

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainability-Linked Bond Framework

Axpo Holding AG
21 January 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">▪ Sustainability-Linked Bonds
Relevant standard(s)	<ul style="list-style-type: none">▪ Sustainability-Linked Bond Principles, as administered by ICMA (06.2020)
Scope of verification	<ul style="list-style-type: none">▪ Axpo's Sustainability-Linked Bond Framework (20.01.2022)
Lifecycle	<ul style="list-style-type: none">▪ Pre-issuance verification
Validity	<ul style="list-style-type: none">▪ As long as Axpo's Sustainability-Linked Bond Framework and benchmarks for the Sustainability Performance targets remain unchanged

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SCOPE OF WORK

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

1. The sustainability credibility of the KPI selected and Sustainability Performance Target (SPT) calibrated – whether the KPI selected is core, relevant and material to the issuer’s business model and industry, and whether the associated target is ambitious.
2. Axpo’s Sustainability-Linked Bonds Framework (20.01.2022 version) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (SLBP), as administered by the International Capital Market Association’s (ICMA).
3. Sustainability-Linked Bond’s link to Axpo sustainability strategy – drawing on Axpo’s overall sustainability profile and related objectives.

AXPO BUSINESS OVERVIEW

Axpo, based in Switzerland, is a producer of renewable energy and an international player in energy trading and the marketing of solar and wind power. 5,000 employees are employed by Axpo and caters to customers in over 30 countries in Europe, the USA and Asia.

ISS ESG SPO ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY ¹
<p>Part 1: KPI selection and SPT calibration</p> <p>KPI 1: Development of renewable energy (RE) capacity</p> <p>SPT 1.1: Cumulative increase of 1,500MW by 30 September 2024</p> <p>SPT 1.2: Cumulative increase of 2,300MW by 30 September 2025</p>	<p>KPI selection: Relevant, core and material to the issuer’s business model and consistent with its sustainability strategy</p> <p>Sustainability Performance Target (SPT) calibration:</p> <ul style="list-style-type: none"> • Ambitious against issuer’s past performance with limitations² • Limited information to assess ambition against issuer’s industrial peer group • Limited information to assess ambition against international standards <hr/> <p>ISS ESG finds that the KPI selected is relevant, core and material to the issuer’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, and externally verifiable. The historical data has not been externally verified. It is benchmarkable with limitations, because the target is absolute, refers to energy capacity developed (as opposed to energy capacity generated) and is cumulative over a number of years.</p> <p>ISS ESG finds that both SPT 1.1 and 1.2 are ambitious against historical performance, because both targets are significantly higher than the issuer’s past cumulative performance. However, this conclusion is limited by the fact that the historical data has not been externally verified. There is limited information to benchmark this SPT against industry peers because most peers have set targets for RE generation, whereas Axpo’s targets are for cumulative RE capacity. While the SPT will contribute to RE capacity in the European energy market, benchmarking the SPT against the EU target of achieving at least 32% of RE generated by 2030 is limited (e.g., by the fact that the SPT is calibrated as an absolute cumulative figure while the EU target is a relative target, and the SPT targets RE capacity added while the EU target focuses on generated RE³). Therefore, ISS ESG concludes that there is limited information to assess the level of ambition of the SPT against (inter)national targets. The target is set in a clear timeline and is supported by a strategy and action plan.</p>
<p>Part 2: Alignment with the SLBP</p>	<p>Aligned with ICMA Sustainability-Linked Bond Principles, except the SPT ambition levels can only be evaluated against past performance</p> <hr/> <p>The issuer has defined a formal framework for its Sustainability-Linked Bonds regarding the selection of KPI, calibration of Sustainability Performance Target (SPT), Sustainability-Linked Bond characteristics, reporting and verification. The framework is in line with the Sustainability-Linked Bond Principles (SLBP) administered by the ICMA.</p> <p>The financial characteristics of any security issued under this Framework, including a description of the selected KPI, SPT, step-up margin amount or the premium payment amount, as applicable, will be specified in the relevant documentation of the specific transaction. If a KPI has not achieved the SPT on the target observation date, a trigger event will occur.</p>

¹ ISS ESG’s evaluation is based on the engagement conducted in January 2022, on Axpo’s Sustainability-Linked Bond Framework (20.01.2022 version) and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 17.01.2022).

