

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainable Finance Framework

Slovenian Steel Group
8 August 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">▪ Sustainability-Linked Instruments
Relevant standard(s)	<ul style="list-style-type: none">▪ Sustainability-Linked Bond Principles, as administered by the ICMA (as of July 2023)▪ Sustainability-Linked Loan Principles, as administered by the LMA (as of February 2023)
Scope of verification	<ul style="list-style-type: none">▪ SIJ 's Sustainable Finance Framework (as of July 31st, 2023)
Lifecycle	<ul style="list-style-type: none">▪ Pre-issuance verification
Validity	<ul style="list-style-type: none">▪ As long as SIJ 's Sustainable Finance Framework and benchmarks for the Sustainability Performance target(s) remain unchanged.

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SCOPE OF WORK

Slovenian Steel Group (“SIJ” or “the Issuer” or “the Company”) commissioned ISS Corporate Solutions (ICS) to assist with its Sustainability-linked Instruments by assessing three core elements to determine the sustainability quality of the instruments:

1. SIJ’s Sustainable Finance Framework (as of July 31st, 2023) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (SLBP), as administered by the International Capital Market Association (ICMA) and the Sustainability-Linked Loan Principles (SLLP), as administered by the Loan Market Association (LMA).
2. The sustainability credibility of the Key Performance Indicators (KPI) selected and Sustainability Performance Targets (SPT) calibrated – whether the KPIs selected are core, relevant and material to the Issuer’s business model and industry, and whether the associated targets are ambitious.
3. Linking the transaction(s) to SIJ’s overall ESG profile – drawing on SIJ’s sustainability objectives.

SIJ BUSINESS OVERVIEW

SIJ d.d. produces a wide range of steel and stainless-steel products in Europe. The company has four main reporting segments- Steel division, Distribution and Processing division, Scrap division and Manufacturing division. The company produces high quality steel products such as stainless-steel quarto plates, alloyed tool steels (rolled and forged products), special steels (high-strength and wear-resistant steels), non-oriented electrical strips & sheets and a range of value-added finished products such as industrial knives, rolls and cold-drawn bars. SIJ is headquartered in Ljubljana, Slovenia and in FY 2022, their revenue was EUR 1,302.9 million.

It is classified in the Metals Processing & Production industry, as per ISS ESG’s sector classification.

SPO ASSESSMENT SUMMARY

EVALUATION SUMMARY ¹		
Alignment with the SLBP and SLLP	The framework is in line with the Sustainability-Linked Bond Principles (SLBP) administered by the ICMA and the Sustainability-Linked Loan Principles (SLLP) administered by the LMA.	
KPI Selection	KPI 1. Direct CO ₂ emissions intensity (Scope 1) in tCO ₂ /t of crude steel	KPI 2. % of group companies with ISO 45001 certification
Relevant	Relevant	Relevant
Core	Core	Core
Material	Partially Material	Material
Assessment	Aligned	Best Practice
SPT Calibration	SPT 1. Reduction of intensity Scope 1 CO ₂ emissions by 51% by 2030 compared to 2020'	SPT 2. Achieve 100% of companies with ISO 45001 certification'
Against borrower's past performance	Ambitious	Ambitious
Against borrower's industry peer group	Ambitious	Ambitious
Against international targets	Limited information ²	Likely to advance internationally recognized initiatives ³
Level of ambition	Good⁴	Good³
Linking the transaction(s) to SIJ's overall ESG profile	<p>Consistent with the Issuer's sustainability strategy</p> <p>The KPIs selected by the Issuer are related to climate change and Health & Safety, which are also pillars of the Company's sustainability strategy. KPI 1 focuses on Direct CO₂ emissions intensity (Scope 1). KPI 2 focuses on ISO 45001 certification and the implementation of the 5S method across the Company.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.</p>	

¹ The evaluation is based on the engagement conducted between June and July 2023, on the Issuer's Sustainable Finance Framework (as of July 31st, 2023).

² While limited information are available to assess the alignment of SPT 1 with the Paris Agreement, it is worth noting that SIJ's activity covered by the KPI aligns with the European Taxonomy Technical Screening Criteria for climate change mitigation (activity 3.9).

³ The SPT is based on ISO 45001, a internationally recognized standard with the goal of reducing occupational injuries and diseases, including promoting and protecting physical and mental health.

⁴ Two of the three SPT's benchmarking approach have been assessed positively.

SPO ASSESSMENT

PART 1: ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES AND LMA SUSTAINABILITY-LINKED LOAN PRINCIPLES

This section describes our assessment of the alignment of the SIJ 's Sustainable Finance Framework (as of July 31st, 2023) with the Sustainability-Linked Bond Principles (SLBP) and the Sustainability-Linked Loan Principles (SLLP).

