

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Borrower and Green Loan

Salzgitter Flachstahl GmbH

7 March 2024

VERIFICATION PARAMETERS

Type(s) of instruments contemplated

- Green Loans

Relevant standards

- Green Loan Principles (GLP), as administered by the Loan Market Association (LMA) (as of February 2023)
- EU Taxonomy Climate Delegated Act (as of June 2023)

Scope of verification

- Salzgitter Flachstahl GmbH Green Loan Characteristics (as of December 14, 2023)

Lifecycle

- Pre-issuance verification

Validity

- As long as there is no material change to the Green Loan's Characteristics (as of December 14, 2023)

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SCOPE OF WORK

Salzgitter Flachstahl GmbH (“Salzgitter” or “Borrower”) commissioned ISS-Corporate to assist with its Green Loan by assessing four core elements to determine the sustainability quality of the instruments:

1. Salzgitter Flachstahl GmbH’s Green Loan (as of December 14, 2023) – benchmarked against the Loan Market Association’s (LMA) Green Loan Principles (GLP).
2. The Green Loan Characteristics¹ – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. The alignment of the project categories with the EU Taxonomy on a best-efforts basis²– whether the nominated project categories located in Germany are aligned with the EU Taxonomy Technical Screening Criteria (including Substantial Contribution to Climate Change Mitigation Criteria and Do No Significant Harm Criteria) and Minimum Safeguards requirements as included in the EU Taxonomy Climate Delegated Act (June 2023)³.
4. Consistency of the Green Loan Characteristics with Salzgitter’s Sustainability Strategy – drawing on the key sustainability objectives and priorities defined by the Borrower.

¹ As displayed under Part II of this SPO.

² Whilst the Final Delegated Act for Mitigation and Adaptation were published in June 2023, the Technical Screening Criteria allow for discretion on the methodologies in determining alignment in certain cases. Therefore, at this stage, the alignment with the EU Taxonomy has been evaluated on a “best efforts basis”.

³ Commission Delegated Regulation (EU) 2021/2139 of June 2021, URL <https://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:32021R2139>

SALZGITTER FLACHSTAHL GMBH OVERVIEW

Salzgitter Flachstahl GmbH is the largest steel subsidiary in the Salzgitter Group. The subsidiary engages in the manufacture of steel. It operates through the following segments: Strip Steel, Plate and Section Steel and Mannesmann. The Strip Steel segment manufactures hot-rolled strip steel and steel sheet, sections, and tailored blanks. The Plate and Section Steel segment produces a broad spectrum of plate products. The Mannesmann segment comprises of line pipes, HFI-welded tubes, precision tubes, and stainless steel tubes. The company was founded on September 6, 1858 and is headquartered in Salzgitter, Germany.


ESG risks associated with the Borrower Industry

Salzgitter Flachstahl GmbH is classified in the Metals Processing & Production industry, as per ISS ESG's sector classification. Key sustainability issues faced by companies⁴ in this industry are: Responsible sourcing of raw materials, Business ethics, Environmental risks and impacts of operations, Worker safety and accident prevention, Climate protection, energy efficiency and recycling.

This report focuses on the sustainability credentials of the issuance. Part III. of this report assesses the consistency between the loan and the Borrower's overall sustainability strategy.

⁴ Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ⁵
Part I: Alignment with GLP	The Borrower has defined a formal concept for its Green Loan regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the LMA's Green Loan Principles.	Aligned
Part II: Sustainability quality of the Eligibility Criteria	<p>The Green Loan will finance eligible asset categories which include:</p> <p>Manufacturing of Iron and Steel</p> <p>The process-related use of proceeds category Manufacturing of Iron and Steel improves (i) the Borrower's operational impacts and (ii) mitigate potential negative externalities of the Borrower's sector on the following SDGs:</p> <div style="text-align: center;">  </div>	Aligned
Part III: Alignment with the EU Taxonomy Climate Delegated Act	<p>The project's characteristics, Salzgitter's due diligence processes and policies have been assessed against the requirements of the EU Taxonomy (Climate Delegated Act of June 2023), on a best effort basis⁶. The nominated project categories are considered to be:</p> <ul style="list-style-type: none"> ▪ Aligned with the Climate Change Mitigation Criteria⁷ ▪ Aligned with the Do No Significant Harm Criteria ▪ Aligned with the Minimum Safeguards requirements 	
Part IV:	The key sustainability objectives and the rationale for issuing Green Loan are clearly described by the	Consistent with

⁵ The evaluation is based on the Salzgitter's Green Loan (December 2023 version), on the analysed Eligibility Criteria as received on December 14, 2023.