² The assessment is limited by the fact that the historical data has not been externally verified.

³ It is worth noting that the capacity target reflects the maximum possible generation of renewable electricity of the power plant. For wind and photovoltaic power plants, that would mean perfect (weather) conditions. Therefore, the amount of capacity and generation of those plants could significantly differ.

Part 3: **Consistent with issuer's sustainability strategy**

Link to issuer's sustainability strategy

According to the ISS ESG Corporate Rating published 17.01.2022, the company currently shows a high sustainability performance against peers on key ESG issues faced by the Electric Utilities industry and obtains a Decile Rank relative to industry group of 3, given that a decile rank of 1 indicates highest relative ESG performance out of 10. The issuer is rated 28th out of 129 companies within its sector as of 05.01.2022.

The KPI selected by the issuer is related to RE 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 KPI link to the key sustainability priorities of the issuer.

ISS ESG SPO ASSESSMENT

PART 1: KPI SELECTION & SPT CALIBRATION

1.1. KPI selection

KPI 1: Renewable energy

FROM ISSUER'S FRAMEWORK

- **KPI:** Renewable Energy: Development of renewable energy capacity
- **SPT:** Target for the development and creation of renewable energy capacity by 30 September 2024/30 September 2025 cumulated from 01 October 2021

Definition: Photovoltaic and wind power renewable energy sources

Methodology and scope: The scope of the KPI covers the further creation and development of renewable energy capacity in megawatts (MW), including photovoltaic and wind power plants mostly across Europe. The developed renewable capacities are counted towards the KPI in the business year when the respective assets first start delivering electricity to the grid. The developed capacity is measured in absolute figures in MW as this illustrates the steps to the KPI goal in a transparent way.

Rationale: In line with the materiality analysis, developing renewable energies and supporting customers in expanding their use of renewable energies is considered as a key material topic for the business and has consequently been selected as the KPI within the Sustainability-Linked Bond Framework. For this, Axpo aims to increase the capacity of its photovoltaic portfolio by 10 gigawatts by 2030 – making it approximately 20 times bigger than at the end of 2020. Axpo is also planning a tenfold increase in onshore wind power generation to around three gigawatts within the same time period.

Materiality and relevance

The promotion of renewable energy (RE) is considered as a key ESG issue faced by the Electric Utilities industry according to key ESG standards⁴ for reporting and ISS ESG assessment. On the one hand, companies in this sector are the bedrock of a transition to a RE system. On the other hand, electricity and heat generation worldwide account for over 40% of global CO₂e emissions.

ISS ESG finds that the RE KPI selected by the issuer is:

- **Relevant** to Axpo's business as its industry is responsible for electricity capacity building and generation. The KPI focuses on a key performance issue of the industry by providing more RE capacity.
- **Core** to the issuer's business as increasing the RE capacity affects the core processes of the company. Axpo aims to scale up this capacity by focusing on wind and photovoltaic power plants in their international markets and the KPI is therefore most relevant for its business outside of Switzerland. The company will invest in the development, planning, and construction of renewable power plants through its subsidiaries, such as Volkswind and Urbasolar. After completion, Axpo will remain involved in the operation of the plants to a certain degree. In most cases, the plants are sold and Axpo sets up a contractual relation for maintenance. In some cases, Axpo remains the main operator of the plant.

⁴ Key ESG Standards include SASB and TCFD, among others.

- **Material** to Axpo from an ESG perspective as the company can have material impact on the promotion of a sustainable energy system by increasing the capacity⁵ of the international RE market. By excluding nuclear and hydro power from the KPI, the issuer focuses on the most sustainable energy sources in its portfolio. Axpo will remain involved in most wind and photovoltaic power plants after construction, either as the main operator or through contractual relations for maintenance. In conclusion, with this KPI, Axpo can enlarge the amount of RE on the European grid. Depending on the amount of RE power plants Axpo decides to sell or stay a main operator of, the KPI could contribute to the share of RE power capacity and generation in the issuer's portfolio.

Consistency with overall company's sustainability strategy

Axpo recognizes its responsibility, as an energy company, to contribute to climate protection. Therefore, the company has a broad sustainability strategy with six action fields, ranging from carbon footprint to occupational health and safety.