SLB/SLL PRINCIPLES	ASSESSMENT	OPINION
1. Selection of KPIs		A detailed analysis of the sustainability credibility of the KPI selection is available in Part 2 of this report.
2. Calibration of SPTs		A detailed analysis of the sustainability credibility of the SPT calibration is available in Part 2 of this report. Defined SPTs will be used annually for Sustainability Linked-Loan in alignment with the SLLP.
3. Bond/Loan Characteristics	✓	The description of the Sustainability-Linked Bond / Loan Characteristics provided by the Issuer is aligned with the SLBP and SLLP. The financial characteristics of any security issued under this Framework, including a description of the selected KPI(s), SPTs, step-up margin amount or the premium payment amount, as applicable, will be specified in the relevant documentation of the specific transaction.
4. Reporting	✓	<p>The Reporting description provided by the Issuer is aligned with the SLBP and SLLP. This will be made available annually to investors and include valuable information, such as</p> <ul style="list-style-type: none"> ▪ Information on the performance of relevant KPIs, including their corresponding baseline (where relevant) and the performance against the respective SPTs. ▪ Any further information that is relevant and enables stakeholders to closely monitor the progress of relevant KPIs. ▪ An independent verification report issued by SIJ's auditor confirming there is no cause to believe of a potential misrepresentation of information provided by SIJ on the respective KPIs. <p>In addition, the Issuer confirms that it may provide the following information when feasible and possible:</p>

		<ul style="list-style-type: none"> ▪ A more detailed view and qualitative and/or quantitative explanation on the main driving factors for relevant KPIs on an annual basis. ▪ Potential re-assessments of KPIs, restatements of SPTs and/ or pro-forma adjustments of baselines, KPIs or SPTs.
<p>5. External verification</p>	<p>✓</p>	<p>The Verification description provided by the Issuer is aligned with the SLBP and SLLP. This report constitutes the SPO. The performance of the SPTs against the KPIs will be externally verified with a limited assurance review annually until the target is reached.</p>

PART 2: KPI SELECTION & SPT CALIBRATION

1. Selection of KPI 1

KPI 1 is defined as 'Direct CO₂ emissions intensity (Scope 1) in tCO₂/t of crude steel'

Opinion	<i>The KPI is relevant, core and partially material to the Issuer's overall business. It is appropriately measurable, quantifiable, externally verifiable, externally verified and benchmarkable. It covers Scope 1 CO₂ emissions, which represent 25%⁵ of the Company's total CO₂ emissions.</i>
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Assessment⁶	Not Aligned	Aligned	Best Practice
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KPI 1 Characteristics and Features	KPI definition:	Direct CO ₂ ⁷ emissions intensity (Scope 1) from steel production measured in ton CO ₂ / ton of crude steel
	Scope and perimeter:	The KPI scope and perimeter are transparently defined as it covers 97% of all Scope 1 CO ₂ emissions from SIJ. It covers 100% of Scope 1 CO ₂ emissions of SIJ crude steel production and exclude 3% of Scope 1 GHG emissions is divided in 31 smaller companies. Scope 1 represents 25% of the Company's total CO ₂ emissions.
	Quantifiable/Externally verifiable:	The KPI is quantifiable, since it is calculated as "Total direct CO ₂ emissions generated by the process of steel production divided by the total ton of crude steel produced". It is externally verifiable, because CO ₂ emission intensity per ton of crude steel KPI is widely disclosed and standardized in the market. The Issuer refers to key reporting and accounting protocols for GHG emissions such as the Greenhouse Gas Emissions Permit as well as the Methodology for calculation provided by World Steel Association.
	Externally verified:	The historical and baseline data for the KPI selected have been verified by a qualified third-party. The Issuer commits to having the future data verified by an external reviewer as well.
	Benchmarkable:	To compute its KPI, SIJ uses recognized methodologies and report to state authorities (ETS scheme) in accordance with EU Directive. ⁸ By referring to commonly acknowledged GHG accounting standards and protocol, the KPI is easily comparable with the data reported by other companies and with international targets such as the Paris Agreement. Benchmarking of the SPT in relation to this KPI has been analyzed below.

KPI 1 Analysis	The KPI is considered:
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⁵ The Scope 2 CO₂ emissions represents 34% and the Scope 3 CO₂ emissions represents 41% of the Company's Total CO₂ emissions.

⁶ The KPI selection assessment is classified on a 3-level scale: 'Not Aligned', 'Aligned' or 'Best Practice'. For further information on the ISS methodology related to the KPI assessment please refer to Annex 2 at page 20.

⁷ Other GHG emissions are not included in the calculation of Scope 1 emissions. According to the Company, there are no methane emissions linked to the production process, and the measurement of nitrogen oxide emissions is not required. The estimated amount of nitrogen oxide is negligible.

⁸ SIJ reports to state authorities (ETS scheme) in accordance with the Commission implementing Regulation (EU) 2018/2066 of 19 December 2018 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council and amending Commission Regulation (EU) No 601/2012.

Relevant to SIJ's business as its industry is highly GHG-emitting and exposed to climate change risks. Climate protection, energy efficiency and recycling are considered key ESG issues faced by the Metals Processing and Production industry according to key ESG standards⁹ for reporting and ISS ESG assessment. The sector is currently responsible for about 8% of global final energy demand and 7% of energy sector CO₂ emissions (including process emissions)¹⁰. According to the International Energy Agency¹¹, while, over the past decade, total CO₂ emissions from the iron and steel sector have risen (largely due to increases in steel demand and the required energy for production), substantial cuts in CO₂ emissions are essential to get on track with the Net Zero Scenario. With renewable electricity, hydrogen and CCUS as three main pillars to achieve substantial emission reductions in the iron and steel sector, suitable infrastructure needs to be developed to support the deployment of these innovative technologies.

