

This S&P Global Ratings Second Party Opinion (SPO) represents our opinion on whether the documentation of a sustainable finance framework or program and whether the documentation of a sustainable finance transaction aligns with certain third-party published sustainable finance principles, guidelines, and standards ("Principles"). For more details please refer to the Analytical Approach and Analytical Supplement, available at [spglobal.com](https://www.spglobal.com) under [Sustainable Financing Opinions](#). An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings.

## Second Party Opinion

# Zagrebacki Holding Sustainability-Linked Bond Framework

June 13, 2023

Zagrebački holding d.o.o. (ZGH) and its six subsidiaries (five companies and one institution) are engaged in the distribution and supply of gas, the treatment and supply of water, and the collection and treatment of waste, as well as the management of city cemeteries, pharmacies, markets, outdoor advertisement, parking places, bus terminals, and municipal housing, among others. ZGH is fully owned by the City of Zagreb, Croatia's capital city, that is defining and establishing ZGH's strategy, investment plan, and budget, as well as approving tariff increases and social plans.

ZGH performs its core activities through 12 branches and provides over 50 different services, of which 20 can be considered services of public interest.

In our view, ZGH's Sustainability-Linked Bond Framework, published on June 13, 2023, is aligned with:

 Sustainability-Linked Bond Principles, ICMA, 2020

### Primary Analyst

**Maria Ortiz de Mendivil**  
Madrid  
+34 687007 348  
[maria.omendivil@spglobal.com](mailto:maria.omendivil@spglobal.com)

### Secondary Analyst

**Luisina Berberian**  
Madrid  
+34 91 788 7200  
[luisina.berberian@spglobal.com](mailto:luisina.berberian@spglobal.com)

**Francesca Pisaroni**  
Milan  
+39 34 7242 7606  
[francesca.pisaroni@spglobal.com](mailto:francesca.pisaroni@spglobal.com)

## Issuer's Sustainability Objectives

ZGH's sustainability strategy aims to contribute to the fight against climate change by improving waste management, and by making more sustainable and efficient use of resources such as water and energy in Zagreb. Through its activities, the company intends to reduce its direct and indirect greenhouse gas (GHG) emissions and help improve quality of life for the population of Zagreb. The company aims to contribute to the U.N.'s 2030 Agenda and its Sustainable Development Goals (SDGs), which were set in 2015. In particular, ZGH targets:

- SDG 7 (affordable and clean energy);
- SDG 9 (industry, innovation, and infrastructure); and
- SDG 12 (responsible consumption and production).

ZGH has developed a sustainability-linked financing framework to further align its financing with its sustainability objectives. These include commitments to:


- Increasing the percentage of municipal waste collected separately for recycling or reuse; and
- Increasing the share of renewable energy consumed by the group.

## Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)


KPI	SPT	Baseline	2022 performance
Percentage of municipal waste collected separately (i.e., removed from landfill)	Collect at least 58% of municipal waste separately by 2027	37% (2021)	36%
Renewable electrical energy relative to total electrical energy consumed	By 2028, increase renewable electricity to 70% of total energy consumption	50% (2023)	100%

# Second Party Opinion Summary

## Selection of key performance indicators (KPIs)

<b>Alignment</b>	 ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles.				
<b>KPI 1</b>	Percentage of municipal waste collected separately (i.e., removed from landfill)				
	<table border="1"> <tr> <td>Not aligned</td> <td>Aligned</td> <td><b>Strong</b></td> <td>Advanced</td> </tr> </table>	Not aligned	Aligned	<b>Strong</b>	Advanced
Not aligned	Aligned	<b>Strong</b>	Advanced		
<b>KPI 2</b>	Renewable electrical energy relative to total electrical energy consumed				
	<table border="1"> <tr> <td>Not aligned</td> <td><b>Aligned</b></td> <td>Strong</td> <td>Advanced</td> </tr> </table>	Not aligned	<b>Aligned</b>	Strong	Advanced
Not aligned	<b>Aligned</b>	Strong	Advanced		