One of Axpo's goals is to play an active role in shaping the energy transition. The company approaches this goal through various business activities. In Switzerland, the company is already a leading producer of RE (including hydropower). Expansion into wind and photovoltaic power plants has been driven by the acquisition of Volkswind and Urbasolar. By doing so, Axpo enlarges its RE business in Europe (France, Germany, Spain, and Italy). ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

Measurability

- **Scope and perimeter:** In the context of this KPI, RE includes 100% of new renewable photovoltaic and wind power capacity created and developed by Axpo. At the same time, the KPI only covers the RE business of Axpo, while the majority of its business is nuclear and hydro power.
- **Quantifiable/Externally verifiable:** The KPI selected is quantifiable and externally verifiable. RE capacity is defined in MW, which is a standard metric for reporting.
- **Externally verified:** In the past, the creation and development of capacity of RE have been publicly reported in Axpo's sustainability reporting without the data being externally verified. The issuer states that the future data will be externally verified.
- **Benchmarkable:** The KPI is benchmarkable with limitations, because its target is absolute, refers to energy capacity created (as opposed to energy capacity generated) and is cumulative over a number of years.

Opinion on KPI selection: ISS ESG finds that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, and externally verifiable. The historical data has not been externally verified. The KPI is benchmarkable with limitations, because the target is absolute, refers to energy capacity developed (as opposed to energy capacity generated) and is cumulative over a number of years.

⁵ It is worth noting that the capacity target reflects the maximum possible generation of renewable electricity of the power plant. For wind and photovoltaic power plants, that would mean perfect (weather) conditions. Therefore, the amount of capacity and generation of those plants could significantly differ.

1.2. Calibration of SPT

SPT 1: Renewable energy

FROM ISSUER'S FRAMEWORK⁶

Sustainability Performance Target: Target for the development and creation of renewable energy capacity by 30 September 2024 / 30 September 2025 cumulated from 1 October 2021

Sustainability Performance Target Trigger Event: in the event Axpo does not meet the targets by the aforementioned Target Observation Dates, a Trigger Event will occur.

Sustainability Performance Target observation dates: for any Sustainability-Linked Bond (SLB) issued under Axpo's Framework, there will be two Target Observation Dates, referring to specific dates at which the performance of the KPI against a predefined SPT is recorded, being:

- **Tranche A:** 30 September 2024
- **Tranche B:** 30 September 2025

	Target Observation Date for Tranche A: 30 September 2024	Target Observation Date for Tranche B: 30 September 2025
Cumulative development of renewable energy capacity in MW between 1 October 2021 and the applicable Target Observation Date ⁷	≥ 1,500	≥ 2,300

Description and ambition level: Development of at least 1,500 MW/2,300 MW of renewable energy capacity from 01 October 2021 until 30 September 2024/30 September 2025 respectively. A cumulative, absolute target has been selected rather than a yearly absolute target to show Axpo's ambition to fulfil its communicated objectives. So, if Axpo misses one year, the company is committed to do twice as much in the following year to meet the final target. The target represents an increase in renewable energy capacity development that is between 2 and 2.5 times greater than in the previous four business years, indicating a clear and strong focus on the development of renewable energy.

Link with longer-term targets: Axpo aims to increase the capacity of its photovoltaic portfolio by 10 gigawatts by 2030 – making it approximately 20 times bigger than at the end of 2020. Axpo is also planning a tenfold increase in onshore wind power generation to around three gigawatts within the same time period.

Historic values and baseline: From 1 October 2017 until 30 September 2021 Axpo has developed a total capacity of 770.3 MW, out of which 383.5 MW come from wind farms and 386.8 MW from photovoltaic power plants. The 770.3 MW capacity developed in the past four business years serves as a baseline for the KPI.

Cumulative development of renewable energy capacity in MW (historic values) ⁸	
30 September 2018	67.3
30 September 2019	98.0
30 September 2020	251.0
30 September 2021	354.0

⁶ This table is displayed by the issuer in its Sustainability-Linked Bond Framework and have been copied over in this report by ISS ESG for clarity.

⁷ The developed capacities per business year will be published within 90 days from previous business year-end.

⁸ The developed capacities per business year are published in Axpo's sustainability report available on www.axpo.com.

