

Second-Party Opinion CIAK Sustainability-Linked Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the CIAK Sustainability-Linked Financing Framework aligns with the Sustainability-Linked Bond Principles 2020 (SLBP) and the Sustainability-Linked Loan Principles 2021 (SLLP). This assessment is based on the following:

- Selection of Key Performance Indicator (KPI)** The CIAK Sustainability-Linked Financing Framework defines one KPI: recycling of lead batteries (tonnes) (see Table 1). Sustainalytics considers the KPI to be adequate given that it is relevant and material to the auto parts industry and has a clear and consistent methodology.
- Calibration of Sustainability Performance Target (SPT)** Sustainalytics considers the SPT to be aligned with CIAK's sustainability strategy. Sustainalytics further considers the SPT to be moderately ambitious as it represents an improvement over past performance and is aligned with the best practices in the auto parts industry.
- Bond and Loan Characteristics** CIAK will link the financial characteristics of the instruments issued under the Framework to the achievement of the SPT, applying a coupon adjustment or premium payment in case of failure to achieve the SPT at the target observation date.
- Reporting** CIAK commits to report on an annual basis on its progress on the KPI as part of its annual report or as an independent report on its website. CIAK commits to report relevant information that affects progress on the KPI. The reporting commitments are aligned with the SLBP and SLLP.
- Verification** CIAK commits to have external limited assurance conducted on its SPT and KPI performance at least once a year, which is aligned with market practice.

Evaluation Date	April 13, 2022
Issuer Location	Zagreb, Croatia

The SPT contributes to the following SDG:



Overview of KPIs and SPTs

KPI	Baseline	SPT	Strength of the KPI	Ambitiousness of SPT
Recycling of lead batteries (tonnes)	2020	Increase the recycling of lead batteries from 10,143 tonnes to 16,000 tonnes by 2025, representing an increase of approximately 58% compared to the 2020 baseline	Adequate	Moderately Ambitious

Table of Contents

Scope of Work and Limitations	3
Introduction	4
Sustainalytics’ Opinion	5
Section 1: Sustainalytics’ Opinion on the Alignment of CIAK Sustainability-Linked Financing Framework with the Sustainability-Linked Bond Principles and the Sustainability-Linked Loan Principles.	5
Selection of Key Performance Indicators (KPIs)	5
Calibration of Sustainability Performance Targets (SPTs)	6
Bond Characteristics	7
Reporting	7
Verification	7
Section 2: Assessment of CIAK’s Sustainability Strategy	5
Section 3: Impact of the SPT	8
Conclusion	10
Appendix 1	11

Scope of Work and Limitations

CIAK Group (“CIAK”, the “Issuer” or the “Group”) has engaged Sustainalytics to review the CIAK Sustainability-Linked Financing Framework (the “Framework”) and provide an opinion on the alignment of the notes with the SLBP and SLLP.¹

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent² opinion on the alignment of the Framework with the Sustainability-Linked Bond Principles 2020, as administered by ICMA and with the SLLP 2021, as administered by APLMA, LMA and LSTA.

As part of this engagement, Sustainalytics exchanged information with various members of CIAK’s management team to understand the sustainability impact of their business processes and SPTs, as well as reporting and verification processes of aspects of the Framework. CIAK’s representatives have confirmed that:

- (1) They understand it is the sole responsibility of issuer to ensure that the information provided is complete, accurate or up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and CIAK. Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated SPT of KPI but does not measure the KPIs’ performance.³ The measurement and reporting of the KPI is the responsibility of the Company. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that CIAK has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months or until one of the following occurs:

- (1) A material change to the external benchmarks⁴ against which targets were set;
- (2) A material corporate action (such as material M&A or change in business activity) which has a bearing on the achievement of the SLBs and SLLs or the materiality of the KPIs.

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¹ The Sustainability-Linked Bond Principles were launched by ICMA in June 2020. They are administered by ICMA and are available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-100620.pdf>.

² When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

³ Sustainalytics has provided an opinion based on the understanding that the financial characteristics of instruments issued under the Framework will be tied to the achievement of SPTs corresponding to each of the KPIs included in the Framework.