⁶ Throughout this report and in the context of the EU Taxonomy, "best efforts" basis reflects the fact that while the Final Delegated Act for Mitigation and Adaptation were published in June 2021, the Technical Screening Criteria allow for discretion on the methodologies in determining alignment in certain cases. Therefore, at this stage the alignment with the EU Taxonomy has been evaluated on a "best effort basis".

⁷ Based on the thresholds as defined by the Commission Delegated Regulation of 30.1.2024 amending Delegated Regulation (EU) 2019/331 as regards transitional Union-wide rules for harmonized free allocation of emission allowances, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13861-EU-emissions-trading-system-ETS-update-of-the-free-allocation-rules_en.

SECOND PARTY OPINION

Sustainability Quality of the Borrower
and Green Loan



ISS-CORPORATE 

Linking the transaction(s) to Salzgitter AG's ESG profile	Borrower. The project category considered is in line with the sustainability objectives of the Borrower. At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.	Borrower's sustainability strategy
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SPO ASSESSMENT

PART I: ALIGNMENT WITH THE GREEN LOAN PRINCIPLES

This section evaluates the alignment of the Salzgitter's Green Loan Characteristics (as of December 14, 2023) with the LMA's Green Loan Principles.

GREEN LOAN PRINCIPLES	ALIGNMENT	OPINION
<p>1. Use of Proceeds</p>		<p>The Use of Proceeds description provided by Salzgitter's Green Loan Characteristics is aligned with the LMA's Green Loan Principles.</p> <p>The Borrower's Green Loan Project Characteristics align with the project categories as proposed by the Green Loan Principles⁸. Criteria are defined in a clear and transparent manner. Disclosure of distribution of proceeds by project category is provided and environmental benefits are described and quantified.</p> <p>The Borrower provides a quantitative analysis of the environmental and/or social benefits of the projects categories, in line with best market practice.</p>
<p>2. Process for Project Evaluation and Selection</p>		<p>The Process for Project Evaluation and Selection description provided by Salzgitter's Green Loan Characteristics is aligned with the LMA's Green Loan Principles.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Borrower.</p> <p>The Borrower identifies alignment of their Green Loan and their green projects with official or</p>

⁸ Salzgitter belonging to the Metals Processing & Production Industry, confirms that their eligible Green Projects categories fall under the Energy Efficiency, Pollution Prevention and Control and the Eco-efficient and/or Circular Economy adapted product category as listed in the LMA GLP, owing the nature of their business.

		<p>market-wide taxonomies and to reference any green standards or certifications used, in line with best market practice.</p>
<p>3. Management of Proceeds</p>	<p>✓</p>	<p>The Management of Proceeds provided by Salzgitter's Green Loan Characteristics is aligned with the LMA's Green Loan Principles.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple Green Loans (portfolio approach). Salzgitter will not have any unallocated proceeds.</p> <p>The Borrower discloses information regarding the allocation to individual or portfolio disbursements.</p>
<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting provided by Salzgitter's Green Loan Characteristics is aligned with the LMA's Green Loan Principles.</p> <p>The Borrower commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be available to the institutions participating in the Green Loan. Salzgitter Flachstahl GmbH explains that the level of expected reporting will be at project category level and the type of information that will be reported. Moreover, the Borrower commits to report annually, until the proceeds have been fully allocated.</p> <p>The Borrower is transparent on the level of impact reporting, the information reported, as well as the reporting frequency, scope and duration of the impact reporting, in line with best market practices.</p>