## Calibration of sustainability performance targets (SPTs)

<b>Alignment</b>	 ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles.				
<b>SPT 1</b>	Collect at least 58% of municipal waste separately by 2027				
	<table border="1"> <tr> <td>Not aligned</td> <td><b>Aligned</b></td> <td>Strong</td> <td>Advanced</td> </tr> </table>	Not aligned	<b>Aligned</b>	Strong	Advanced
Not aligned	<b>Aligned</b>	Strong	Advanced		
<b>SPT 2</b>	By 2028*, increase renewable electricity to 70% of total energy consumption				
	<table border="1"> <tr> <td>Not aligned</td> <td><b>Aligned</b></td> <td>Strong</td> <td>Advanced</td> </tr> </table>	Not aligned	<b>Aligned</b>	Strong	Advanced
Not aligned	<b>Aligned</b>	Strong	Advanced		

\*The framework states that the observation date for SPT 2 could be set at Dec. 31, 2027, depending on the contract duration period with the electric energy supplier. The latest contract signed by the issuer is available for the period between April 1, 2023, and March 31, 2024. Should this period model be continued, the SPT observation date will remain set at March 31, 2028; alternatively, if the contract is set to a standard calendar year (January to December) ZGH commits to achieve the goal three months earlier, meaning the SPT observation date would be Dec. 31, 2027.

## Instrument characteristics

**Alignment**  ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles.

ZGH will be the sole bond issuer; its subsidiaries will not issue bonds linked to this framework. Following a trigger event, the financial characteristics of the relevant sustainability-linked instrument will change. If the issuer fails to meet the SPTs on the relevant stated observation date, either the coupon will step up until maturity or a one-off premium payment due at maturity will be generated, as specified in the documentation for each bond issue. The framework states that failure to publish reporting on the SPTs on or before the reporting date triggers a presumption that the SPTs have not been met.

## Reporting

**Alignment**  ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles.

**Score**

Not aligned	Aligned	<b>Strong</b>	Advanced
-------------	---------	---------------	----------

ZGH will publish relevant information on its performance against the SPT for each KPI annually, in its annual or sustainability report. The framework states that the report will also detail factors and key actions that contribute to achieving the targets, on a qualitative and quantitative basis, and any re-evaluations of KPIs, restatements of SPTs, and/or clarifications about the scope of KPIs, if required (for instance to achieve comparability of disclosures and/or adapt to eventual changes in methodologies), which we view as a strength of the framework.

## Post-issuance review


**Alignment**  ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles

The issuer commits to make progress against the SPTs for both KPIs, verified annually by an external party and to publish a yearly sustainability report, including a limited assurance statement.

# Framework Assessment

## Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer's sustainability disclosures; and how material it is to the issuer's industry and strategy.

 ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles.

<b>KPI 1</b>	Percentage of municipal waste collected separately (i.e., removed from landfill)	Not aligned	Aligned	<b>Strong</b>	Advanced
--------------	--	-------------	---------	---------------	----------

We assess this KPI, as selected by ZGH, as strong given that the scope, objective, and calculation methodology are clearly articulated and disclosed in the framework, and that it is widely used and easily benchmarkable. We also consider that it responds to the desire to achieve a circular economy, by fostering the recovery, recyclability, and reusability of waste. In addition, we consider this KPI to be aligned with ZGH's strategy to improve the sustainable management of resources and reduce the group's key environmental impacts.

The scope and objective are clearly articulated in the framework. The KPI covers mixed and biodegradable municipal waste and ZGH's own municipal waste, collected by two holding subsidiaries that undertake activities related to waste management: Čistoća and Zrinjevac. By tracking and improving on this KPI, ZGH's objective is to remove a higher proportion of waste streams from landfill and therefore to support the transition toward a circular economy. In our view, this is one of the key issues facing the waste management sector. The World Bank estimates that GHG emissions from waste management (primarily from open dumping and disposal in landfills without landfill gas capture systems) account for 5% of global GHG emissions (1.6 billion tons of carbon dioxide equivalent [tCO<sub>2</sub>e]). Both the Sustainability Accounting Standards Board, and the International Capital Market Association (through its KPI Registry) consider similar KPIs to be core or relevant for utilities and waste management companies.

