Sustainable Fitch

Corporates
Oil & Gas
United Kingdom

Harbour Energy PLC

ESG Ratings

	ESG Rating[a]	Score	Analysis Type
Entity	3	50	Full entity
Instrument	Not applicable	Not applicable	Not applicable
Framework	Not applicable	Not applicable	Not applicable

[a] ESG Rating of 1-5, where 1 is the strongest. Date ESG Rating and score assigned: 8 December 2021.
Note: For Framework, analysis types can be green, social, sustainability, sustainability-linked, conventional or other.

Credentials

Transition	ICMA	EU Green Bond Standard
N/A	N/A	N/A

Note: N/A – not applicable.
See Appendix A for definitions of Transition and ICMA; other details.

Key Debt Details

Instrument	Issue Date	Currency	Amount	Coupon	Maturity Date	Type
Bond	N/A	N/A	N/A	N/A	N/A	N/A

Note: N/A – not applicable.

Instrument Relevance

(%)	Instrument	Debt of the Same Type	Any ESG-Related Debt
Versus gross lease-adjusted debt[a]	N/A	N/A	N/A
Versus capex	N/A	N/A	N/A
Versus CFO	N/A	N/A	N/A

[a] Excluding non-recourse debt. CFO = cash flow from operations. Note: N/A – not applicable.

Business Activity Overlap with Use of Proceeds

Note: Share of the entity's total business activities that can use proceeds from the instrument above. Based on Harbour Energy 2021 half year results.

Contact – Analytical

Alexandra Bettou
+44 20 3530 1355
alexandra.bettou@fitchratings.com

Contact – Media

Eleis Brennan
+1 646 582 3666
eleis.brennan@thefitchgroup.com

The Entity – Highlights

Harbour Energy PLC is an independent oil and gas (O&G) company that was formed in March 2021 from an all-share merger between Chrysaor and Premier Oil. The company is involved in exploration, production and development activities across seven countries: UK, Mexico, Norway, Indonesia, Vietnam, the Falkland Islands and Brazil although the company has announced plans to exit operations in the latter two. As of 2021, the company's production solely takes place in the UK, Indonesia and Vietnam.

Harbour Energy's strategy focuses both on its UK production and on its production expansion to at least one other region through acquisitions. As a result, the majority of its capex will be invested in projects related to infill drilling, well intervention and plant modifications.

Harbour Energy has set a target to achieve net zero Scopes 1 and 2 emissions by 2035. The company aims to achieve that through decreasing its own emissions by improving plant efficiency, minimising venting and flaring and connecting renewables where possible. Harbour Energy plans to address its hard-to-abate emissions with carbon offsets.

Harbour Energy is involved in a variety of carbon capture and storage projects. The company was an early investor in the Acorn Carbon Capture and Hydrogen project that is co-funded by other industry peers alongside financing from the UK and Scottish governments and the EU. In the first phase of the project, which was expected to be in operation by 2024, CO_2 would be captured from the St. Fergus gas terminals. Moreover, the Acorn Hydrogen project would be generating hydrogen from natural gas. However, in October 2021 the project was classed as a reserve Track-1 cluster in an announcement by the Department of Business, Energy & Industrial Strategy. A reserve cluster is one that meets the eligibility and evaluation criteria and can be chosen in case the government ends engagement with a pre-selected Track-1 cluster.

Harbour Energy is also the sole owner and developer of the VNZ CO_2 Transport and Storage project which is expected to transport and store up to 11 million tonnes of CO_2 a year by 2030. The project will use diverse depleted gas reservoirs in the Viking area with an estimated capacity of 330 million tonnes of CO_2 storage. The company is also a co-investor in the V Net Zero Humber Cluster, a carbon capture and storage project, alongside three other organisations. Sustainable Fitch considers these projects critical given the potential relevance of these technologies, when developed at scale, to assist the sector to decarbonise and mitigate its adverse environmental impact.

Harbour Energy will be reporting on ESG, complying with the Task Force for Climate-Related Financial Disclosures, the Global Reporting Initiative and the CDP. The company could improve its ESG profile by registering its net zero emission target with the Science Based Targets initiative.

The Entity – Highlights (Cont.)

Fitch has used a variety of materials to complete this analysis, including pre-merger information from Premier Oil and Chrysaor where information for Harbour Energy was not readily available.