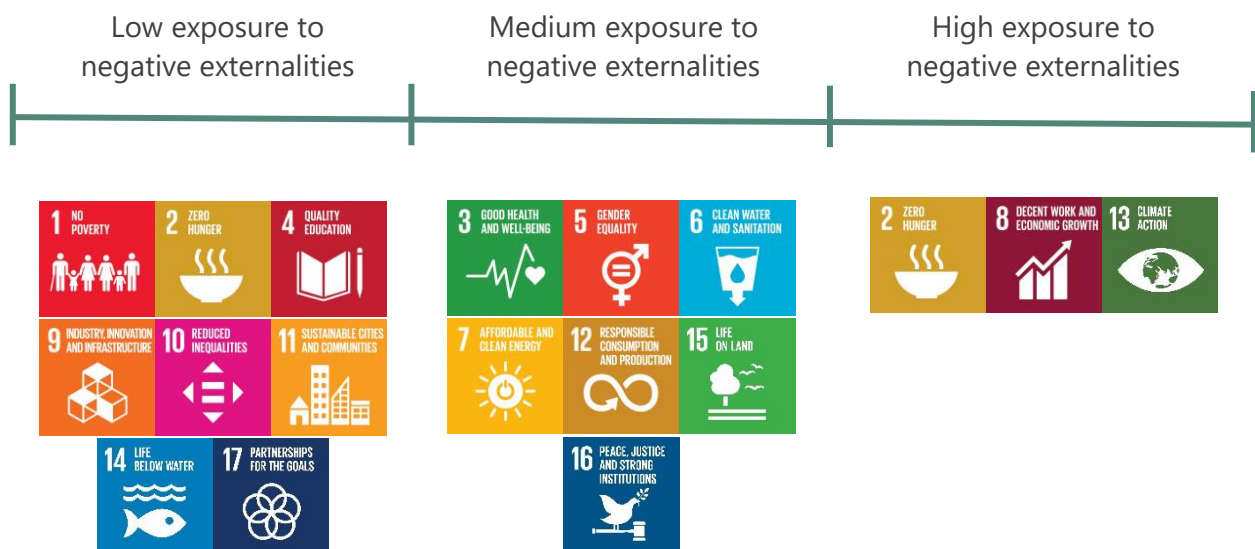
PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

CONTRIBUTION OF THE GREEN LOAN TO THE UN SDGs⁹

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Borrower.



According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities¹⁰ in the Metals Processing & Production (to which Salzgitter Flachstahl GmbH belongs) are the following:



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

⁹ The impact of the UoP categories on UN Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Borrower's description in the framework.

¹⁰ Please, note that the impact of the Borrower's products and services resulting from operations and processes is displayed in section 3.B of the SPO.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT	SUSTAINABLE DEVELOPMENT GOALS
<p>Manufacturing of iron and steel</p> <ul style="list-style-type: none"> ▪ Commissioning of an electric arc furnace (the "EAF") and ▪ Supplying and construction of a direct reduction plant (the "DRP") <p>on the site of Salzgitter Flachstahl GmbH through which the manufacturing of steel where GHG emissions¹¹ reduced by the amount of emissions assigned to the production of waste gases do not exceed the values applied to the hot metal manufacturing process steps of 1,331112 tCO₂e/t product.</p>		

¹¹ Calculated in accordance with Regulation (EU) 2019/331.

PART III: ALIGNMENT OF THE GREEN LOAN CHARACTERISTICS WITH THE EU TAXONOMY CLIMATE DELEGATED ACT

The alignment of Salzgitter's project characteristics, due diligence processes and policies for the nominated Use of Proceeds project category have been assessed against the relevant Climate Change Mitigation and Do Not Significant Harm Criteria (DNSH) Technical Screening Criteria, and against the Minimum Safeguards requirements of the EU Taxonomy Climate Delegated Act¹² (June 2023), based on information provided by Salzgitter. Where Salzgitter's project characteristics, due diligence processes and policies meet the EU Taxonomy Criteria requirements, a tick is shown in the table below.

Salzgitter's project selection criteria overlap with the following economic activity in the EU Taxonomy:


3.9 Manufacture of iron and steel

The project financed under the Green Loan Credentials is located in Germany.

Furthermore, this analysis only displays how the EU Taxonomy criteria are fulfilled/not fulfilled. For ease of reading, the original text of the EU Taxonomy criteria is not shown. Readers can recover the original criteria at the following [link](#).

