

ASSESSMENT

24 February 2026



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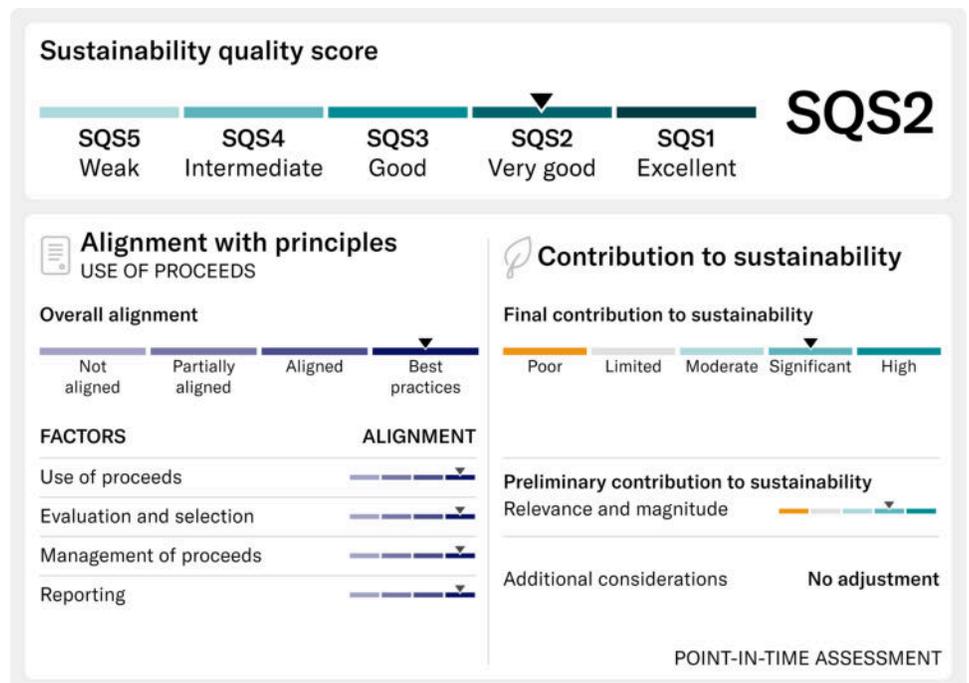
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Zagrebački Holding D.O.O.

Second Party Opinion – Circular Economy Green Financing Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (very good) to Zagrebački Holding D.O.O.'s circular economy green financing framework dated November 2024. Zagrebački Holding has established its framework with the aim of financing projects across four eligible categories — Separate collection and sorting of end-of-life products and materials (organic and non-organic); Material & resources management, upcycling, recycling and recovery; Sustainable water and wastewater management; and Renewable energy. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2025 and the Green Loan Principles (GLP) 2025 of the Loan Market Association, the Asia Pacific Loan Market Association and the Loan Syndications & Trading Association (LMA/APLMA/LSTA). The issuer has also incorporated all Moody's Ratings identified best practices for all four components. The framework also demonstrates a significant contribution to sustainability.



Scope

We have provided a second party opinion (SPO) on the sustainability credentials of Zagrebački Holding's circular economy green financing framework, including the framework's alignment with the ICMA's Green Bond Principles (GBP) 2025 and the LMA/APLMA/LSTA's Green Loan Principles (GLP) 2025. Under its framework, the issuer plans to issue instruments to finance projects under four eligible categories — Separate collection and sorting of end-of-life products and materials (organic and non-organic); Material & resources management, upcycling, recycling and recovery; Sustainable water and wastewater management; and Renewable energy, as outlined in Appendix 3 of this report.

Our assessment is based on the last updated version of the framework received on 24 February 2026, and our opinion reflects our point-in-time assessment¹ of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our [Assessment Framework: Second Party Opinions on Sustainable Debt](#), published in October 2025.

Issuer profile

Zagrebački Holding (ZGH) was established by the City of Zagreb, Croatia's capital and its largest city. The company has 12 branches and five subsidiaries (majority owned), each dedicated to a distinct function. The institutional framework of ZGH is largely shaped by decisions made by the city, except for its gas business operations and water business, which are governed by regulations from the central government. With over 7,400 employees, it is the largest corporate employer in Croatia.