We consider the KPI to be material to the issuer's sustainability strategy, which is primarily focused on improving waste management to direct a higher percentage of waste streams toward reuse or recycling, instead of to landfill.

The data provided is based on data collected by ZGH itself and has not previously been publicly disclosed or externally verified. That said, data on waste collected is controlled and approved by the Ministry of Economy and Sustainable Development, which makes it benchmarkable, in our view.

<b>KPI 2</b>	Renewable electrical energy relative to total electrical energy consumed	Not aligned	<b>Aligned</b>	Strong	Advanced
--------------	--	-------------	----------------	--------	----------

We consider the second KPI that ZGH has selected to be aligned with the Principles, given that the scope, objective, and calculation methodology are clearly articulated, and that it responds to a material topic for the waste treatment and water supply sectors, for the holding company, and for the City of Zagreb.

The KPI's objective and applicable scope are clearly stated in the framework: that is, to increase the share of renewable electricity consumed by the entire group to 70% in 2028 (or sooner). It intends to achieve this target largely through increasing its installed renewable generation capacity. This has a two-fold benefit, it will continue to decarbonize the group's activities, while increasing its self-sufficiency. We view this as material for the issuer and its sustainability strategy.

## Second Party Opinion


By increasing the renewable generation capacity installed on site, ZGH aligns itself with the Integrated National Energy and Climate Plan 2021-2030 published by the government of Croatia. The plan aims to increase the share of renewable energy consumed to close to 36% in 2030, from about 29% in 2020.

This KPI is widely used in the market, allowing for external benchmarking, and has been calculated from the company's internal data by measuring in MWh how much renewable electricity is purchased from external sources or produced on site, as a share of the total electricity consumed by the group. Nevertheless, we note that while the KPI could be aligned with science-based scenarios, it is not based on science; this constitutes a limitation of the KPI, in our view. Also, as with the first KPI, the issuer has not published data for this one either, nor has it been externally verified in the past.

We believe this KPI is linked to a relevant sustainability issue facing all utilities providers--how to transition to a low-carbon economy (see "[Key Sustainability Factors: Electric Grids and Gas & Water Utilities](#)," published Oct. 16, 2020, on RatingsDirect). However, this KPI only focuses on reducing the holding company's scope 2 emissions. By excluding scopes 1 and 3 emissions, the KPI excludes much of ZGH's overall carbon footprint, which limits our assessment.

### Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics; how the issuer defines the target with reference to either its past performance or to external or competitor benchmarks; and how it explains the factors that could influence future performance.

 ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles.

**SPT 1** Collect at least 58% of municipal waste separately by 2027.

Not aligned

**Aligned**

Strong

Advanced

We believe the ambition, clarity, and characteristics of the target for the first KPI selected by the issuer are in line with the Principles.

The framework provides some information on the strategy and means by which the target will be reached and includes information on past and expected future performance. It also lays out the timeline for target achievement and the expected observation date (Dec. 31, 2027).

The SPT is benchmarked against ZGH's past performance--by end-2022, the holding company had already been able to increase how much municipal waste is separately collected by 7% since 2019. We note that 2020 was an outlier because the increase in volumes of waste collected stemmed mainly from the effects of a strong earthquake in Zagreb in March of that year. In 2021, the municipality introduced a "door-to-door" collection system for paper, plastic, and biowaste, which also resulted in a larger volume of waste being collected and separated. To achieve the target of collecting 58% of municipal waste separately in 2027, ZGH will have to increase the percentage by a further 22 percentage points. Meeting this target will hinge on a significant improvement in waste collection, which we consider is in line with the Principles.