¹²Commission Delegated Regulation (EU) 2020/852, URL https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en

a) 3.9 – Manufacture of iron and steel

PROJECT CHARACTERISTICS AND SELECTION PROCESSES ¹³	ALIGNMENT WITH THE EU TAXONOMY'S TECHNICAL SCREENING CRITERIA
1. SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION	
<p>By implementing an electric arc furnace (the "EAF") and the construction of a direct reduction plant (the "DRP") for the SALCOS route on the site of Salzgitter, the Borrower replaces the blast furnace and will be able to manufacture iron and steel with GHG emissions¹⁴ reduced by the amount of emissions assigned to the production of waste gases which do not exceed the values applied to the hot metal manufacturing process steps of 1,331 tCO₂e/t product as defined in the EU Taxonomy and the Regulation (EU) 2021/447 of 12 March 2021 determining revised benchmark values for free allocation of emission allowances for the period from 2021 to 2025 pursuant to Article 10a(2) of Directive 2003/87/EC of the European Parliament and of the Council¹⁵ as well as with the hot metal threshold of 1,328 tCO₂e/t product as defined in the recently adopted Delegated Regulation of 30.1.2024 amending Delegated Regulation (EU) 2019/331 as regards transitional Union-wide rules for harmonised free allocation of emission allowances¹⁶. Salzgitter will produce steel with an average of 0,414 tCO₂e/t product¹⁷. The reason for using the hot metal threshold as the relevant process step is due to Salzgitter manufacturing steel with a combination of an EAF and a DRP. The DRP produces iron sponge and the EAF will process a combination of 76% iron sponge and 24% scrap metal resulting in steel as the end product. Salzgitter will therefore manufacture steel by replacing the blast furnace with a combination of an EAF and the DRP. This falls under the hot metal threshold according to the recently adopted Delegated Regulation of 30.1.2024 amending Delegated Regulation</p>	

¹³ This column is based on input provided by the Borrower.

¹⁴ Calculated in accordance with Regulation (EU) 2019/331.

¹⁵ Regulation (EU) 2021/447 of 12 March 2021 determining revised benchmark values for free allocation of emission allowances for the period from 2021 to 2025 pursuant to Article 10a(2) of Directive 2003/87/EC of the European Parliament and of the Council, Annex "hot metal" process step threshold, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R0447&rid=1>.

¹⁶ Commission Delegated Regulation of 30.1.2024 amending Delegated Regulation (EU) 2019/331 as regards transitional Union-wide rules for harmonized free allocation of emission allowances, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13861-EU-emissions-trading-system-ETS-update-of-the-free-allocation-rules_en.

¹⁷ The thresholds is in line with the thresholds provided in the Draft Delegated Regulation from December 2023 amending Delegated Regulation (EU) 2019/331 as regards transitional Union-wide rules for harmonized free allocation of emission allowances, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13861-EU-emissions-trading-system-ETS-update-of-the-free-allocation-rules_en.

(EU) 2019/331 as regards transitional Union-wide rules for harmonized free allocation of emission allowances¹⁸. This adaptation has been implemented to avoid double counting in terms of free allocation to the production of steel from iron sponge and to ensure that the product benchmarks for hot metal, EAF carbon steel and EAF high alloy steel do not overlap. Hence, in the Annex of the Delegated Regulation under the definition of what falls under the “hot metal” threshold of the EU Taxonomy, the EU Commission added “electric arc furnace and electric smelting furnace for sponge iron,” and furthermore excluded steel produced from sponge iron under the definition of the EAF carbon steel and the EAF high alloy steel threshold by adding “steel produced from iron sponge already covered under the hot metal benchmark is not covered by this benchmark”.

2. CLIMATE CHANGE ADAPTATION – DO NO SIGNIFICANT HARM CRITERIA

Salzgitter has a three-step climate risk and vulnerability assessment for the facility as a whole based on

1. Assessment of potentially relevant risks (hazards)
2. Materiality analysis of assessed risks (hazards)
3. Identification of adaptation hazards

Within this assessment Salzgitter checks all potentially relevant risks including but not limited to, coastal erosion, solifluction, sea level rise, etc. Salzgitter’s internal experts (Environmental Management, Water and Wastewater Management, Plant Fire Department, Soil Protection Department) perform the assessment. The Borrower confirms that as a result, the latest climate risk assessment didn't find any material threat, hence, there is no necessity to create and implement an adaptation plan.