Core to the Issuer's business as Scope 1 CO₂ emission reduction measures affect key processes and operations that are core to the business model of the Issuer. The Company is rolling-out its decarbonization plan as they aim at being Net-zero up to 2050. In order to achieve 51% reduction of Scope 1 intensity CO₂ emissions up to 2030, SIJ will upgrade and refurbish furnaces, replace gas with electricity, hydrogen and biomass. The switch to renewable energy will represent approximately 30% of the GHG emissions overall reduction and will be done through RECs. It is Important to note that RECs are short-term contracts subject to availability. The integration of hydrogen will be done through green hydrogen import on the one hand and development of H₂ on-site production projects.

They will also optimize production with advanced tools such as a digitalization, robotization and automation system. To implement those measures, SIJ will invest about 70M€ by 2040. To reach SPT 1, by 2030, SIJ won't use offset mechanisms.

Partially Material¹² to SIJ's entire corporate value chain from an ESG perspective:

- The KPI is deemed partially material to the company's direct operations because the KPI focuses only on Scope 1 direct CO₂ emissions from crude steel production which accounts for 25% of the total CO₂ emissions of the Company. It is to be noted that 3% of the Scope 1 CO₂ emissions arising from the direct operations of 31 smaller companies are excluded from the KPI.
- However, the KPI does not encompass CO₂ emissions either arising from Scope 2 or Scope 3 emissions which represents around 75% of the GHG emissions attached to crude steel production processes. Also, the KPI only focuses on CO₂ emissions and does not include other GHG emissions. Therefore, KPI is deemed partially material since it covers less than 95% of total Scope 1 and 2 GHG emissions, which is less than the relevant threshold for emissions target setting.

⁹ Key ESG Standards include SASB and TCFD, among others.

¹⁰ International Energy Agency, <https://www.iea.org/reports/iron-and-steel-technology-roadmap>

¹¹ International Energy Agency, <https://www.iea.org/reports/iron-and-steel>

¹² ISS ESG bases this analysis on the Issuer's own emissions reporting and makes no comment on the quality or consistency of the Issuer's Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established norms for the Issuer's sector. ISS ESG notes that Scope 3 reporting may be different between companies in the same sector and does not undertake any benchmarking of an Issuer's reporting.

2. Calibration of SPT 1

SPT 1 is defined as 'Reduction of intensity Scope 1 GHG emissions by 51% by 2030 compared to 2020'

Opinion	<i>The SPT is (i) ambitious against the Company's past performance, (ii) ambitious against peers on the basis of setting a target, and (iii) there is limited information to assess its alignment with the Paris Agreement.¹³ The target is set in a clear timeline and is supported by a strategy and action plan disclosed in the Company's framework.</i>			
Level of Ambition¹⁴	No Evidence	Limited	Good	Robust
SPT 1				
Characteristics and Features	SPT definition:	Reduce intensity Scope 1 CO ₂ emissions by 51% by 2030 from a 2020 base year		
	Baseline performance and year:	0.403 t CO ₂ /t of crude steel in 2020		
	Target performance and observation date:	0.197 t CO ₂ /t of crude steel in 2030 Observed on the 31 st of December (of said year in the case of interim SPTs)		
	Trigger event:	The trigger events are to be specified in the bond document.		
	Long-term target:	Reaching a net zero carbon footprint Scope 1 for the whole portfolio of steel production by 2050		
	Strategy and action plan to reach the target:	To reduce its intensity Scope 1 CO ₂ emissions, SIJ is focusing its efforts on six key levers for action: <ul style="list-style-type: none"> ▪ Furnaces and burners upgrades and innovation ▪ Switch from gas to renewable electricity ▪ Switch from gas to hydrogen ▪ Use of biomass ▪ Excess heat utilization ▪ Optimization of production with innovative tools 		
	Key factors/risks beyond the Issuer's direct control that may affect the achievement of the SPTs:	<ul style="list-style-type: none"> ▪ Global growth and demand as it indirectly affects steel production: if no sufficient production is ensured the intensity Scope 1 emission could be higher than expected, whereas when the demand is high the Company is able to optimize production and achieve a more performant intensity footprint. 		
	Recalculations or pro-forma adjustments of baselines	The loan agreement will not include a formal recalculation policy. However, the company does not exclude a recalculation event if relevant, at which point the company expects that it will be fully transparent regarding changes, impacts and outlooks		
SPT set with Borrower/lender group:	The company intends to apply the target levels described in the framework to all future instruments			

¹³ While limited information are available to assess the alignment of SPT 1 with the Paris Agreement, it is worth noting that SIJ's activity covered by the KPI aligns with the European Taxonomy Technical Screening Criteria for climate change mitigation (activity 3.9).