The issuer has provided additional information on how its current performance, in terms of percentage of waste separately collected in Zagreb, compares to that in other regional cities. We note that the current proportion of separately collected waste (37% of total waste in 2021) is above the average for similar cities in Croatia (17% on average for selected municipalities) and is in line with that of other cities in the European Union. However, this information does not fully allow for comparing the ambition of the target to that of other peers.

The framework includes some information regarding ZGH's strategy for achieving its target. It plans to invest in infrastructure to improve the city's waste management; achieve preconditions to close the Jakuševac landfill facility by 2028; and keep internal waste reuse as close to 100% as possible.

## Second Party Opinion

### Baseline

2021	2022	2023	2024	2025	2026	2027
37%	36%	45%	50%	55%	56%	58%

**SPT 2** By 2028, increase renewable electricity to 70% of total energy consumption.

Not aligned

**Aligned**

Strong

Advanced

We believe the ambition, clarity, and characteristics of the SPT linked to KPI 2 are aligned with the Principles. In addition, the issuer has benchmarked the target against those of similar players in the industry and has therefore demonstrated that it is ambitious. The framework provides some information on the strategy by which the target will be reached by the target observation date (March 31, 2028), or sooner (Dec. 31, 2027) should the contract duration period with the energy supplier be set to a standard calendar year (January-December) instead of the current duration period that ends in March each year.

ZGH aims to increase the amount of renewable electricity consumed, as a proportion of total electricity consumed, to 70% by 2028. It includes electricity purchased from external suppliers as well as renewable electricity generated on site in its target. Based on the information provided by the issuer, we understand that it intends to achieve the target by:

- Ensuring that at least 50% of the energy it purchases in future is renewable, and
- Increasing its installed renewable energy capacity to 19.2 MW by 2027 from the 4.2 MW currently installed (biogas).

We understand that the additional 15 MW of on-site solar panels ZGH has committed to installing on its premises will allow it to cover 16%-20% of its total electricity requirements. The strategy also includes defining measures to decrease electricity consumption at the group level.

ZGH's goal of increasing its consumption of renewable energy has a direct effect on its carbon footprint, namely, that it will reduce scope 2 emissions. According to ZGH's own calculations, by reducing its dependency on nonrenewable sources, the company could reduce its scope 2 emissions by approximately 40% compared to the baseline. We view favorably the company's focus on purchasing electricity from renewable sources or producing its own, rather than relying on the purchase of carbon credits. In our view, carbon credits would reduce additionality. That said, the company is currently improving its tracking of scopes 1 and 2 emissions, and has not yet started calculating scope 3 emissions, so we lack visibility on the weight of scope 2 emissions for the holding's overall carbon footprint.

The framework does not include information regarding the issuer's past performance against this target, but we understand that 100% of the electricity purchased in 2022 came from renewable sources and represented 100% of the electricity it consumed. However, ZGH cannot maintain a secure supply of renewable-only energy for the future. Its energy sources depend on those of its electricity provider, state-owned HEP. Around two-thirds of HEP's electricity is derived from nonrenewable sources; therefore, not all consumers can receive electricity that is exclusively from renewable sources. In our view, this could prevent the issuer from reaching its target. It is beyond ZGH's direct control, which we see as a limitation. The issuer has provided a peer benchmarking exercise against nine global utility companies that have set similar renewable electricity consumption targets. The exercise demonstrates that the target of achieving at least 70% renewable electricity consumption by 2027 is more ambitious than those set by other utility players, which we view favorably.

Baseline	By 2027, increase renewable electricity to 70% of total energy consumption			
2023	2024	2025	2026	2027
50%	50%	60%	60%	70%

## Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

✓ ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles.

ZGH will be the sole bond issuer; its subsidiaries will not issue bonds linked to this framework. The issuer commits to include within the final terms and conditions of each sustainability-linked bond a description of the trigger event if it fails to meet the SPT on the relevant observation date.

Following a trigger event, the financial characteristics of the relevant sustainability-linked bond will change so that either the coupon will step up until maturity or a one-off premium payment will become due at maturity. The specific adjustment will be stated in the corresponding bond documentation. Moreover, the framework states that failure to publish reporting on an SPT at or before the relevant date will trigger a presumption that the SPT has not been met.

## Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✓ ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles

### Disclosure score

Not aligned

Aligned

**Strong**

Advanced

We consider ZGH's overall reporting practices to be strong.

ZGH commits to publish relevant information on the performance against the SPTs for both KPIs annually, in its annual or sustainability report. The framework states that the report will also include information regarding factors and key actions that contribute to the achievement of the targets, on a qualitative and quantitative basis, and any re-evaluations of KPIs, restatement of SPTs, and/or clarifications of the scope of KPIs, if required (for instance to achieve comparability of disclosure, or adapt to eventual changes in methodologies), which we view as a strength of the framework. The report will be published, together with the limited assurance report, by an external third party.

## Post-issuance review

The Principles require post-issuance review commitments, including the type of post-issuance third-party verification, its periodicity, and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

✓ ZGH's Sustainability-Linked Bond Framework is aligned with this component of the SLBP Principles

The achievement of KPI 1 and KPI 2 will be subject to annual verification by an external party. This verification will be at limited assurance and will be performed by a qualified external reviewer with relevant expertise.



## Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

ZGH's Sustainability-Linked Bond Framework intends to contribute to the following SDGs:

### Use of proceeds/KPI

---

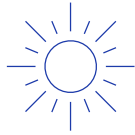
Percentage of municipal waste collected separately (i.e., removed from landfill)



### 12. Responsible consumption and production\*

---

Renewable electrical energy relative to total electrical energy consumed



### 7. Affordable and clean energy\*

---

\*The KPI is likely to contribute to the SDGs.

## Second Party Opinion

Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P) receives compensation for the provision of the Sustainable Financing Opinions product (Product). S&P may also receive compensation for rating the transactions covered by the Product or for rating the issuer of the transactions covered by the Product. The purchaser of the Product may be the issuer.

The Product is not a credit rating and does not consider credit quality or factor into our credit ratings. The Product does not consider, state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product encompasses Second Party Opinions and Transaction Evaluations. Second Party Opinions consider features of a financing transaction and/or financing framework and provide an opinion regarding alignment with certain third-party published sustainable finance principles and guidelines ("Principles"). For a list of the Principles addressed by our Second Party Opinions, see the Analytical Approach and Analytical Supplement, available at [www.spglobal.com](http://www.spglobal.com). Transaction Evaluations provide an opinion which reflects our assessment of the potential relative environmental benefit of the funded or resilience projects. The Product is a statement of opinion and is neither a verification nor a certification. The Product is a point in time evaluation reflecting the information provided to us at the time that the Product was created and published, and is not surveilled. The Product is not a research report and is not intended as such.

S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Product. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for reliance of use of information in the Product, or for the security or maintenance of any information transmitted via the Internet, or for the accuracy of the information in the Product. The Product is provided on an "AS IS" basis. S&P PARTIES MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDED BUT NOT LIMITED TO, THE ACCURACY, RESULTS, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE PRODUCT, OR FOR THE SECURITY OF THE WEBSITE FROM WHICH THE PRODUCT IS ACCESSED. S&P Parties have no responsibility to maintain or update the Product or to supply any corrections, updates or releases in connection therewith. S&P Parties have no liability for the accuracy, timeliness, reliability, performance, continued availability, completeness or delays, omissions, or interruptions in the delivery of the Product.

To the extent permitted by law, in no event shall the S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence, loss of data, cost of substitute materials, cost of capital, or claims of any third party) in connection with any use of the Product even if advised of the possibility of such damages.

S&P maintains a separation between commercial and analytic activities. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

For PRC only: Any "Sustainable Financing Opinions" or "assessment" assigned by S&P Global Ratings: (a) does not constitute a credit rating, rating, sustainable financing framework verification, certification or evaluation as required under any relevant PRC laws or regulations, and (b) is not intended for use within the PRC for any purpose which is not permitted under relevant PRC laws or regulations. For the purpose of this section, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.