy and considers SPT 1 to be highly ambitious given that: (i) it represents a continuous and significant improvement; (ii) it is above peers’ targets; and (iii) it is aligned with the SBTi’s 1.5°C scenario.

Sustainalytics considers M+ Group’s SPT 2 to be ambitious given that: (i) it represents a continuous and significant improvement; and (ii) it is above peer’s targets.

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

Additional disclosure

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

3-3 BOND CHARACTERISTICS

Overall comment on the section (if applicable):
Meritus Ulaganja d.d. will link the sustainability-linked bond’s financial characteristics, such as coupon adjustment, to achievement or failure to achieve the SPTs, which is aligned with the Sustainability-Linked Bond Principles 2020.

Financial impact:

- variation of the coupon
- premium payment
- Other (please specify):

Structural characteristic:

- Other (please specify):

3-4 REPORTING

Overall comment on the section (if applicable):
Meritus Ulaganja d.d. commits to report annually on its progress on the KPIs, and expects to include the relevant figures in its annual sustainability report. Meritus Ulaganja d.d. commits to disclose relevant information that may affect the KPIs and that enables investors to monitor the level of ambition of the SPTs. 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 type="checkbox"/> level of ambition of the SPTs | <input type="checkbox"/> Other (please specify): |

Frequency:

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

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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For more information, visit www.sustainalytics.com

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