¹⁴ The SPT selection assessment is classified on a 4-level scale: 'No Evidence', 'Limited', 'Good' or 'Robust'. For further information on the ISS methodology related to the SPT assessment please refer to Annex 2 at page 21.

	launched and linked to it. Lenders are expected to follow the targets described in the framework.
SPT 1	
Analysis	The level of ambition of the SPT is assessed as follows:

(i) Against past performance:

The Issuer provided 3 years of relevant historical data, including for the baseline year of 2020. The data are shown in Table 1. Calculating the compound annual growth rate (CAGR) of the past performance shows that the Issuer has achieved an average yearly reduction of 2.12% between 2020 and 2022 (year of historical data and most recent year of data for KPI 1).

TABLE 1.	2020 – BL	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030 – SPT 1
KPI value (in CO ₂ /t of crude steel)	0.40	0.388	0.386	0.394	0.372	0.356	0.3196	0.302	0.272	0.226	0.197
Projected reduction from baseline (in %)		-3.9%	-4.2%	-2.1%	-7.7%	-11.7%	-20.8%	-25.1%	-32.6%	-43.8%	-51%
CAGR 2020 – 2022		-3.9%	-2.12%								
CAGRs 2022- SPT				-2.2%	-1.8%	-2.7%	-4.6%	-4.8%	-5.7%	-7.3%	-8.0%

Source: SIJ Framework BL=Baseline

SIJ sets SPT 1 to achieve a reduction of Scope 1 GHG emissions intensity by 51% in 2030 compared to a 2020 baseline. Calculating the compound annual growth rate (CAGR) amounts to an average of 8% annual reduction between 2022 and 2030. We note that for the years 2023, 2024 and 2025, the CAGR compared to 2022, the reduction rate pace is slower as already achieved in the past. Although, SIJ explains that it is due to the uneven impact of the installation of more efficient fuel burners realized in 2021, that allowed a higher than expected CO₂ reduction for the year 2021. Also, they note that the projected results of CAPEX-investment are not immediate and visible after a few years or in combination with additional investments, that are duly planned by the CAPEX-investment plan of SIJ.

Since the projected average annual reductions to achieve SPT 1 are quantitatively larger than the historical data, we conclude that the SPT is quantitatively ambitious against past performance.

(ii) Against peers:

A benchmarking analysis was conducted to compare SIJ's SPT 1 against a peer group of 31 companies (excluding the Issuer) involved in Iron & Steel production, with NACE code 24.10. In fact, according to SIJ, this particular economic activity represents 90% of its revenue and 97% of its CO₂ emissions.

SIJ is one of 5 companies to currently have any form of CO₂ emissions reduction targets, thus placing it in the top 16% in terms of defining a target. Of these peers, 3 have set intensity targets with similar base years (2018-2020) and horizons (2030-2032), making SIJ's target is more significant in terms of

percentage reduction targeted. However, all companies the peer group have set targets covering Scope 1 & 2 GHG emissions for more than 80% of their operations, whereas SIJ’s target is limited to Scope 1, which represents 43% of the Company’s direct emissions (Scope 1 & 2). Therefore, comparability within the group is limited.

Nonetheless, it can be concluded that SPT 1 set by the Issuer is ambitious against peers on the basis of setting a target.

(iii) Against international targets:

Paris Agreement

SIJ aims at reducing its intensity carbon footprint by 51% by 2030 compared to 2020 level. In order to do it, SIJ will roll-out its decarbonation plan based on optimization, innovation and energy switch. However, limited information were provided by SIJ on how the target have been calibrated against international targets and evaluate its alignment with the Paris Agreement.

European Taxonomy

While there are limited information to assess the alignment of SPT 1 with the Paris Agreement, it is worth noting that 73% of SIJ’s revenue is linked to crude-steel production that is already aligned with the E.U. Taxonomy Technical Screening Criteria¹⁵ of activity 3.9¹⁶ as well as with the Do No Significant Harm Criteria. Furthermore, under the EU taxonomy, there are currently no additional thresholds defined for GHG emissions for steel in Electric Arc Furnaces with this amount of scrap input, which means that setting up an additional target on CO₂ intensity can be seen positively.

Nonetheless, since the SPT has not been benchmarked against science based scenarios, there is limited information to assess ambition against international targets that are based on such scenarios.

Selection of KPI 2

KPI 2 is defined as ‘The proportion of key companies that implemented the ISO 45001 standard’

Opinion	<i>The KPI is relevant, core and material to the Issuer’s overall business. It is appropriately measurable, quantifiable, externally verifiable, benchmarkable, and externally verified. It covers the six key companies of the SIJ Group, which represent 86.92% of its employees.</i>		
Assessment¹⁷	Not Aligned	Aligned	Best Practice
KPI 2	KPI definition:	The number of companies that implement the ISO 45001 standard (verified by a certificate), as a share of the six key companies of SIJ Group.	

¹⁵ We note that SIJ’ steel scrap input is about 98%.

¹⁶ The Company has published a report on the Taxonomy alignment of its activities, available online : <https://www.sij.si/assets/magazine-files/SIJ-Report-Environmentall-Sust-en-final-web.pdf>

¹⁷ The KPI selection assessment is classified on a 3-level scale: ‘Not Aligned’, ‘Aligned’ or ‘Best Practice’. For further information on the ISS methodology related to the KPI assessment please refer to Annex 2 at page 20.