The assessment is, according to the Borrower, based on an expected lifespan of >10 years and considers the 10-to 30-year climate projections scenarios SSP1 2.6 (=RCP 2.6) and SSP5 8.5 (=RCP 8.5). The assessment has been conducted with a third-party software solution to analyse and manage physical risks of natural hazards and climate change.

3. WATER AND MARINE RESOURCES – DO NO SIGNIFICANT HARM CRITERIA

¹⁸ Commission Delegated Regulation of 30.1.2024 amending Delegated Regulation (EU) 2019/331 as regards transitional Union-wide rules for harmonized free allocation of emission allowances, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13861-EU-emissions-trading-system-ETS-update-of-the-free-allocation-rules_en.

The European Water Framework Directive¹⁹ has been implemented into German Law.²⁰ Salzgitter confirms that the project underwent a preliminary environmental impact assessment (EIA) according to the German Environmental Impact Assessment Regulation²¹ in accordance with Directive 2011/92/EU²². With regard to the preliminary assessment of the individual case by the licensing authority, the Borrower confirms that at this point in time, based on the information currently available, an environmental impact assessment is not required because the new project is not likely to have any significant adverse environmental impact, taking into account the criteria listed in Annex 3 of the German Environmental Impact Assessment Regulation.



According to the Borrower, there is no conflict with marine water resources.

4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA

N/A: there is no EU Taxonomy criteria for the category

5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA

Salzgitter confirms that a third-party has provided them with an external review with the result that no project contains substances that are listed under Appendix C of the EU Taxonomy Delegated Act. The analysis found that insulation materials based on zirconium-aluminum silicate-ceramic fiber have been installed in some heating furnaces. These insulation materials comply with the criteria as defined in Article 57 of Regulation (EG) No. 1907/2006 and were identified in accordance with Article 59 (1) of the aforementioned regulation. Salzgitter regards the use of these materials as essential as no other technical alternative is immediately available for the operation site and Salzgitter views the benefit of steel manufacture as critical for the society²³. In addition, due to unwanted impurities of steel scrap as feedstock, some production operations may possibly produce unavoidable emissions of the substances cited in Annex C, while complying with the emission limits as defined under the law.



6. BIODIVERSITY AND ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA

¹⁹ Directive 2000/60/EC, https://eur-lex.europa.eu/resource.html?uri=cellar:5c835afb-2ec6-4577-bdf8-756d3d694eeb.0004.02/DOC_1&format=PDF.

²⁰ <https://www.bmu.de/en/topics/water-management/overview-water-management/policy-goals-and-instruments/water-protection-policy-in-germany/implementation-of-european-water-framework-directive-in-germany>

²¹ Umweltverträglichkeitsprüfungsgesetz (Environmental Impact Assessment Regulation), <https://www.gesetze-im-internet.de/uvpg/>.

²² <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0092>.

²³ The REACH Regulation is binding and directly applicable in all EU countries, including Germany. As there is no official indication on whether an activity is essential to society or not, we assume the regulation is correctly respected by Salzgitter.

Salzgitter confirms that the facility underwent a preliminary EIA according to the German Environmental Impact Assessment Regulation²⁴ in accordance with Directive 2011/92/EU²⁵. With regard to the preliminary assessment of the individual case by the licensing authority, the Borrower confirms that at this point in time, based on the information currently available, an environmental impact assessment is not required because the new project is not likely to have any significant adverse environmental impact, taking into account the criteria listed in Annex 3 of the German Environmental Impact Assessment Regulation. The preliminary EIA was conducted respecting both the Directive 2009/147/EC and Directive 92/43/EEC²⁶.



b) Minimum Safeguards

The alignment of the project characteristics and selection processes in place with the EU Taxonomy Minimum Safeguards as described in Article 18 of the Taxonomy Regulation²⁷ have been assessed. The results of this assessment are applicable for every Project Category financed under this framework and are displayed below:

PROJECT CHARACTERISTICS AND SELECTION PROCESSES²⁸ ALIGNMENT WITH THE EU TAXONOMY REQUIREMENT

Salzgitter has implemented a Code of Conduct, a Supplier Code and a Declaration of Principles on Human Rights Strategy, which are integrated into the Borrower's Compliance Management System (CMS). Every new employee is informed about the Code of Conduct and all employees receive information about any update within the Code of Conduct. According to Salzgitter, the basis for the development of these principles are the United Nations Global Compact. The Board of Directors and the Compliance Management department monitor the CMS of Salzgitter. The compliance reporting system ensures that the Executive Board is kept up to date on compliance matters. The Executive Board and Supervisory Board are also regularly informed about the further development of the compliance management system and significant compliance events in the Salzgitter Group.