Environmental risk exposures of ZGH relate to water shortage and flood risk. Social risks stem from socially driven policy agendas and are also affected by the impact of demographic trends and customer relationships on demand.

Strengths

- » Eligible project categories address a wide range of environmental objectives that are relevant to the issuer's operating activities and to Croatia in general.
- » Waste management practices will comply with rigorous established standards, such as the EU Waste Directive and the IFC Performance Standards.
- » The short maximum-proceed allocation period of 24 months is in line with market best practices.

Challenges

- » Several eligible technologies lack technical thresholds or criteria to demonstrate alignment with stringent standards; notably, the vehicle fleet will be running on fossil fuels.

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Alignment with principles

Zagrebački Holding is aligned with the ICMA's GBP 2025 and the LMA/APLMA/LSTA's GLP 2025. The issuer has also incorporated Moody's Ratings identified best practices for all four components. For a summary alignment with the principles scorecard, please see Appendix 1.

- | | |
|---|---|
| <input checked="" type="checkbox"/> Green Bond Principles (GBP) | <input checked="" type="checkbox"/> Green Loan Principles (GLP) |
| <input type="checkbox"/> Social Bond Principles (SBP) | <input type="checkbox"/> Social Loan Principles (SLP) |
| <input type="checkbox"/> Sustainability-Linked Bond Principles (SLBP) | <input type="checkbox"/> Sustainability Linked Loan Principles (SLLP) |

Use of proceeds



Clarity of the eligible categories – BEST PRACTICES

ZGH has clearly communicated the nature of the expenditure for its four eligible categories, which include capital and operational expenses, along with indirect lending to projects. Further, ZGH has specified clear eligibility and exclusion criteria for all projects. The location of eligible projects is defined as within Croatia.

Clarity of the environmental or social objectives – BEST PRACTICES

The company has outlined several environmental objectives across four eligible categories, identifying specific objectives as particularly relevant to each. Among the objectives identified by the issuer, the most relevant ones include pollution prevention and control, transitioning towards a circular economy, protecting water resources and mitigating climate change.

These environmental objectives are coherent with internationally established standards, including those set by the United Nations' Sustainable Development Goals (UN SDGs) and the EU Taxonomy's Climate and Environmental Delegated Acts for sustainable actions.

Clarity of expected benefits – BEST PRACTICES

ZGH has identified relevant benefits for each of the eligible categories. The benefits are clear and measurable, and will be quantified in the ongoing reporting. The company does not anticipate the need for refinancing; however, should the need arise, it is committed to disclosing the share of refinancing before any issuance occurs on its website and to reporting this information in its post-issuance sustainability report. The lookback period is 24 months before each relevant issuance under the framework.

Process for project evaluation and selection



Transparency and clarity of the process for defining and monitoring eligible projects – BEST PRACTICES

ZGH has established a clear process for evaluating and selecting eligible projects, encompassing decision-making criteria, and clearly defined roles and responsibilities, all of which are formalised in its publicly available framework. The established green finance committee will monitor continued compliance of the selected projects with eligibility and exclusion criteria throughout the life of the financial instruments. If a financial instrument fails to meet the eligibility criteria, ZGH will initially attempt remediation and corrective measures. Should these efforts prove unsuccessful or if the project inherently cannot meet green standards, it will be excluded from green financing and its funds will be redirected to a compliant green project. For loans, this process will be outlined in the agreement with the International Finance Corporation (IFC).

An environmental and social risk mitigation process will be disclosed to each lender or investor. Additionally, the IFC, as a lender, does public disclosure of all the projects it finances.

Management of proceeds



Allocation and tracking of proceeds – BEST PRACTICES

ZGH has established a structured process within its framework for the allocation and tracking of proceeds. The net proceeds from issuances will be deposited into a bank account specifically created for this sole purpose. The framework outlines that adjustments to the allocation of proceeds to eligible projects will be made annually, with the possibility of more frequent adjustments should the need arise for larger or more specific allocations. The period for allocation is capped at 24 months. According to the framework's public disclosure, any proceeds that remain unallocated will be temporarily invested in liquidity operations.