Characteristics and Features		<p>ISO 45001 is standard for management systems of occupational health and safety (OHS), whose goal is the reduction of occupational injuries and diseases.</p> <p>It specifies requirements for an occupational health and safety (OH&S) management system, and gives guidance for its use, to enable organizations to provide safe and healthy workplaces by preventing work-related injury and ill health, as well as by proactively improving its OH&S performance.</p> <p>It is applicable to any organization that wishes to establish, implement and maintain an OH&S management system to improve occupational health and safety, eliminate hazards and minimize OH&S risks (including system deficiencies), take advantage of OH&S opportunities, and address OH&S management system nonconformities associated with its activities.</p>
	Scope and perimeter:	The KPI covers the six key companies of the SIJ Group. As of December 31 st , 2022, this represents 3,264 out of 3,755 employees (or 86.92%) in the SIJ Group. The SIJ Group is composed of 27 other, much smaller companies, which are excluded from this KPI.
	Quantifiable/Externally verifiable:	The KPI is quantifiable, since it is calculated as the percentage of key companies that implemented the ISO 45001 standard. It is externally verifiable, because ISO 45001 is a leading international standard in the field of Health & Safety. As such, companies implementing this standard have the opportunity to get externally certified.
	Externally verified:	SIJ has been and will keep seeking out ISO 45001 certifications from an independent third party. In addition, the historical and baseline data for the KPI selected have been verified by a qualified third-party, along with future performance.
	Benchmarkable:	By referring to commonly acknowledged Health & Safety standard, the KPI can be comparable with the data reported by other companies. Benchmarking of the SPT in relation to this KPI has been analyzed below.

KPI 2	
Analysis	The KPI is considered:

Relevant to SIJ’s business as its industry is highly and exposed to health & safety risks. Worker safety and accident prevention is considered a key ESG issue faced by the Metals Processing & Production industry according to key ESG standards¹⁸ for reporting and ISS ESG assessment. The US Bureau of

¹⁸ Key ESG Standards include SASB and TCFD, among others.

Labor & Statistics reports that Iron & Steel workers are amongst the most exposed to fatal injuries, at rates 10 times higher than the average for all professions.¹⁹

Core to the Issuer's business as implementing ISO 45001 affects key processes and operations that are core to the business model of the Issuer. As SIJ's activity consists of producing steel, most its key processes are industrial in nature. This will require consultation and cooperation with workers, thorough awareness-raising amongst workers (achieved through training), analyzes of hazards and extraordinary events, followed by the elimination of the causes of hazards and accidents at work. In addition, in order to improve the general safety context with the companies, SIJ plans on adopting the 5S method.²⁰ While intended for productivity, the method has demonstrated impacts in terms of workplace cleanliness,²¹ leading to uncluttered and safer work environments.²² SIJ expects to implement it in a majority of workplaces across the Group.

Material to SIJ's business model and sustainability profile from an ESG perspective:

- The KPI covers the six main companies of the SIJ group, meaning the majority (86.29%) of the Company's direct employees are covered. Conversely, 31 much smaller group companies are not in scope. SIJ explains that currently, certification for these smaller would represent an excessively burdensome effort, and that OH&S is a more material topic in the main companies, where the high-risk industrial processes take place. Nonetheless in the longer run, SIJ expects to certify these companies as well.
- ISO standards do not represent regulatory or legal obligations for companies to certify facilities. However, as an internationally recognized standard, certification is regarded as a reliable indication that standards and management systems are in place. ISO 45001 (previously OHSAS 18001) certification is fairly widespread in the Metals Processing & Production industry, both internationally and in the EU. Meanwhile, SIJ has explained that its companies perform regular monitoring and evaluation of safety performance on-site, including targets and OH&S audits. The monitoring results are included in SIJ Group's annual reporting.

¹⁹ US Bureau of Labor & Statistics, 2021, [Civilian occupations with high fatal work injury rates](#)

²⁰ American Society for Quality (ASQ), 2023, [What are the five s's \(5s\) of lean](#)

²¹ Hernandez et al., 2013, *Revista Chilena de Ingenieria*, [Impact of 5S on productivity, quality, organizational climate and industrial safety in Caucho Metal Ltda.](#)

²² Kabiesz & Bartnicka, 2019, *Multidisciplinary Aspects of Production Engineering*, [5S system as a manner for improving working conditions and safety of work in a production company](#)

Veres et al., 2018, *Procedia Manufacturing*, [Case study concerning 5S method impact in an automotive company](#)

Calibration of SPT 2

SPT 2 is defined as 'Achieve 100% of key of companies with the ISO 45001 certificate'