Key other factors beyond Axpo’s direct control:

- Replacement of state subsidies for renewable energy with fixed feed-in tariffs with market-driven funding, or even abolition in many European countries.
- Changes in local regulatory conditions, besides subsidies, altering the economic feasibility to develop renewable energies.
- Changes in development costs to produce a kWh of solar or wind power, depending on technological advancements or supply chain availabilities.

Ambition

Against company’s past performance

Axpo has set two targets for the KPI. SPT 1.1, which corresponds to Tranche A, targets a cumulative increase of RE capacity from plants created and developed from October 1, 2021 to September 30, 2024 of 1,500MW. SPT 1.2 corresponds to Tranche B and aims to achieve 2,300MW by September 30, 2025.

Axpo calibrated the SPT as a cumulative target. Therefore, the issuer defined a baseline that equals the historical performance on the same metric for the past 4 years. From October 1, 2017 until September 30, 2021 Axpo has developed a total of approximately 770.3 MW. The breakdown of RE capacity creating is displayed in Table 1.

TABLE 1.	01.10.2017 UNTIL 30.09.2021 - BASELINE
Wind power plant capacity	383.5 MW
Photovoltaic power plant capacity	386.5 MW
Total RE capacity	770 MW

The target for SPT 1.1 would double the cumulative increase in the next 3 years, compared to the cumulative increase Axpo achieved in the past 4 years. Secondly, SPT 1.2 would triple the baseline performance. Since both targets are significantly higher than the issuer’s past cumulative performance, ISS ESG concludes that SPT 1.1 and 1.2 are ambitious against past performance. However, this conclusion is limited by the fact that the historical data has not been externally verified.

Against company’s sectorial peers

ISS ESG has conducted benchmarking for this SPT against 18 peer companies in the electric utilities sector, as identified by the issuer. Whilst 14 out of these 18 peers have quantified RE targets in place, most of these targets are not comparable to Axpo’s SPT. The majority of peers’ targets relate to RE generation, whereas Axpo’s SPT refers to RE capacity created.

In addition, the fact that Axpo’s SPT refers to cumulative energy capacity it creates over a period of several years and most of Axpo’s industry peers have set targets for total RE capacity at one point in time again makes direct comparison not meaningful. Lastly, the fact that Axpo has set an absolute target (as opposed to a target relative to its total created energy capacity) sets limitations.

Therefore, ISS ESG has limited information to assess the level of ambition against peers.

Against international targets

Axpo has set this SPT as a cumulative increase of RE capacity from plants created and developed from 1 October 2021 to 30 September 2024 of 1,500MW and from 1 October 2021 to 30 September 2025 of 2,300MW. The main countries it intends to expand RE capacity in are France, Italy, and Spain for solar PV as well as mainly France and Germany for wind power. All of these being EU member states, the additional RE capacity anticipated as part of this KPI, assuming the non-renewable energy capacity stays the same, can be considered to contribute to the EU's overarching aim of achieving at least 32% of RE generated by 2030⁹. More particularly, the additional capacity also contributes to national goals of increasing the share of RE in the respective countries' energy mix (e.g., Germany: 80% electricity from renewables by 2030, Italy: 55% by 2030 etc.).

It is further noted that an increase in RE also features as one of the main pillars in the International Energy Agency's (IEA) Net Zero Emissions by 2050 (NZE) and Sustainable Development (SDS) Scenario.

However, there are limitations to use these targets for benchmarking against the issuer's SPT (e.g., the SPT is calibrated as an absolute cumulative figure while the EU target is a relative target, and the SPT targets RE capacity¹⁰ added while the EU target focuses on generated RE).

Therefore, ISS ESG concludes that there is limited information to assess the level of ambition of the SPT against (inter)national targets.

Measurability & comparability

- **Historical data:** No historical performance over a similar period of time on the same metric has been provided by the issuer.
- **Benchmarkable:** The KPI is benchmarkable with limitations, because it is an absolute target, refers to energy capacity created (as opposed to generated) and is cumulative over a number of years.
- **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

Axpo will increase the RE capacity of the company by first focusing on the core markets: Germany and France. Secondly, international expansion throughout Europe will be targeted based on market opportunities. Therefore, the issuer identified projects to include onshore wind farms and large-scale solar plants in Spain and Italy. Moreover, the company will allocate capital to targeted growth.