Reporting



Reporting transparency – BEST PRACTICES

The company has committed to publish annual reports on the allocation and impacts of the funds until instrument maturity. These reports, accessible on ZGH's website, will provide detailed information on how the proceeds are used, the sustainable impact of the funded projects through relevant indicators, and any material issues or controversies related to the projects or assets. However, the reduction in GHG emissions indicator associated with the new vehicle fleet will be reported only once. The methodologies and assumptions for calculating environmental benefits will be detailed in the annual sustainability report. An independent auditor will annually verify both the allocation and tracking of funds, as well as the environmental benefits reported from the financed projects.

Contribution to sustainability

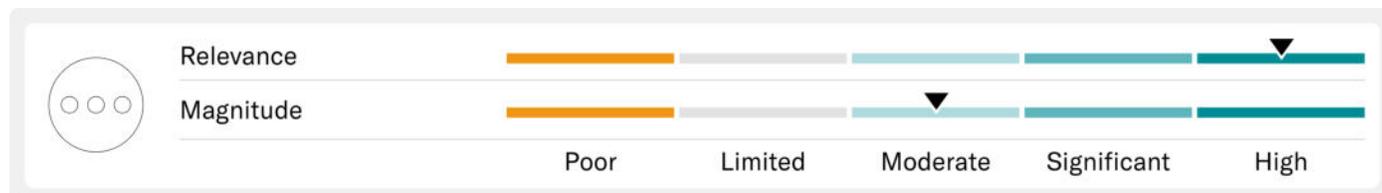
The framework demonstrates a significant overall contribution to sustainability. This reflects a preliminary contribution to sustainability score of significant, based on the relevance and magnitude of the eligible project categories, and we have not made any adjustment to the preliminary score based on additional contribution to sustainability considerations.



Preliminary contribution to sustainability

The preliminary contribution to sustainability is significant, based on the relevance and magnitude of the eligible project categories. The company indicated that most of the proceeds will be allocated to the first and second categories, and we have weighted the score accordingly. A detailed assessment by eligible category has been provided below.

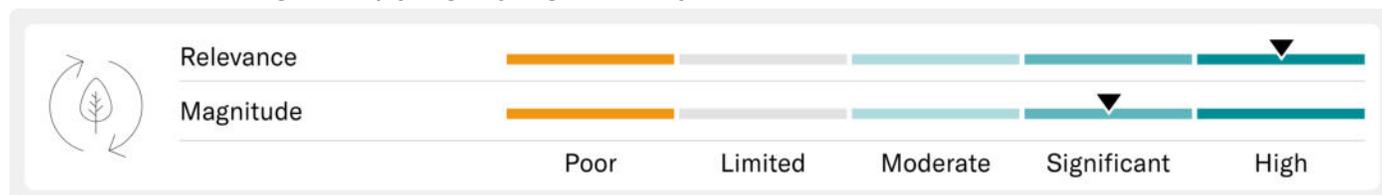
Separate collection and sorting of end-of-life products and materials (organic and non-organic)



Investing in waste collection and separation, including sorting of end-of-life products, is highly relevant for ZGH and for Croatia in general, where annual waste generation reaches six million tons, primarily from construction and household sources². In 2021, only 43% of municipal waste was collected, with only 23% through separate waste services. A significant portion of the waste ends up in landfills, notably in Zagreb, which accounts for 21% of the national waste. The Croatian government is working towards meeting EU directives to substantially reduce landfill use from 58% to 10% and increase recycling from 31% to 65% by 2035³. However, the country faces challenges in achieving the EU's required 50% recycling rate and meeting landfill diversion targets.