Opinion	<i>The SPT is (i) ambitious against the Company's past performance, (ii) ambitious against industry peers, and (iii) likely to advanced internationally recognized initiatives. The target is set in a clear timeline and is supported by a strategy and action plan disclosed in the Company's framework.</i>			
Level of Ambition²³	No Evidence	Limited	Good	Robust
SPT 2	SPT definition:	Achieve 100% of key of companies with the ISO 45001 certificate.		
Characteristics and Features	Baseline performance and year:	33% companies certified ISO 45001 in 2022		
	Target performance and observation date:	100% companies certified ISO 45001 in 2026 Observed on the 31 st of December (of said year in the case of interim SPTs)		
	Trigger event:	The trigger events are to be specified in the bond documentation.		
	Long-term target:	ISO 45001 certification for the whole group (i.e., for the 31 smaller companies are currently out of scope).		
	Strategy and action plan to reach the target:	<ul style="list-style-type: none"> ▪ Gap analysis on non-certified companies ▪ Hiring H&S engineers to carry out the implementation tasks of said analysis ▪ Setting up procedures for consultation and participation of workers ▪ Defining OH&S objectives to reduce both injury frequency & severity and designing plans to achieve them ▪ Provision of resources, competences, awareness, communication, documented information ▪ Involving management to drive change ▪ Elaboration of emergency response & contingency plans, which should be regularly reviewed and implemented to verify their effectiveness. The associated emergency drills should be regularly conducted and evaluated, while the organization must maintain documented information. ▪ Monitoring, measuring, analysis, and performance evaluation ▪ Evaluation of compliance, whereby the organization must: (a) define the frequency and methods of conformity evaluation, (b) evaluate compliance through internal audits and take action if necessary, (c) maintain knowledge and understanding of their compliance status with 		

²³ The SPT selection assessment is classified on a 4-level scale: 'No Evidence', 'Limited', 'Good' or 'Robust'. For further information on the ISS methodology related to the SPT assessment please refer to Annex 2 at page 21.

		<p>legal and other requirements, (d) keep documented information on the results of the conformity assessment.</p> <p>SIJ also expects to improve the general safety context in the company by implementing a productivity approach called the 5S method, which preconizes that employees:</p> <ul style="list-style-type: none"> ▪ Sort – Remove unnecessary items from each area ▪ Set In Order – Organize and identify storage for efficient use ▪ Shine – Clean and inspect each area regularly ▪ Standardize – Incorporate 5S into standard operating procedures ▪ Sustain – Assign responsibility, track progress, and continue the cycle
	Key factors/risks beyond the Issuer’s direct control that may affect the achievement of the SPTs:	There are no key identified macroeconomic factors that may positively and/or negatively influence this KPI.
	Recalculations or pro-forma adjustments of baselines	The loan agreement will not include a formal recalculation policy. However, the company does not exclude a recalculation event if relevant, at which point the company expects that it will be fully transparent regarding changes, impacts and outlooks
	SPT set with Borrower/lender group:	The company intends to apply the target levels described in the framework to all future instruments launched and linked to it. Lenders are expected to follow the targets described in the framework.
SPT 2		
Analysis	The level of ambition of the SPT is assessed as follows:	

(i) Against past performance:

The Issuer provided 3 year of relevant historical data, namely the baseline year of 2022. The data is shown in Table 2. Calculating the average annual change (in percentage points) of the past performance shows that the Issuer has achieved an average Year-over-year (YoY) change of 0 percentage points (pp) between 2020 and 2022.

TABLE 2.	2020	2021	2022 – BASELINE	2023 – INTERIM	2024 – INTERIM	2025 – INTERIM	2026 – SPT 2.1
% of companies with ISO 45001 certification	33%	33%	33%	50%	67%	83%	100%
YoY change in pp		0 pp	0 pp	17 pp	17 pp	16 pp	17 pp

Source: SIJ Framework

SIJ sets SPT 2 to achieve 100% of key companies with an ISO 45001 certification. Calculating the annual change in percentage points amounts to an average of 16.5 pp between 2022 and 2026.

Since the projected average annual increase to achieve SPT 2 is quantitatively larger than the what was observed in the past, we conclude that the SPT is quantitatively ambitious against past performance.

(ii) Against peers:

A benchmarking analysis was conducted to compare SIJ's SPT 2 against a peer group of 31 companies (excluding the Issuer) involved in Iron & Steel production, with NACE code 24.10.

SIJ is one of 4 companies to currently report on the proportion of its business that is certified ISO 45001, thus placing it in the top 13% of the peer in terms of doing so. While all the peers who report currently perform better than SIJ, by targeting 100% on this KPI the company ensures that it will achieve an 86.92% certification rate at the group level, which would place it in the top 3. While it should be noted that the performance by other peers may not be evaluated correctly due to a lack of reporting on their behalf, SIJ's public definition of a target should be recognized.

In fact, in the broader Metals & Processing peer group (which contains a range of smelting and raw material processing companies – which all share some degree of safety considerations with SIJ), companies report more thoroughly on the adoption of this standard. Within the 75 relevant companies (including the issuer) that do so, 31 (or 41%) are not certified. Meanwhile, 33 (or 44%) of companies claim to be ISO 45001 compliant, but do not disclose the share of activities that are certified. SIJ therefore belongs to the peer group of 11 (or 15%) of companies sharing the proportion of certification. Finally, SIJ's targeted performance would place it in the top 5 (or 7%) of companies in terms of perimeter.

On this basis, it can be concluded that SPT 2 set by the Issuer is ambitious against peers.