⁴ Benchmarks refers to science based benchmarks

Introduction

CIAK is a distributor of car parts and equipment with headquarters in Zagreb, Croatia. It operates through more than 100 points of sale in Croatia and employs approximately 1,900 people. Its subsidiary C.I.A.K. d.o.o. primarily engages in the distribution of lead batteries in Croatia, Slovenia, Serbia, Montenegro, North Macedonia, and Bosnia and Herzegovina. Furthermore, C.I.A.K. d.o.o. operates a recycling centre in Zabok, Croatia, where the lead from used batteries is converted into lead ingots which are further used in manufacturing new batteries. The lead from automobile lead-acid batteries (LABs) as well industrial lead batteries is recycled.⁵

CIAK intends to issue sustainability-linked bonds or obtain sustainability-linked loans whose financial characteristics will be tied to the achievement of an SPT for one KPI, namely recycling of lead batteries (measured in tonnes).

CIAK has engaged Sustainalytics to review the Framework and provide an opinion on its alignment with the SLBP and SLLP.

CIAK defined the KPI and SPT described in Tables 1 and 2 below.

Table 1: KPI Definitions

KPI	Definition
Recycling of lead batteries (tonnes)	<p>The KPI measures tonnes of lead batteries recycled annually by CIAK's battery business segment, C.I.A.K. d.o.o.</p> <p>In 2020, approximately 23% of the batteries recycled were industrial batteries and the rest were LABs. LABs sold by CIAK include new conventional batteries and recycled batteries under the label CIAK Starter. In 2021, recycled LABs represented 60% of the total batteries sold by CIAK.⁶ In this context, CIAK communicated to Sustainalytics that the recycled batteries business will grow more than the new conventional batteries business in the SPT period.</p> <p>The Issuer has confirmed that one tonne of lead batteries is approximately 50 units.</p>

Table 2: SPT and Past Performance

KPI	2018	2019	2020 (baseline)	SPT 2025
Recycling of lead batteries (tonnes)	10,903	11,474	10,143	Increase the recycling of lead batteries from 10,143 tonnes to 16,000 tonnes by 2025, representing an increase of approximately 58% compared to the 2020 baseline

⁵ Croatia's Ministry of Environment and Nature Protection -Rulebook About Waste Catalogue, categorises automobile and industrial lead batteries together under the waste list category 16 06 01 lead batteries, at: https://narodne-novine.nn.hr/clanci/sluzbeni/2015_08_90_1757.html

⁶ CIAK communicated to Sustainalytics the historical share of recycled batteries sold compared to the total batteries sold: 34% in 2018, 42% in 2019 and 51% in 2020.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of the CIAK Sustainability-Linked Financing Framework with the Sustainability-Linked Bond Principles and the Sustainability-Linked Loan Principles

Sustainalytics is of the opinion that the Sustainability-Linked Bond Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP) and the Sustainability-Linked Loan Principles 2021 (SLLP) respectively.



Selection of Key Performance Indicators (KPIs)

Relevance and Materiality of KPIs

In its assessment of materiality and relevance, Sustainalytics considers: i) whether an indicator speaks to a material impact of the issuer business on environment or social issues, and ii) to what portion of impact the KPI is applicable.

Sustainalytics considers the KPI - recycling of lead batteries - to be material and relevant to the auto parts industry and its battery supply chain, based on the following.

CIAK's sustainability strategy aims to reduce impact on the climate and environment. By closing the loop on battery recycling, CIAK is helping to accelerate the development of a circular battery supply chain while reducing the generation of hazardous waste. Lead battery waste management indirectly contributes to decarbonizing road transportation and reducing the demand for lead mining.

The Sustainability Accounting Standards Board (SASB) identifies recycling auto parts like lead batteries and industrial batteries as a relevant issue for the auto parts industry and battery utilizing industries.⁷ Additionally, the World Economic Forum considers the circular battery value chain to play a significant role in decarbonizing road transport by enabling 30% of the required emissions reduction in the transport sector, thus eventually contributing to meeting the goals of the Paris Agreement.⁹

The KPI follows CIAK's EcoCycle approach, which includes the following activities:

1. Collection of lead batteries from stores and repair shops, using CIAK's vehicle fleet.^{10,11}
2. Used lead batteries are all stripped down to the main components through automatized processes (lead, sulfuric acid and plastic).¹²
3. The sulfuric acid is neutralized and disposed of in an adequate manner by a third party.
4. The plastic components are shredded and granulated by CIAK and then shipped to authorized recovery facilities to be used for recycled plastic purposes.
5. CIAK converts the recovered lead into new ingots.
6. Newly produced lead ingot is sold by CIAK to lead battery manufacturers.