The magnitude of this eligible category is deemed moderate, attributable to missing market thresholds and the selection of specific technologies that create a greenhouse gas (GHG) emissions lock-in. The eligible category spans various waste treatment activities, where the collection and sorting activities mainly focus on waste from recovery processes. In terms of end-use products, references are made to the creation of construction materials, electrical energy from landfill gas and compost from biowaste. Although specific details on recycling services and systems are lacking, the projects are designed to optimise the recycling processes. This enhancement aims to improve both the efficiency of the process and the amount of waste that is processed for recycling, an effort that is recognised as a constructive advancement. Hazardous material management is handled by specialised companies certified to meet EU Waste Directive and IFC Performance Standards, reflecting a commitment to high market standards. However, the commitment for waste collection vehicles to adhere to the EURO VI standard, despite being an improvement over older models, highlights a compromise; these vehicles still emit GHGs because of their dependency on fossil fuel, indicating a gap from the technological forefront. Notably, a significant portion of the budget is allocated for these EURO VI vehicles without plans for a shift towards zero-emission options. There is also a notable absence of information on energy-efficiency criteria for specialised equipment, such as that used in maintaining urban greenery. Despite their potential for long-term benefits, the eligible projects carry inherent negative externalities and do not consistently employ top-tier technology.

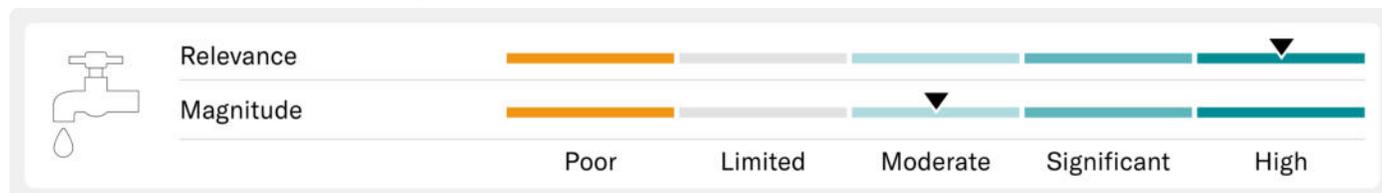
Material & resources management, upcycling, recycling and recovery



The high relevance of material and resource management, along with the need for upcycling, recycling and recovery, stems from Croatia's low resource productivity and, despite some progress, sustained low rates of recycling. The country faces a substantial deficiency in its infrastructure for waste reuse and recovery, with only one dedicated centre for waste recovery and one for reuse available nationwide. In 2020, Croatia achieved a recycling rate of 46.2% for its total waste, managed to recover 3.3% through backfilling and transformed 1.5% of waste into energy, which culminated in an overall waste recovery rate of 51%⁴. However, the lack of adequate waste treatment facilities means that a significant portion of waste is either landfilled or exported.

The magnitude of this eligible category is significant because in some cases the thresholds defined are not in line with the most stringent market standards. Financing will be provided for various facilities involved in reuse, recycling and composting activities. The issuer pledges to adhere to the waste hierarchy, demonstrating a commitment to high industry standards. Additionally, environmental impact assessments will be conducted before the construction of new facilities. In terms of composting activities, stringent criteria for feedstock selection will be applied, including the use of woody residues from bulky waste, with the resulting compost being used as fertiliser or soil enhancer. On the other hand, there is lack of detailed information about the technologies used and information about specific GHG emissions from recycling processes at the selected facilities, including information about their operational energy needs. Such details would be particularly valuable, especially since non-recyclable materials and rejections from selective waste collection are destined for incineration. Additionally, monitoring of methane leakage will be conducted for only one of the two existing facilities dedicated to composting.

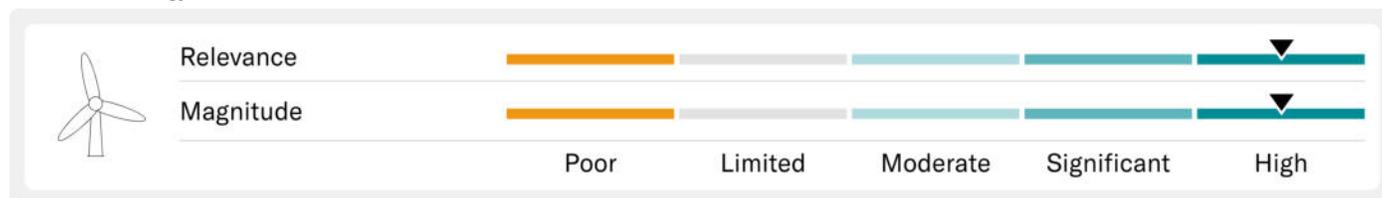
Sustainable water and wastewater management