Opinion on SPT calibration: ISS ESG finds that both SPT 1.1 and 1.2 are ambitious against historical performance, because both targets are significantly higher than the issuer's past cumulative performance. However, this conclusion is limited by the fact that the historical data has not been externally verified. There is limited information to benchmark this SPT against industry peers because most peers have set targets for RE generation, whereas Axpo's targets are for cumulative RE capacity. While the SPT will contribute to RE capacity in the European energy market, benchmarking

⁹ European Commission, 2021, Renewable Energy Directive, https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-directive_en

¹⁰ It is worth noting that the capacity target reflects the maximum possible generation of renewable electricity of the power plant. For wind and photovoltaic power plants, that would mean perfect (weather) conditions. Therefore, the amount of capacity and generation of those plants could significantly differ.

the SPT against the EU target of achieving at least 32% of RE generated by 2030 is limited (e.g., by the fact that the SPT is calibrated as an absolute cumulative figure while the EU target is a relative target, and the SPT targets RE capacity added while the EU target focuses on generated RE¹¹). Therefore, ISS ESG concludes that there is limited information to assess the level of ambition of the SPT against (inter)national targets. The target is set in a clear timeline and is supported by a strategy and action plan.

¹¹ It is worth noting that the capacity target reflects the maximum possible generation of renewable electricity of the power plant. For wind and photovoltaic power plants, that would mean perfect (weather) conditions. Therefore, the amount of capacity and generation of those plants could significantly differ.

PART 2: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES

Rationale for Framework

FROM ISSUER'S FRAMEWORK

Axpo decided to establish a sustainability-linked bond framework as the next step in linking its financing strategy with its existing sustainability strategy. The company aims to attract further ESG-focused investors to its credit profile by introducing sustainability action points to the wider debt investor base. Moreover, Axpo aims to contribute to the growth of the sustainable debt market as a whole.

Opinion: ISS ESG considers the Rationale for Issuance description provided by Axpo as aligned with the SLBP.

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 on KPI 1: ISS ESG finds that the KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, and externally verifiable. The historical data has not been externally verified. The KPI is benchmarkable with limitations, because it is an absolute target, refers to energy capacity developed (as opposed to generated) and is cumulative over a number of years.

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 on SPT 1.1 and 1.2: ISS ESG finds that both SPT 1.1 and 1.2 are ambitious against historical performance, because both targets are significantly higher than the issuer's past cumulative performance. However, this conclusion is limited by the fact that the historical data has not been externally verified. There is limited information to benchmark this SPT against industry peers because most peers have set targets for RE generation, whereas Axpo's targets are for cumulative RE capacity. While the SPT will contribute to RE capacity in the European energy market, there are two limitations for benchmarking against the EU RE target of achieving 32% of RE generated by 2030. First, the SPT is calibrated as an absolute cumulative figure, while the EU target is a relative target. Secondly, the SPT targets RE capacity added, while the EU target focuses on generated RE¹². Therefore, ISS ESG concludes that there is limited information to assess the level of ambition of the SPT against (inter)national targets. The target is set in a clear timeline and is supported by a strategy and action plan.

¹² It is worth noting that the capacity target reflects the maximum possible generation of renewable electricity of the power plant. For wind and photovoltaic power plants, that would mean perfect (weather) conditions. Therefore, the amount of capacity and generation of those plants could significantly differ.

2.3. Sustainability-Linked Securities Characteristics

FROM ISSUER'S FRAMEWORK

The financial characteristics of any SLB issued under this Framework will be specified in respective terms and conditions.

In the event the SPT is not achieved at the respective target observation date, as per the annual report published following the target observation date, a trigger event will occur. The occurrence of a trigger event will result in either (i) a coupon step-up for the relevant security from the first day of the next interest period immediately following the SPT reporting end date until maturity of the relevant security, or (ii) an increase in the redemption price payable on redemption of the relevant security at final maturity.

If, for any reason, Axpo does not publish the relevant SPT within the time limit as prescribed in this Framework, a trigger event will occur.