(iii) Against international targets:

ISO 45001 is an ISO standard for management systems of occupational health and safety (OHS), published in March 2018. The goal of ISO 45001 is the reduction of occupational injuries and diseases, including promoting and protecting physical and mental health. It has been adopted as a national standard by most developed countries, including those of the European Union. Through SPT 2.1, SIJ aims to achieve certification in all of its 6 key companies, which would cover 86.92% of its workforce. Because ISO 45001 is not strictu sensu an international target, there are no quantitative thresholds that have been determined with regards to share of activity that should be covered. Therefore, the highest degree of excellence versus ISO 45001 can only be interpreted as a full certification, since no higher level can be reached.

While SPT 2 does not cover the whole company, it can nevertheless be viewed as likely to advance internationally recognized initiatives.

PART 3: LINKING THE TRANSACTIONS TO SIJ'S ESG PROFILE

A. CONSISTENCY OF SUSTAINABLE FINANCE FRAMEWORK WITH SIJ'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

The SIJ confirms that decarbonization and occupational health and safety are key sustainability objectives for their operation, especially since the Company's operation is highly carbon intensive and could be hazardous if not properly managed.

SIJ recognizes that its operations are carbon intensive. To show their commitment, SIJ is a member of ResponsibleSteel™ since 2021. SIJ also confirms that it is preparing to become a signatory of World Steel Association Sustainability Charter.

In addition to joining industry alliance, SIJ is committed to reduce CO₂ intensity by 51% by 2030 and become Scope 1 GHG emissions carbon neutral by 2050 compared to the 2020 baseline. The Issuer has also outlined a strategy and allocated budgets to implement the strategy. The strategy to achieve the target includes:

- Upgrading furnaces and burner technologies
- Replacing gas with electricity
- Replacing gas with hydrogen
- Reusing waste heat
- Use of Biomass
- Optimising production with advanced tools

SIJ also considers occupational health and safety as key sustainability objective. The Issuer confirms that to ensure occupational safety, both steel plants and SIJ are certified according to ISO 45001: – Occupational health and safety. To implement and certify ISO 45001 in all its six key companies by 2027 is one of its goals. The Company also provide management trainings to enhance production management. Over 100 SIJ Group supervisors and shift managers have completed the course in 2021.

Additionally, according to the Issuer, SIJ Group's six key companies started the certification process to get the Family Friendly Enterprise base-level certificate. The certificate, which the companies under the group received in the first half of 2023, encourages finding suitable solutions to ensure a good work-to-life balance for employees.

To ensure the sustainability strategies are implemented, SIJ has a dedicated team that is responsible for identifying, addressing, and managing risks and opportunities related to climate change. Two vice-presidents, the chief executive officer and the chief financial officer, are members of the team and are responsible for overseeing and coordinating the work of the team. SIJ has defined a set of policies to identify and manage ESG risks. These policies are implemented on a group level. Risk management processes are implemented at each level with designated employees responsible for coordination and reporting.

SIJ publicly discloses its sustainability target and tracks its progress. The information is included in SIJ's annual report, which is prepared in alignment with the GRI standard, and published on its Company website.

SIJ currently does not have any Science-based targets. It is also SIJ's first time issuing Sustainability-Linked instrument.

Consistency with KPIs

KPI 1: SIJ has set decarbonization as one of its priority long-term goals. To achieve this goal, the Company has outlined strategies and has assigned a budget to finance the plans that will decrease their Scope 1 GHG emissions. These strategies focus on switching to less carbon intensive technology and energy source, as well as increasing operational efficiency to reduce energy used. KPI 1 focuses on reducing the Company's Scope 1 and is therefore consistent with its decarbonization objective.

KPI 2: SIJ has set occupational health and safety as one of the key priorities in its sustainability objective. To achieve this, the Issuer will require robust workplace safety measures that are up to international standard, as well as regular oversight on workplace safety. KPI 2 focuses on acquiring internationally-recognized safety certifications and updating workplace safety practices and is therefore consistent with its workplace safety priority.

B. SIJ'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

The Issuer is classified in the Metals Processing & Production Industry, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Responsible sourcing of raw materials
Business ethics
Environmental risks and impacts of operations
Worker safety and accident prevention
Climate protection, energy efficiency and recycling

ESG strengths and points of attention related to the Issuer's disclosures


Leveraging ISS ESG's Research, ISS ESG identified the following strengths and points of attention¹⁸:

STRENGTHS	POINTS OF ATTENTION
Regarding Health and Safety, The company has implemented a Health and Safety Management system certified to ISO 45001 standard across its Manufacturing and Steel Divisions. Further, the company has implemented measures to ensure the protection of workers exposed to hazardous substances.	The company has reported the work-related accident rate and fatal accidents among employees of three major production companies. However, groupwide information is not disclosed. Furthermore, limited information is available regarding the integration of contractors into the health and safety management system, work-related accident rate and fatal accident rate of contractors.
The company has set clearly defined greenhouse gas emission reduction targets. Further, the company's action plan comprises planned measures to achieve greenhouse gas emission reductions. The company also reports on monitoring and mitigation of impacts on freshwater resources and discloses its total freshwater use. Further, the company has reported on its planned measures to achieve water use reductions (e.g.	The company has disclosed limited information regarding the company's energy and greenhouse gas emission intensity of three major production companies, for at least three recent consecutive years.