⁷ SASB, Auto Parts, at: https://www.sasb.org/wp-content/uploads/2018/11/Auto_Parts_Standard_2018.pdf

⁸ SASB, Fuel Cells and Industrial Batteries, at:

https://cdn2.hubspot.net/hubfs/2642721/Recursos/Agencias%20rating,%20marcos%20y%20adhesiones/SASB/Estandares/RR0104_FCIB_Standard.pdf

⁹ World Economic Forum, Global Battery Alliance, at:

https://www3.weforum.org/docs/WEF_A_Vision_for_a_Sustainable_Battery_Value_Chain_in_2030_Report.pdf

¹⁰ This activity is performed in all companies in the CIAK Group.

¹¹ The collected batteries are weighed in tonnes and the output of the recycling process is weighed again.

¹² This activity is performed at CIAK's own recycling centres.

- 7. Roughly 89% of the lead ingots produced by CIAK return to the Group in the form of new lead batteries which CIAK sells under the name CIAK Starter.

In terms of applicability, Sustainalytics notes that C.I.A.K. d.o.o.’s recycled lead battery business, CIAK Starter, represented only 6% of the Group’s overall revenue in 2021. Although this indicates the KPI’s limited scope for impact on the Group’s business, CIAK communicated to Sustainalytics that this figure is expected to increase to 7.5% in 2022, then further to 10% from 2024 onwards.

KPI Characteristics

In its assessment of the KPI characteristics, Sustainalytics considers: i) whether a clear and consistent methodology is used, ii) whether the issuer follows an externally recognized definition, iii) whether the KPIs are a direct measure of the performance of the issuer on the material environmental or social issue, and iv) if applicable, whether the methodology can be benchmarked to an external contextual benchmark.¹³

Sustainalytics considers CIAK’s definition and methodology to calculate KPI performance to be clear¹⁴ and consistent with the Group’s historical reporting. Furthermore, the KPI is considered to be directly linked to the circularity of the Group’s business model with a high scope of impact on the sustainable battery value chain. Nevertheless, Sustainalytics encourages CIAK to engage with lead battery manufacturers that produce its CIAK Starter products and encourage them to use recycled plastic in their production systems.

Overall Assessment

While noting that the KPI, recycling of lead batteries, accounts for a limited scope of applicability, Sustainalytics overall considers the increase in the recycling of lead batteries to be adequate given that: (i) it directly addresses a highly material ESG issue for the sector and the Group; and (ii) it follows a clear and consistent methodology.

Recycling of lead batteries (tonnes)	Not Aligned	Adequate	Strong	Very strong
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Calibration of Sustainability Performance Targets (SPTs)

Alignment with CIAK’s Sustainability Strategy

CIAK has set the following SPT for its KPI:

- Increase the recycling of lead batteries from 10,143 tonnes to 16,000 tonnes by 2025, representing an increase of approximately 58% compared to the 2020 baseline.

CIAK’s sustainability strategy aims to contribute to the UN SDGs through reduction of energy use, decreasing CO₂ emissions and reducing the negative impact on the climate and environment from its operations. By collecting and recycling more than 95% of all lead batteries in Croatia, the Group is positively contributing to hazardous waste management and reduction of automobile and industrial waste generation in the region.

Strategy to Achieve the SPT

CIAK intends to achieve the SPT through the following strategy:

- Installing or replacing equipment, like higher capacity furnaces, to handle the increase in the number of batteries being recycled.
- Gradually increasing collection capacity by 30% during the SPT period by 2025, including by expanding the vehicle fleet, collection points and collection containers.

¹³ External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

¹⁴ The KPI follows CIAK’s EcoCycle approach, at: <https://ciak-starter.hr/ciak-ecocycle/?lang=en>

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of SPTs, Sustainalytics considers: (i) whether the SPTs go beyond a business-as-usual trajectory, ii) how the SPTs compare to targets set by peers, iii) and how the SPTs compare with science.¹⁵

Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance, peer performance and science.