²⁴ Umweltverträglichkeitsprüfungsgesetz (Environmental Impact Assessment Regulation), <https://www.gesetze-im-internet.de/uvpg/>.

²⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0092>.

²⁶ <https://www.bfn.de/ffh-vertraeglichkeitspruefung>.

²⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

²⁸ This column is based on input provided by the Borrower.

The Compliance Management department within the Legal and Insurance department of Salzgitter AG assesses the material compliance risks of the Group companies resulting from the respective business activities once a year based on the reports submitted by the Group companies for the Group compliance query and other information from the Salzgitter Group. The reports submitted by the Group companies for the Group compliance query are based on the following topics:

1. the basic preventive measures it has taken (rules and regulations, internal security measures, etc.) and, if necessary, their further development,
2. the results of the annual risk analysis - in particular with regard to the legal areas of criminal corruption law and competition law - and the specific preventive measures taken in the identified risk areas (training program, organizational adjustments, etc.),
3. the monitoring measures carried out in the Group company in the last twelve months (review of the compliance organization)
4. the implementation of essential required elements of a CMS in the group company (CMS guideline),
5. the suspected cases and violations that have occurred in the Group company in the last twelve months, their treatment including any sanctions and improvement measures.

As part of the implementation of the requirements of the German Supply Chain Due Diligence Act,²⁹ Salzgitter conducts a regular risk analysis regarding human rights and environmental risks at the Group companies and the direct suppliers. The starting point for this risk analysis is the assessment of the product/industry and country risk of each supplier and Group company. Depending on the findings obtained in this way, Salzgitter carries out an in-depth risk analysis of their suppliers in the form of a questionnaire process based on a risk-based approach. Indirect suppliers in the wider supply chain are included in this risk analysis if Salzgitter becomes aware of specific indications of possible risks, for example through reports to their whistleblower system or findings from their media screening.

The finalized responses from the Group companies are transferred by the Compliance Management department in condensed form to an overall overview

²⁹ German Supply Chain Due Diligence Act (Lieferkettengesetz),
https://www.bgbl.de/xaver/bgbl/text.xav?SID=&tf=xaver.component.Text_0&toctf=&qmf=&hlf=xaver.component.Hitlist_0&bk=bgb1&start=%2F%2F%5B%40node_id%3D%27940343%27%5D&skin=pdf&tlevel=-2&nohist=1&sinst=433D8D8D.

(Group risk map), assessed from a Group perspective about the risk potential resulting from the responses and discussed in the Compliance Committee. The management of the Group companies concerned, the division heads of the business units and the Executive Board as well as Salzgitter AG's Compliance Management department are informed accordingly. If a violation or weakness in the Group company's CMS is identified, the management takes measures to prevent similar violations in the future and imposes appropriate personnel sanctions depending on the severity of the violation. It reports on this to Salzgitter AG's Compliance Management department. The Internal Audit department must take over the investigation of a violation or suspected case if the violation or suspected case is of major significance for the Group company or the Salzgitter Group.

To track the implementation of these actions and the results, Salzgitter identifies compliance risks and reviews the effectiveness of the CMS by addressing the following topics: Group compliance risk analysis; Whistle-blower system; Effectiveness control. Salzgitter reports publicly on compliance as part of the non-financial report.

Salzgitter offers a whistle-blower system³⁰, a compliance hotline and an ombudswoman, an electronic reporting portal and external reporting points.³¹ The remediation measures are taken on an ad hoc basis. The procedure for suspected compliance cases is set out in the Group's Corporate Compliance Policy. The responsibility for clarifying the facts lies with the management of the Group company concerned, which is supported by the responsible legal department (including the compliance function) if required. In the case of events of particular importance, the Group Internal Audit department is responsible for clarifying the facts. The main results of the investigations are reported to the Compliance Management department at Salzgitter. The implementation of improvement measures to prevent recurrence and (labor law) sanctions against employees are initiated by the management of the Group company concerned on a case-by-case basis.