The relevance of this category is high as it addresses a crucial sustainability issue in Croatia. The country lacks an efficient system for managing sewage sludge from its wastewater treatment facilities. Most of this sludge is either temporarily stored or sent to landfills, while only a small portion is used for agriculture or composting⁵. Additionally, a mere 7% of Croatia's urban wastewater undergoes treatment in accordance with the Urban Waste Water Treatment Directive (UWWTD), markedly below the EU average of 76%⁶.

The magnitude of this category is moderate. While the projects are expected to have a long-term positive impact on the stated environmental objectives of pollution prevention and control, and protection of water resources, there is a lack of details regarding thresholds in line with stringent standards. These include minimum energy efficiency, eligible technologies and GHG emissions reduction, which limits visibility into the associated environmental risks and the full extent to which projects will contribute to the stated environmental objectives. All collected wastewater is purified in accordance with legislation and then discharged into the recipient river, Sava. Additionally, this water can be reused for irrigation. Although sludge is treated using anaerobic digestion, the percentage of biogas captured is unknown. The company has shared through internal documentation that while the volume of sludge will decrease, the residual portion will be incinerated. Currently, visibility into network efficiency is lacking, including issues like over-extraction and water losses.

Renewable energy



This category is highly relevant as renewable energy plays an essential role in Croatia's decarbonisation efforts. The country continues to depend predominantly on coal, oil and natural gas, and has a rather low uptake of solar photovoltaics (PV). Adopting renewable energy sources as part of the strategy directly contributes to decarbonisation efforts, aiming to reduce emissions associated with water treatment and distribution processes.

The magnitude of this category is high, as we expect projects to have a highly positive contribution to sustainability on the objective of climate change mitigation. These projects aim to generate electricity using solar PV technology, specifically through roof-mounted installations. They are likely to have a long-term positive impact without generating any lock-in effects.

Additional contribution to sustainability considerations

We have not made any adjustment to the preliminary contribution to sustainability score based on additional considerations.

The issuer employs a robust due diligence process for identifying and managing environmental and social (E&S) risks associated with the financed projects. At the group level, ZGH has policies aimed at environmental conservation and ensuring occupational health and safety, aligning with EU regulations and including mandatory environmental impact assessments in accordance with national legislation. Projects are also subject to an ESG risk evaluation using a specific checklist before receiving approval. For those financed by the IFC, an Environment and Social Action Plan (ESAP) is created, consistent with IFC Performance Standards. After financing, projects are annually monitored through data gathering, stakeholder consultations and potentially third-party audits, covering the projects' entire lifecycle. For projects with notable potential impacts, evaluations after completion might be performed to understand long-term consequences. ZGH is aware of the possible negative environmental effects from its operations, like air emissions and hydrocarbon spills, and has initiated an environmental monitoring programme to oversee emissions during construction phases.

Separately, it is important to note the broader regulatory context in the country. The European Commission referred Croatia to the Court of Justice of the European Union for failing to comply with a 2019 judgement related to an illegal landfill in Biljane Donje, where waste was improperly disposed of,² highlighting the critical importance of proper waste disposal and environmental compliance.

On the human resources front, ZGH has aligned its occupational health and safety (OHS) and human resources policies to comply with local and EU labour laws and IFC Performance Standards. This includes a new Collective Agreement in 2023 that standardises employment conditions across its subsidiaries. The company is also improving its worker grievance mechanisms, updating its OHS management system with detailed incident reporting, and creating a Contractor Management Procedure to ensure compliance with its ESAP and the IFC's standards.