The KPI and SPT set out in the issuer's Framework will remain applicable throughout the tenor of the SLB, regardless of any changes to Axpo Group's sustainability strategy. This is also the case for potential extreme or exceptional events (such as significant change in perimeters through material M&A activities, or drastic changes in regulatory environment) that could substantially impact the calculation of the KPI, the restatement of the SPT and/or pro forma adjustments of baselines or KPI scope. Any new or updated sustainability-linked bond framework, in relation to any subsequent capital markets transactions, will not have any implications for the SLB issued under the current Framework.

Opinion: ISS ESG considers the sustainability-linked securities characteristics description provided by Axpo as aligned with the SLBP. The issuer gives a detailed description of the potential variation of the financial characteristics of the securities, while clearly defining the KPI and SPT and its calculation methodologies in the Framework. Moreover, the issuer explains the back-up mechanism in case the SPTs cannot or are not published in time.

2.4. Reporting

FROM ISSUER'S FRAMEWORK

Axpo publishes a sustainability report on an annual basis, as at 30 September until the end of the SLB. The sustainability report will include information on the performance of the selected SPT as well as any other information deemed material for investors to monitor the level of ambition of the SPT. The report will be publicly available on Axpo's webpage within 90 days of the previous business year-end.

Opinion: ISS ESG considers the reporting description provided by Axpo as aligned with the SLBP. This will be made publicly available annually and include valuable information, as described above.

2.5. Verification

FROM ISSUER'S FRAMEWORK

Axpo is committed to on an annual basis seeking independent verification from an appropriate assurance provider on the performance of the SPT for the KPI. This verification will be included in the Sustainability Report on www.axpo.com.

To assess the relevance and robustness of the selected KPI as well as the ambition level of the SPT, Axpo has engaged ISS ESG to provide a pre-issuance Second Party Opinion. The Second Party Opinion is available on Axpo's webpage www.axpo.com.

Opinion: ISS ESG considers the verification description provided by Axpo aligned with the SLBP. The issuer plans on having all annual values of the SPT published and verified. 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 AXPO'S SUSTAINABILITY STRATEGY

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	INDUSTRY	DECILE RANK	TRANSPARENCY LEVEL
AXPO HOLDING AG	ELECTRIC UTILITIES	3	VERY HIGH

This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by Electric Utilities industry and obtains a Decile Rank relative to industry group of 3, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

ESG performance

As of 17.01.2022, this Rating places Axpo 28th out of 129 companies rated by ISS ESG in the Electric Utilities industry.

Key Challenges faced by companies in term of sustainability management in this industry are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

Key Issue Performance



Sustainability Opportunities

Axpo Holding owns and operates power plants and distribution grids. The company also engages in international energy trading. In the financial year 2021, Axpo derived its energy generation from nuclear power (49.4%), hydropower (26.9%), natural gas (19.1%), and other renewable energy sources such as solar power, wind power and biomass (combined 4.6%) In view of Axpo's significant reliance on renewable energies and nuclear power, the carbon intensity of energy generation amounted to a mere 87 g/kWh in 2021, which is comparatively low. The company has implemented only single measures to help ensure access to energy for vulnerable and economically disadvantaged customers.

Sustainability Risks

Axpo Holding does not appear to have a specific greenhouse gas emissions reduction target. However, the carbon intensity of energy generation is already comparatively low and the company is making significant investments in further renewable energy projects. The safety, radioactive waste management and emergency response planning of the company's nuclear power plants are addressed in a comprehensive fashion. Questions remain as for the final disposal of highly radioactive waste as a suitable storage site is yet to be identified in Switzerland. Axpo has also implemented sound measures to ensure the environmentally friendly and safe operation of its hydropower plants and wind turbines.

The company has a group-wide health and safety management system and the accident rate among staff has decreased over the past few years. In addition, there were no fatalities in recent years. Still, the accident rate of contract workers remains unclear. Axpo has a comprehensive code of business

conduct that covers the most pertinent issues, including corruption, antitrust violations, and conflicts of interest. The company has also implemented relevant compliance procedures designed to help enforce the code of conduct. They include trainings and awareness-raising measures, risk assessments, and the facilitation of non-compliance reporting.

Governance opinion

Axpo’s governance structure is characterized by a high degree of board member independence. However, the chairman of the board of directors, Thomas Sieber, is not considered independent as he previously served as the company’s CEO, albeit only on an interim basis until the election of the new CEO (as at January 2022). The board has set up an Audit and Finance as well as a Remuneration and Nomination committee. The members of the former are entirely independent whereas the latter is predominantly composed of independent members (as of January 2022). Compensation is publicly disclosed for members of the executive management team as a whole and the CEO individually. It is further sub-divided according to fixed amounts and variable performance-related components.