<p>changes in production processes and technologies).</p>	
<p>The company is committed to promoting circular metal production and the recycling of scrap metal and/or secondary raw materials. Further, some measures are implemented to promote the recycling of scrap metal. In 2022, the ratio of secondary raw material (metal scrap) used to total crude steel production/processing was more than 70%.</p>	<p>The company is committed to respecting human rights. Yet, no information is available on a commitment to respect internationally recognized human rights. Additionally, the company has implemented grievance mechanisms (e.g. a confidential hotline). However, there is limited information available on a strategy to respond to identified actual adverse human rights impacts.</p>
<p>The company has a supplier standard with regard to labor rights and working conditions, and environmental issues.</p>	<p>The company has disclosed limited information regarding the implementation of procedures to ensure compliance with the supplier standard on labor rights and working conditions and the environmental supplier standard.</p>
<p>The company has a code of ethics and has implemented compliance procedures to deal with issues like corruption, conflicts of interest, anti-competitive practices, insider dealing, etc.</p>	<p>The standard requires suppliers to adhere to the UN Universal Declaration of Human Rights. However, there is no requirement to ensure that they are not complicit in human rights violations. Further, the company has established some compliance procedures in the raw materials supply chain, including the facilitation of grievances. However, there is limited information on mandatory human rights screening in the selection procedure for new suppliers and monitoring, auditing of contracted raw materials suppliers and transparency of raw materials supply chain composition.</p>
<p>The company has disclosed information regarding its wastewater and hazardous waste management, and hazardous air emissions. Furthermore, regarding process and facility management, the company conducts risk assessments, inspections regular training for relevant personnel, and monitors safety performance.</p>	<p>Information regarding an emergency response plan, emergency drills, and clear procedures relating to crisis communication with surrounding communities during emergency situations is missing.</p>

Sustainability impact of products and services portfolio

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

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE ¹⁹	DIRECTION OF IMPACT	UN SDGS
Recycling Services	11.72%	CONTRIBUTION	

Breaches of international norms and ESG controversies

At Issuer level

At the date of publication, ISS ESG has not identified any controversy in which the Issuer would be involved.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Metals Processing & Production industry are as follows: Failure to respect the right to just and favorable conditions of work, Strike action and Failure to mitigate climate change impacts.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

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ANNEX 1: ISS ESG Corporate Rating

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

For more information, please visit:

<https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf>

ANNEX 2: Methodology

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

The Sustainable Finance Framework of SIJ, as well as the concept and processes for issuance have been reviewed against the Sustainability-Linked Bond Principles administered by the ICMA / Sustainability-Linked Loan Principles by the LMA. 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 & Loan market by clarifying the approach for issuance.

The alignment of the concept of the SIJ 's issuance has been reviewed against the mandatory and necessary requirements as per the Appendix II - SLB Disclosure Data Checklist of those principles, and against the 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 / Sustainability-Linked Loan Principles, an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT has been conducted.

The analysis has determined whether the KPI selected is core, relevant and material to the Issuer's business model and consistent with its sustainability strategy thanks to long-standing expertise in evaluating corporate sustainability performance and strategy. The analysis also reviewed whether the KPI is appropriately measurable by referring to key reporting standards and against acknowledged benchmarks. Based on the factors derived from the SLBP and using a proprietary methodology, the KPI selection assessment is classified on a 3-level scale:

Not Aligned	Aligned	Best Practice
The KPI is not aligned if one of the core requirement from the SLBP selection of KPIs section is not satisfied.	The KPI is aligned if all the core requirements from the SLBP selection of KPIs section are satisfied.	The KPI follows best practice if all the core requirements from the SLLP selection of KPIs section are satisfied and if the KPI is fully material and follows best-market practices in terms of benchmarkability.

The ambition of the SPT has been analyzed against the Issuer’s own past performance (according to Issuer’s reported data), against the Issuer’s industry peers (for example per ISS ESG Peer Universe data), and against international benchmarks such as the Paris agreement (based on data from the Transition Pathway Initiative or Science-Based Targets initiative). Finally, the measurability and comparability of the SPT, and the supporting strategy and action plan of the Issuer have been evaluated.

Based on the factors derived from the SLBP and using a proprietary methodology, the SPT selection assessment is classified on a 4-level scale:

No Evidence	Limited	Good	Robust
If none of the three dimensions (past performance, industry peers and international benchmarks) are positively assessed.	If the SPT is ambitious against only one of the three dimensions.	If the SPT is ambitious against two of the three dimensions.	If the SPT is ambitious against all the dimensions.

ANNEX 3: Quality management processes

SCOPE

SIJ commissioned ICS to compile a Sustainability-linked Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainable Finance Framework aligns with the ICMA Sustainability-Linked Bond Principles and LMA Sustainability-Linked Loan Principles and to assess the sustainability credentials of its Sustainability-linked Instruments, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Sustainability-Linked Bond Principles
- LMA Sustainability-Linked Loan Principles

ISSUER'S RESPONSIBILITY

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

- Framework

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.

This independent Second Party Opinion of the Sustainability-linked Instruments to be issued by SIJ has been conducted based on a proprietary methodology and in line with the ICMA Sustainability-Linked Bond Principles / LMA Sustainability Loan Principles.

The engagement with SIJ took place between June and July 2023.

ISS' 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 behavior 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 the 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.

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

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

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