ZGH's framework is coherent with the company's broader sustainability strategy. This acknowledges the critical role of resource management in mitigating the environmental impact of its operations. This encompasses a waste management system, water extraction and protection, and enhanced reliance on renewable energy sources. To address these challenges, the sustainability strategy focuses on improving waste management to adhere to circular economy principles, boosting renewable energy use, enhancing water management to reduce usage, cutting GHG emissions through better energy practices and fleet renewal, elevating urban life in Zagreb via environmental and agricultural initiatives, and fostering inclusivity for equal rights and opportunities.

Appendix 1 - Alignment with principles scorecard for Zagrebački Holding's circular economy green financing framework

Factor	Sub-factor	Component	Component score	Sub-factor score	Factor score	
Use of proceeds	Clarity of the eligible categories	Nature of expenditure	A	Best practices	Best practices	
		Definition of content, eligibility and exclusion criteria for nearly all categories	A			
		Location	A			
		BP: Definition of content, eligibility and exclusion criteria for all categories	Yes			
	Clarity of the objectives	Relevance of objectives to project categories for nearly all categories	A	Best practices		
		Coherence of project category objectives with standards for nearly all categories	A			
		BP: Objectives are defined, relevant and coherent for all categories	Yes			
	Clarity of expected benefits	Identification and relevance of expected benefits for nearly all categories	A	Best practices		
		Measurability of expected benefits for nearly all categories	A			
		BP: Relevant benefits are identified for all categories	Yes			
		BP: Benefits are measurable for all categories	Yes			
		BP: Disclosure of refinancing prior to issuance and in post-allocation reporting	Yes			
		BP: Commitment to communicate refinancing look-back period prior to issuance	Yes			
	Process for project evaluation and selection	Transparency and clarity of the process for defining and monitoring eligible projects	Clarity of the process	A		Best practices
			Disclosure of the process	A		
Transparency of the environmental and social risk mitigation process			A			
BP: Monitoring of continued project compliance			Yes			
Management of proceeds	Allocation and tracking of proceeds	Tracking of proceeds	A	Best practices		
		Periodic adjustment of proceeds to match allocations	A			
		Disclosure of the intended types of temporary placements of unallocated proceeds	A			
		BP: Disclosure of the proceeds management process	Yes			
		BP: Allocation period is 24 months or less	Yes			
Reporting	Reporting transparency	Reporting frequency	A	Best practices		
		Reporting duration	A			
		Report disclosure	A			
		Reporting exhaustivity	A			
		BP: Allocation reporting at least until full allocation of proceeds, and impact reporting until full bond maturity or loan payback	Yes			
		BP: Clarity and relevance of the indicators on the sustainability benefits	Yes			
		BP: Disclosure of reporting methodology and calculation assumptions	Yes			
BP: Independent external auditor, or other third party, to verify the tracking and allocation of funds	Yes					
		BP: Independent impact assessment on environmental and social benefits	Yes			
Overall alignment with principles score:					Best practices	

Legend: BP - Best practice, A - Aligned, PA - Partially aligned, NA - Not aligned

Appendix 2 - Mapping eligible categories to the United Nations' Sustainable Development Goals

The four eligible categories included in Zagrebački Holding's framework are likely to contribute to four of the United Nations' Sustainable Development Goals (SDGs), namely:

UN SDG 17 Goals		SDG Targets
GOAL 7: Affordable and Clean Energy	<i>Renewable energy</i>	7.2: Increase substantially the share of renewable energy in the global energy mix
GOAL 9: Industry, Innovation and Infrastructure	<i>Material & resources management, upcycling, recycling, and recovery</i>	9.1: Develop sustainable infrastructure to support economic development and human well-being, focusing on equitable access
	<i>Sustainable water and wastewater management</i>	
GOAL 12: Responsible Consumption and Production	<i>Separate collection and sorting of end-of-life products and materials (organic and non-organic)</i>	12.2: Achieve the sustainable management and efficient use of natural resources
	<i>Material & resources management, upcycling, recycling, and recovery</i>	12.4: Achieve environmental management of chemicals and all wastes, and reduce their release to air, water and soil
	<i>Sustainable water and wastewater management</i>	12.5: Substantially reduce waste generation through prevention, reduction, recycling and reuse
GOAL 13: Climate Action	<i>Sustainable water and wastewater management</i>	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The United Nations' Sustainable Development Goals (SDGs) mapping in this SPO considers the eligible project categories and associated sustainability objectives/benefits documented in the issuer's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 3 - Summary of eligible categories in Zagrebački Holding's framework