Between 2018 and 2020, the Group’s recycling of lead batteries declined at an average annual rate of approximately 4%, from 10,903 tonnes to 10,143 tonnes. Sustainalytics notes that the targeted increase to 16,000 tonnes by 2025 compared to the 2020 baseline implies an average annual growth rate of approximately 8%, therefore, the SPT is above historical performance. Sustainalytics considers that CIAK’s SPT is aligned with the best practices in the auto parts industry for the recycling of lead batteries.

Overall Assessment

Sustainalytics considers the SPT to align with CIAK’s sustainability strategy and to be moderately ambitious given that it presents a material improvement compared to past performance, and that it aligns with the market best practices.

<p>Increase the recycling of lead batteries from 10,143 tonnes to 16,000 tonnes by 2025 representing an increase of approximately 58% compared to the 2020 baseline</p>	<p>Not Aligned</p>	<p>Moderately Ambitious</p>	<p>Ambitious</p>	<p>Highly Ambitious</p>
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Bond and Loan Characteristics

CIAK will link the financial characteristics of the instruments issued under the Framework to achievement of the SPT, applying a coupon adjustment or premium payment in case of failure to achieve the SPT at the target observation date.

Sustainalytics positively notes the requirement of meeting the SPT to avoid an increase in the coupon rate, which is aligned with the SLBP and SLLP, however, Sustainalytics does not opine on the adequacy of the penalty imposed for not achieving the set SPT.



Reporting

CIAK commits to report on an annual basis on its performance on the KPI, and expects to include the relevant figures in a Key Performance Indicator Report to be included in its Annual Report or published as an independent report, which is aligned with the SLBP and SLLP. CIAK may also report the following where appropriate and feasible (i) impact of the KPI including methodologies and baselines on an annual basis (ii) changes, if any, in the sustainability strategy of the Group that can impact the SPT achievement targets and any changes in scope that require re-assessment of the SPT.



Verification

CIAK commits to have an external verifier provide limited assurance on the SPT and KPI performance figures on an annual basis, which is aligned with the SLBP and SLLP on verification.

¹⁵ We refer here to contextual benchmarks that indicate the alignment of targets with ecosystem boundaries.

Section 2: Assessment of CIAK's Sustainability Strategy

Credibility of CIAK Sustainability Strategy

To reduce environmental, health and safety risks and to improve energy efficiency, two of the CIAK Group companies - C.I.A.K. d.o.o. and C.I.A.K. Auto d.o.o. - adhered to ISO standards for quality management, environmental management, road traffic management, and energy management systems, while other companies in the group follow internal management system policies.¹⁶ Additionally, CIAK aims to integrate sustainability-related information in its upcoming annual reports, Sustainalytics encourages CIAK to report on all material ESG issues at regular intervals.

To improve energy efficiency and reduce CO₂ emissions derived from its business, the Group is considering the gradual replacement of its fossil fuel-powered fleet with an electric, hybrid or alternative fuel fleet. Additionally, CIAK is also considering undertaking afforestation initiatives in the region where it operates. CIAK in its wholesale and retail operations is striving to eliminate the use of PVC bags and use 100% alternative materials by 2025.

In relation to workers' health and safety, in 2021, CIAK achieved a 50% reduction in accident rate compared to the baseline year 2018.¹⁷ The Group has set a target of keeping the accident rate at a low level of 0.32 accidents per year based on 2020 data. As of 2021, the accident rate was 0.597.

Sustainalytics considers that the instruments issued under the Framework will further support CIAK's sustainability strategy.