³⁰ <https://www.salzgitter-ag.com/en/contact/data-protection/privacy-policy-whistleblower-system.html>.

³¹ <https://www.salzgitter-ag.com/en/company/compliance.html#c149178>.

PART IV: CONSISTENCY OF GREEN LOAN WITH SALZGITTER'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Borrower

TOPIC	BORROWER APPROACH
Strategic ESG topics	<p>The Borrower focuses on Circular Economy, Profitability, Growth & Customer-Oriented Solutions, Capital Market and Employees, with the aim to drive the transformation of the company toward low carbon steel production by incrementally switching steel production from a blast furnace-based process to a hydrogen-based route. These sustainability pillars have been defined in "Salzgitter AG 2030",³² which set the completion of the technical transformation, i.e. the full replacement of the BF Route by the new SALCOS Route, of steelworks by 2033.</p>
ESG goals/targets	<p>The Borrower has set steel production's CO₂e emissions targets for Scope 1 & 2 to be reduced by 30% CO₂e by 2025 and by 50% by 2030 compared with the base year of 2018.³³ Parallely, Salzgitter will increase electricity sourced exclusively from renewable sources by 50% in 2025 and by 100% in 2030 with 2018 as the base year. These targets are public, and they have committed to have their targets SBTi verified. These are monitored on an annual basis.</p>
Action plan	<p>The Borrower has a sustainability program in place to achieve the goals. The SALCOS program focuses on the decarbonization of steel production and increased sourcing of power from renewable energies. Moreover, it encompasses action plans in the field of circularity, gender and R&D, by setting the goal of increase the deployment of scrap in steel production, raising the proportion of women in non-tariff and management positions that are to be newly staffed to 25% by 2025 and to 30% by 2030, and expanding R&D services to the automotive industry. The SALCOS Capital Expenditure (CapEx) plan aims at mapping capital expenditure that, by the end of 2026, is intended to gradually transform</p>

³² Salzgitter's sustainability strategy, <https://www.salzgitter-ag.com/en/company/strategy.html>

³³ Comprises mainly SALCOS® Stage I. More information about SALCOS® program is available at <https://salcos.salzgitter-ag.com/en/>

	<p>Salzgitter Flachstahl GmbH's taxonomy-eligible Economic activity "Manufacture of iron and steel" into taxonomy conformity in accordance with the "climate mitigation" environmental objective. The entire CapEx until conformity is achieved amounts to € 2.3 billion.</p>
<p>Climate Transition Strategy</p>	<p>The borrower's target is to meet the technical requirements to lower the Group's Scope 1 and Scope 2 carbon emissions by 30% by 2025 and to halve them by 2030. In choosing 2018 as the base year, Salzgitter is aligning with the 2030 climate targets of the European Steel Association EUROFER³⁴. By converting the steel production to low-carbon steel, Salzgitter states that on completion of the third stage in 2033, the target is to save around 95% of today's annual Scope 1 CO₂ emissions of around 8 million tons. As a result, around 1% of Germany's CO₂ emissions will be avoided.³⁵ Parallely, Salzgitter will increase electricity sourced exclusively from renewable sources by 50% in 2025 and by 100% in 2030. Salzgitter optimizes the operating processes and measures to implement the recycling of cooling water and process water. This has led to the indicators reported under the GRI standard in the previous year as "water consumption" and "wastewater discharge" to have shown for the first time as "water withdrawal" and "water recycling" in the Annual Report 2022.</p>
<p>ESG Risk and Sustainability Strategy Management</p>	<p>Salzgitter's internal policies and guidelines provide enterprise-wide protocols for managing environmental risks, including climate change. Associated management instruments such as the risk database and reporting channels are used by the ESG Risks Committee and risk managers to address both physical and transitory risks. The identification of ESG risks follows the framework of the Task Force on Climate related Financial Disclosures (TCFD). Transitory risks are identified by Central Risk Management on the basis of the materiality analysis conducted, and then elaborated with experts from the holding company and Group companies. Physical risks are analyzed with the aid of a</p>

³⁴ <https://www.eurofer.eu/press-releases/successful-implementation-of-bold-new-2030-climate-target-urgently-needs-tangible-framework>.