Eligible Categories	Description	Sustainability Objectives	Impact Reporting Metrics
Separate collection and sorting of end-of-life products and materials (organic and non-organic)	<ul style="list-style-type: none"> Separate collection, transport and transfer of hazardous and non-hazardous waste for both municipal and industrial clients for reuse or recycling Procurement of specialized vehicles, containers and equipment for municipal and non-hazardous construction & demolition waste collection and transport Procurement of specialized equipment for mowing grass, maintaining green urban spaces, collecting and transporting green biowaste Collection and recovery services and systems to increase recycling Procurement of specialized equipment and development of services for urban cleaning activities Design, construction, installation, and operations of waste sorting and treatment facilities (and related infrastructures and management systems) Technical criteria for eligible vehicles: The activity utilizes waste collection vehicles which conform to at least EURO VI standards 	<ul style="list-style-type: none"> Pollution Prevention and Control & Transition to a circular economy Climate change mitigation Public health and hygiene Reduction of pressure on urban biodiversity 	<ul style="list-style-type: none"> Total of waste collected (t) Total sorted waste collected (t) Total bio-waste collected (t) Total waste sorted (t) / prepared for reuse or recycling (t) Number of collection points that improve recycling rates Reduction of GHG emissions (CO2t eq)
Material & resources management, upcycling, recycling, and recovery	<ul style="list-style-type: none"> Design, construction, installation, and operation of facilities prepping for materials re-use and recycling facilities (and related infrastructures) Biomass composting facilities 	<ul style="list-style-type: none"> Pollution Prevention and Control & Transition to a circular economy Climate change mitigation 	<ul style="list-style-type: none"> Production of compost (% on organic waste in input) Share of waste recycled (defined as total recycled outputs (incl. secondary raw materials produced and materials prepared for further recovery) divided by total inputs) Amount of raw materials recovered (t) Energy recovered (kWh) Reduction of GHG emissions thanks to recycling / re-purposing (CO2t eq) Amount of biodegradable waste that is recovered (t)
Sustainable water and wastewater management	<ul style="list-style-type: none"> Design, construction, extension, improvements, and/or operation & maintenance of wastewater collection and treatment infrastructure 	<ul style="list-style-type: none"> Pollution prevention and control Protection of water resources Climate change adaptation 	<ul style="list-style-type: none"> Annual volume of wastewater treated (l) Annual volumes of wastewater re-used (l) Annual volume of sludge treated and not landfilled (t) Remediation and new sustainable infrastructure for wastewater and /or, clean and/or drinking water (km) Annual reduction of drinking water loss (l)
Renewable energy	<ul style="list-style-type: none"> Design, construction, installation, and operation of solar plants 	<ul style="list-style-type: none"> Climate change mitigation 	<ul style="list-style-type: none"> Renewable energy produced from (kWh) Share of renewable energy in total consumption (%)

Endnotes

- [1](#) Point-in-time assessment is applicable only on the date of assignment or update.
- [2](#) Ministry of Foreign Affairs, [Circular Economy and Waste Management in Croatia](#), January 2023.
- [3](#) World Bank Group, [From Raw Material to Waste and Back — Integrating Circular Economy Principles in Croatia's Construction Waste Management](#), June 2023.
- [4](#) Republic of Croatia, Ministry of Economy and Sustainable Development, [Waste Management Plan of the Republic of Croatia for the Period from 2023 to 2028](#), July 2023.
- [5](#) Republic of Croatia, Ministry of Economy and Sustainable Development, [Waste Management Plan of the Republic of Croatia for the Period from 2023 to 2028](#), July 2023.
- [6](#) WISE-Freshwater - Freshwater Information System for Europe, [Croatia](#), Accessed November 2024.
- [7](#) [The European Commission decides to refer CROATIA back to the Court of Justice of the European Union for continued pollution problems caused by an illegal landfill, European Commission](#), February 2023.

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