CIAK's Environmental and Social Risk Management

Sustainalytics acknowledges that CIAK's defined targets are impactful, but notes that achieving the SPT bears environmental and social risks related to (i) occupational health and safety, (ii) waste management and wastewater discharge, and (iii) supply chain risks related to human rights, responsible business practice, and environment and compliance. Sustainalytics comments below on CIAK's ability to mitigate such potential risks:

To mitigate risks related to occupational health and safety, CIAK adheres to health and safety standards, such as ISO 45001:2018 which includes risk assessment and hazard identification.¹⁸ CIAK conducts annual health and safety training for its employees and collects data relating to accident and injury rates. CIAK intends to prevent exposure to harmful influences and stress, professional diseases and job-related health risks through employee care and regular medical check-ups.¹⁹

For waste management, the Group has a waste management system to handle hazardous and non-hazardous waste which is carried out in accordance with European directives and local laws and requirements in the countries in which the Group operates. In addition to used batteries, CIAK also collects waste oils, used car tires and other hazardous and non-hazardous waste in appropriate containers and storage halls prepared for that purpose.²⁰

To address human rights and responsible business practices, CIAK has in place a labour code that addresses workers' health and safety, workers' privacy, working hours, vacations, holidays, pay benefits and procedures for termination of employment contracts.

In addition to the above, Sustainalytics notes that it has found no evidence of any major environmental or social controversies related to CIAK. Overall, Sustainalytics considers that CIAK has adequate management programmes and policies to mitigate risks that could affect the achievement of the SPT.

Section 3: Impact of the SPT

Environmental and social impacts from recycling lead-acid batteries in closed-loop systems

Automotive lead-acid batteries are the most widely used batteries in the EU, with approximately 800,000 tonnes entering the European single market annually.²¹ Approximately, 40% to 80% of the environmental impact of manufacturing lead-acid

¹⁶ Namely ISO Standards ISO 9001:2015, ISO 14001:2015, ISO 39001:2012 and ISO 50001:2011, at:

<https://www.iso.org/standards.html#:~:text=ISO%20standards%20are%20internationally%20agreed,a%20huge%20orange%20of%20activities.>

¹⁷ The accident rate is calculated by the number of incidents multiplied by 200,000 then divided by the total number of hours worked in a year.

¹⁸ CIAK, "Management System Policy", at: <https://www.ciak.hr/management-system-policy/?lang=en>

¹⁹ CIAK, "Management System Policy", at: <https://www.ciak.hr/management-system-policy/?lang=en>

²⁰ CIAK, "Ecology Department – Waste Management", at: <https://ciakgrupa.hr/ciak-ecology/?lang=en>

²¹ European Commission, "Batteries and accumulators", at: https://ec.europa.eu/environment/topics/waste-and-recycling/batteries-and-accumulators_en

batteries arises from extracting lead from virgin resources.²² The recycling of lead-acid batteries is estimated to lower the environmental impact by about 49% mainly by reducing the emissions related to lead extraction from virgin resources.²³

Furthermore, the recycling of lead-acid batteries is a core aspect of the EU Batteries Directive and an integral component of the Circular Economy Action Plan under the European Green Deal, the EU strategy to achieve climate neutrality by 2050.^{24,25,26} As of 2019, all but one of the EU countries had achieved lead-acid battery recycling efficiencies above the current 65% target, with 79% of lead-acid battery components being recycled in Croatia.²⁷

Recycling lead-acid batteries in well-regulated closed loop systems mitigate the potential health risks to workers and communities from exposure to lead due to the high environmental and worker safety standards for the safe and efficient collection, transportation and processing of used lead-acid batteries.²⁸ Additionally, recycling secondary lead has a lower human toxicity potential of about 18 times compared with the production of lead from virgin resources.²⁹ The integrated processing and recycling of lead-acid batteries within closed-loop systems also lowers the prospect of lead-acid battery waste being released into the environment.

Recycling and reducing the waste generated from lead-acid batteries also play an important role in decarbonizing the transport sector. Lead-acid batteries are predicted to have the largest market share in the EU by 2025, and having appropriate collection, recycling and waste management processes can lead to better end-of-life treatment for the LAB.³⁰

In this context, Sustainalytics is of the opinion that CIAK’s efforts will contribute to the promotion of the circular battery value chain in the countries it operates and will help further the UN Sustainable Development Goals.