³⁵ Salzgitter's Annual Report 2022, p. 98, <https://www.salzgitter-ag.com/fileadmin/finanzberichte/2022/gb2022/en/downloads/szag-ar2022-complete.pdf>.

	data-driven risk analysis for Salzgitter AG's Green Loan for their short-term, medium-term and long-term impact, drawing on climate scenarios. Any ESG risks identified is then included in the risk management database established in the Group and thus subject to standardized reporting and monitoring processes.
Top three areas of breaches of international norms and ESG controversies in the industry ³⁶	Strike action, Failure to prevent water pollution, and Failure to mitigate climate change impacts.
Breaches of international norms and ESG controversies by the Borrower	At the date of publication and leveraging ISS ESG Research, no controversy in which the Borrower would be involved has been identified.
Sustainability Reporting	The Borrower reports on its ESG performance and initiatives on an annual basis. The report is prepared in line with the EU Taxonomy and the GRI standards. Salzgitter has participated since 2016 annually in the CDP's reporting format.
Industry associations, Collective commitments	The company aligns with the 2030 climate targets of the European Steel Association and the commitments of the Energy Management Group Forum (EUROFER).
Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework	N/A

³⁶ Based on a review of controversies identified by ISS ESG over a 2-year period, the top three issues that have been reported against companies within the Metals Processing & Production industry are displayed above. Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

Rationale for issuance

Salzgitter focuses on financing operations into CO₂-free steel production by implementing the Project SALCOS (Salzgitter Low CO₂ Steelmaking). With this the Borrower wants to finance component for the realization of low-CO₂ steel production to fulfill their socio-political responsibility towards the environment and securing jobs in Germany. Salzgitter aims at maintaining the steel production in Germany as a low-CO₂ steel production facility.

The Borrower has not yet issued any green loans.

Opinion: *The key sustainability objectives and the rationale for issuing the Green Loan is clearly described by the Borrower. The project category financed is in line with the sustainability objectives of the Borrower.*

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to combine ISS with Qontigo, another entity controlled by DB, with General Atlantic to become the sole minority shareholder of the combined entity. The combination is expected to be completed in the third quarter of 2023. In July 2023, the stakes of Genstar and ISS management in ISS HoldCo Inc. were acquired by DB. The non-interference and similar policies implemented by ISS related to Genstar are no longer applicable and disclosures regarding Genstar and ISS management's ownership of ISS are withdrawn.

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ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology. For more information, please visit: <https://www.issgovernance.com/file/publications/SPO-Use-of-Proceeds-Bonds-and-Loans.pdf>

EU Taxonomy

The assessment evaluates whether the details of the nominated project and asset included in the Green Loan Characteristics meet the criteria listed in relevant Activities in the EU Taxonomy Climate Delegated Act (June 2023).

The evaluation shows if Salzgitter's project categories are indicatively in line with the entirety (or some of) the requirements listed in the EU Taxonomy Technical Annex.

The evaluation was carried out using information and documents provided on a confidential basis by Salzgitter (e.g., Due Diligence Reports). Further, national legislation and standards, depending on the project category location, were drawn on to complement the information provided by the Issuer.

ANNEX 2: QUALITY MANAGEMENT PROCESSES

SCOPE

Salzgitter commissioned ISS-Corporate to compile a Green Loan SPO. The Second Party Opinion process includes verifying whether the Green Loan Characteristics aligns with the LMA's Green Loan Principles and to assess the sustainability credentials of its Green Loan, as well as the Borrower's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion:

- Green Loan Principles, as administered by Loan Market Association (as of February 2023)
- EU Taxonomy Climate Delegated Act (as of June 2023)

BORROWER'S RESPONSIBILITY

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

- Green Loan Characteristics
- Documentation of ESG risks management at the Project level

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is part, 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 Green Loan to be issued by Salzgitter has been conducted based on a proprietary methodology and in line with the ICMA Green Loan Principles.

The engagement with Salzgitter took place from November 2023 to February 2024.

ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group 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 this SPO

Companies turn to ISS Corporate Solutions (ISS-Corporate) for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Borrower 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.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: SPOsales@iss-corporate.com

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