There are no indications of a board-level committee tasked with overseeing the company's sustainability strategy. The company states that sustainability performance objectives are considered in executive compensation schemes, but details are lacking. Axpo has a comprehensive code of business conduct that covers the most pertinent issues, including corruption, antitrust violations, and conflicts of interest. The company has also implemented relevant compliance procedures designed to help enforce the code of conduct. They include trainings and awareness-raising measures, risk assessments, and the facilitation of non-compliance reporting.

Sustainability impact of products and services portfolio

Using a proprietary methodology, ISS ESG assessed the contribution of the Axpo’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to evaluation of final product characteristics and does not include practices along the Axpo’s production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
Energy generation based on hydropower (>10MW), energy generation based on nuclear power, energy generation based on renewables (undefined)	31.0%	CONTRIBUTION	
Energy generation based on hydropower (>10MW), energy generation based on renewables (undefined)	12.1%	CONTRIBUTION	

Energy generation based on nuclear power	18.9%	OBSTRUCTION	 
Others	N/A	NO NET IMPACT	N/A

Breaches of international norms and ESG controversies

The company is not facing any severe controversy.

Contribution of KPI to sustainability objectives and key ESG industry challenges

ISS ESG mapped the KPI selected by the issuer for its Sustainability-Linked Bonds with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Electric Utilities industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings industry. From this mapping, ISS ESG derived a level of contribution to the strategy of the KPI selected.

KPI SELECTED	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Renewable Energy	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the KPI is consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The issuer described its rationale for issuing SLBs in the Framework.*

DISCLAIMER

1. Validity of the SPO: For Axpo's Sustainability-Linked Bond issuances as long as the Sustainability-Linked Bonds Framework (20.01.2022), SPTs benchmarks and structural securities characteristics described in this document do not change.
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.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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Deutsche Börse AG ("DB") owns an approximate 80% stake in ISS HoldCo Inc., the holding company which wholly owns ISS. The remainder of ISS HoldCo Inc. is held by a combination of Genstar Capital ("Genstar") and ISS management. ISS has formally adopted policies on non-interference and potential conflicts of interest related to DB, Genstar, and the board of directors of ISS HoldCo Inc. These policies are intended to establish appropriate standards and procedures to protect the integrity and independence of the research, recommendations, ratings and other analytical offerings produced by ISS and to safeguard the reputations of ISS and its owners. Further information regarding these policies are available at <https://www.issgovernance.com/compliance/due-diligence-materials>.

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ANNEX 1: ISS ESG Corporate Rating

The following pages contain extracts from Axpo's 2022 ISS ESG Corporate Rating.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

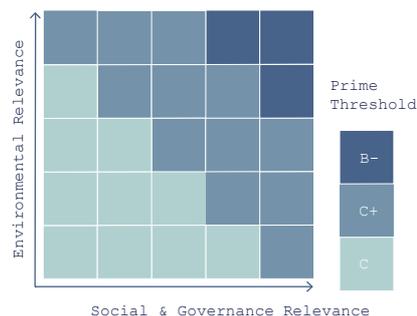
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 2: Methodology

ISS ESG Corporate Rating

The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from industries with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

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In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

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

ISS ESG reviewed the Sustainability-Linked Bonds Framework of Axpo, 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 Axpo'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 Axpo's own past performance (according to Axpo's reported data), against Axpo's industry peers, and against international benchmarks (where possible). Finally, ISS ESG evaluated the measurability & comparability of the SPT, and the supporting strategy and action plan of Axpo.

ANNEX 3: Quality management processes

SCOPE

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

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Sustainability-Linked Bond Principles

ISSUER'S RESPONSIBILITY

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

- Framework
- Draft bond documentation

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 Bonds to be issued by Axpo based on ISS ESG methodology and in line with the ICMA Sustainability-Linked Bond Principles.

The engagement with Axpo took place in January 2022.

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/>

For information about SPO services, please contact: SPOsales@isscorporatesolutions.com

For information about this specific Sustainability-Linked Bonds SPO, please contact:
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