Alignment with/contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The bonds and loans issued under the Framework are expected to contribute to the following SDG goal and target:

KPI	SDG	SDG Target
Recycling of lead batteries (tonnes)	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

²² Davidson, A. et al. (2016), "Lead industry life cycle studies: environmental impact and life cycle assessment of lead battery and architectural sheet production", International Journal of Life Cycle Assessment, at: <https://link.springer.com/content/pdf/10.1007/s11367-015-1021-5.pdf>

²³ Unterreiner, L. et al. (2016), "Recycling of Battery Technologies – Ecological Impact Analysis Using Life Cycle Assessment (LCA)", Energy Procedia, at: <https://www.sciencedirect.com/science/article/pii/S1876610216310748/pdf?md5=3161b8fc87044c3aefe51503442d94c6&pid=1-s2.0-S1876610216310748-main.pdf>

²⁴ European Parliament, "Batteries Directive" (2006), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02006L0066-20131230&rid=1>

²⁵ European Commission, "Circular Economy Action Plan" (2020), at: https://ec.europa.eu/environment/circular-economy/pdf/new_circular_economy_action_plan.pdf

²⁶ European Commission, "Green Deal: Sustainable batteries for a circular and climate neutral economy" (2020), at: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2312

²⁷ Eurostat, "Waste statistics - recycling of batteries and accumulators" (2021), at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Waste_statistics_-_recycling_of_batteries_and_accumulators#Recycling_efficiency_for_lead-acid_batteries

²⁸ World Economic Forum, "A Vision for a Sustainable Battery Value Chain in 2030 Unlocking the Full Potential to Power Sustainable Development and Climate Change Mitigation" (2019), at: https://www3.weforum.org/docs/WEF_A_Vision_for_a_Sustainable_Battery_Value_Chain_in_2030_Report.pdf

²⁹ European Commission "Evaluation of the Directive 2006/66/EC on batteries and accumulators and waste batteries and accumulators and repealing Directive 91/157/EEC" (2019), at: https://ec.europa.eu/environment/pdf/waste/batteries/evaluation_report_batteries_directive.pdf

³⁰ European Commission "Evaluation of the Directive 2006/66/EC on batteries and accumulators and waste batteries and accumulators and repealing Directive 91/157/EEC" (2019), at: https://ec.europa.eu/environment/pdf/waste/batteries/evaluation_report_batteries_directive.pdf

Conclusion

CIAK Group intends to issue sustainability-linked bonds or obtain sustainability-linked loans, whose financial characteristics, such as a coupon or margin adjustment, or premium payment will be tied to the achievement of the following SPT:

- (1) Increase the recycling of lead batteries from 10,143 tonnes to 16,000 tonnes by 2025, representing an increase of approximately 58% compared to the 2020 baseline.

Sustainalytics considers the KPI to be adequate as it is material and relevant to the auto parts industry and its battery supply chain. The SPT is considered to be moderately ambitious as it presents a material improvement compared to C.I.A.K d.o.o.'s past performance, and it aligns with market best practice. Furthermore, Sustainalytics considers the Framework's reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers the CIAK Sustainability-Linked Financing Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the Sustainability-Linked Loan Principles 2021, and the prospective achievement of the SPT to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: CIAK Group

Sustainability-Linked Bond ISIN: Not known at the time of publication

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3): Sustainalytics

Completion date of second party opinion pre-issuance: April 13, 2022

Independent External Review provider's name for post-issuance verification (section 4): Not known at the time of publication

Completion date of post issuance verification: Not known at the time of publication

At the launch of the bond, the structure is:

- a step-up structure a variable redemption structure

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review:

- assessed all the following elements (complete review) only some of them (partial review):
- Selection of Key Performance Indicators (KPIs) Bond characteristics (acknowledgment of)
 - Calibration of Sustainability Performance Targets (SPTs) Reporting
 - Verification
- and confirmed their alignment with the SLBP.

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- Second Party Opinion Certification
- Verification Scoring/Rating

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

CIAK Group intends to issue sustainability-linked bonds or obtain sustainability-linked loans, tying the financial characteristics of these instruments, such as a coupon or margin adjustment, or premium payment to achievement of the following SPT:

- (1) Increase the recycling of lead batteries from 10,143 tonnes to 16,000 tonnes by 2025, representing an increase of approximately 58% compared to the 2020 baseline.

Sustainalytics considers the KPIs chosen to be adequate as it is material and relevant to the auto parts industry and its battery supply chain. The SPT is considered to be moderately ambitious as it presents a material improvement compared to CAIK d.o.o. past performance, and it aligns with the market best practices. Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers CIAK Group Sustainability-Linked Financing Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020, and Sustainability-Linked Loan Principles 2021, and the prospective of achievement of the SPTs to be impactful.

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

Overall comment on the section (if applicable):

While noting that the KPI, recycling of lead batteries, accounts for a limited scope of applicability, Sustainalytics overall considers the increase in the recycling of lead batteries to be adequate given that: (i) it directly addresses a highly material ESG issue for the sector and the Group; and (ii) it follows a clear and consistent methodology.

List of selected KPIs:

- Recycling of lead batteries

Definition, Scope, and parameters

- | | |
|--|---|
| <input checked="" type="checkbox"/> Clear definition of each selected KPIs | <input checked="" type="checkbox"/> Clear calculation methodology |
| <input type="checkbox"/> Other (please specify): | |

Relevance, robustness, and reliability of the selected KPIs

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials that the selected KPIs are relevant, core and material to the issuer’s sustainability and business strategy. | <input type="checkbox"/> Evidence that the KPIs are externally verifiable |
| <input checked="" type="checkbox"/> Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis | <input type="checkbox"/> Evidence that the KPIs can be benchmarked |
| | <input type="checkbox"/> Other (please specify): |

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (if applicable):

Sustainalytics considers the SPTs to align with CIAK’s sustainability strategy and considers CIAK’s SPT to be moderately ambitious given that it presents a material improvement compared to past performance, and it aligns with the market best practices.

Rationale and level of ambition

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evidence that the SPTs represent a material improvement | <input type="checkbox"/> Credentials on the relevance and reliability of selected benchmarks and baselines |
| <input checked="" type="checkbox"/> Evidence that SPTs are consistent with the issuer’s sustainability and business strategy | <input checked="" type="checkbox"/> Credentials that the SPTs are determined on a predefined timeline |
| | <input type="checkbox"/> Other (please specify): |

Benchmarking approach

- | | |
|--|--|
| <input checked="" type="checkbox"/> Issuer own performance | <input checked="" type="checkbox"/> Issuer’s peers |
| <input type="checkbox"/> reference to the science | <input type="checkbox"/> Other (please specify): |

Additional disclosure

- | | |
|---|--|
| <input checked="" type="checkbox"/> potential recalculations or adjustments description | <input checked="" type="checkbox"/> issuer’s strategy to achieve description |
| <input checked="" type="checkbox"/> identification of key factors that may affect the achievement of the SPTs | <input type="checkbox"/> Other (please specify): |

3-3 BOND CHARACTERISTICS

Overall comment on the section (if applicable):

CIAK will link the financial characteristics of the instruments issued under the Framework to achievement of the SPT, applying a coupon adjustment or premium payment in case of failure to achieve the SPT at the target observation date.

Sustainalytics positively notes the requirement of meeting the SPT to avoid an increase in the coupon rate, which is aligned with the SLBP and SLLP, however, Sustainalytics does not opine on the adequacy of the penalty imposed for not achieving the set SPT.

Financial impact:

- variation of the coupon
- ...
- Other (please specify):

Structural characteristic:

- ...
- ...
- Other (please specify):

3-4 REPORTING

Overall comment on the section (if applicable):

CIAK commits to report on an annual basis on its performance on the KPI, and expects to include the relevant figures in a Key Performance Indicator Report, which will be included in the Annual Report, or published as an independent report, which is aligned with the SLB Principles and SLL Principles. CIAK may also report the following where appropriate and feasible (i) impact of the KPI including methodologies and baselines on an annual basis (ii) changes, if any, in the sustainability strategy of the Group that can impact the SPT achievement targets and any changes in scope that requires re-assessment of the SPT.

Information reported:

- performance of the selected KPIs
- verification assurance report
- level of ambition of the SPTs
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report
- Information published in sustainability report
- Information published in ad hoc documents
- Other (please specify): Annual Report
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the “useful links” section.

Level of Assurance on Reporting

- limited assurance
- reasonable assurance
- Other (please specify):

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

Section 4. Post-issuance verification

Overall comment on the section (if applicable):

Information reported:

- limited assurance
- reasonable assurance
- Other (please specify):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Material change:

- Perimeter
- KPI methodology
- SPTs calibration

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