Source: Sustainable Fitch, Harbour Energy materials

Entity Analysis

Broader Perspective on Sector

Sector Trajectory	Fitch's View
Short term	• As the energy transition gains momentum via a mix of growing investors' demand for low-carbon solutions and increasing governments' regulation around climate change action, O&G companies face mounting pressure to rethink their business strategy. In order to navigate the energy transition wave in the short-term, O&G companies need to adopt and integrate a sustainability strategy in their wider business strategy. An increasing number of investors expect clear and transparent targets on emissions reductions from the O&G sector and hence committing to these will be necessary for O&G companies to remain attractive. • O&G companies are expected to invest in digitisation of their operations in order to assist them in meeting their emission performance targets and operating more efficiently; for example, using drones and robots to inspect issues at the facilities could reduce the time it takes to identify a problem and hence speed-up the resolution process. Data analytics and algorithms can also support companies in extending infrastructure life-cycle by optimising operating expenses. • Investments related to digital strategy and technologies require significant upfront expenditure that might not yield return in the short-run, putting them at risk of being discarded to pursue higher cash flow generating investments. Hence companies need a concrete plan and should act sooner rather than later to avoid losing momentum from greener peers.
Long term	• The outlook for the O&G sector will likely be affected by increased attention on low carbon solutions. As a result, companies should prioritise investments in renewable energy and new technologies such as carbon capture and storage. As renewable technologies become cost-competitive and are implemented at a large scale, the O&G industry needs to seek new ways to adapt to the changing energy dynamics and match the emission targets of the firms in the renewable sector. • Key companies in the sector have already set up the long-term emissions targets in response to climate change and environmental concerns.

Source: Sustainable Fitch

Broader Perspective on Company

Company Direction	Fitch's View
Short term	• Harbour Energy has already started investments in low carbon technologies. One of them is the VNZ CO_2 Transport and Storage project which received a licence award in October 2021. This project is expected to store up to 11 million tonnes of CO_2 per year by 2030 and has an estimated storage capacity of 330 million tonnes of CO_2. The captured CO_2 transiting through the VNZ Transport and Storage infrastructure will come from the V Net Zero Humber Cluster which is a carbon capture and storage project that involves another three parties. The V Net Zero Humber Cluster will start as soon as 2027, if successful in meeting the phase-two eligibility criteria. • In addition, the company is an early investor in the Acorn Carbon Capture and Hydrogen project. This project is an industry partnership with further contribution from the UK government and the EU. The Acorn project has a reserve Track-1 status from the UK government. • These investments are positive from an ESG perspective and are important for the company's transition. However, these technologies are not yet cost-effective and require significant government backing, exposing Harbour Energy to regulation approval risk and project sanctioning.
Long term	• Harbour Energy has set a net zero target in its Scopes 1 and 2 emissions by 2035. The company aims to achieve this through investments in carbon offsets, operational efficiency and electrification of platforms in combination with renewable connections. Fitch considers this target important for the long-term survival of the company as the world is transitioning to low carbon. However, the company's net-zero target relies on new technologies that do not yet have a proven ability to be developed economically at scale. • The company has already started investing in low carbon solutions, as mentioned above; an area of development would be to transition to green hydrogen, as its projects so far relate to brown hydrogen development.

Source: Sustainable Fitch

Entity Analysis

Business Activities

Company Material Core Contributions	Fitch's View: Environmental	Fitch's View: Social	ESG Rating
Exploration and Production			
• The company is involved in the O&G production, development and exploration. Represents 100% of overall revenue.	• Fitch considers exploration and drilling of O&G to have an adverse environmental impact. The activity is carbon intensive and contributes to prolonging the use and consumption of fossil fuels which generate considerable carbon emissions. It is acknowledged that flaring can generate significant amounts of CO_2. Meanwhile, assets located in the UK have recently been found to be the most polluting among its peers operating in the North Sea, with as much as 21kg of CO_2 a barrel against 8kg in Norway. Chrysaor disclosed a barrel intensity equivalent of 19.1Kg CO_2/ barrel, which sits slightly above the world average of around 17Kg Co_2/barrel according to Rystad Energy. • In addition, the wider availability and competitivity of renewable energies alongside pressing needs to limit CO_2 emissions increase the risk of stranded assets within the O&G sector. • However, Harbour Energy is making efforts to minimise emissions to the extent possible given its line of business, and it contributes to the energy transition through the funding of initiatives such as the VNZ CO_2 Transportation and Storage project that has obtained regulatory approval in October 2021 and a lead participation in the V Net Zero Humber Cluster. The VNZ CO_2 project will be using existing Harbour Energy North Sea infrastructure, hence minimising the environmental impact of the development stage. The VNZ Humber Cluster will decarbonise more than 50% of the industrial emissions of the Humber, starting as early as 2027 if successful in phase two of approval. • Harbour Energy is also involved in carbon capture and storage projects in Scotland, with the Acorn project selected as a Track-1 reserve project by the UK government. These investments are positive from an ESG perspective and this is partially reflected in this analysis.	• Fitch considers O&G exploration and drilling to be neutral from a social perspective.	4

Source: Harbour Energy 2021 half year results

Source: Sustainable Fitch, based on Harbour Energy 2021 half year results

Entity Analysis

Environmental View

Profile	Fitch's View	ESG Rating
Policies	• Both Chrysaor and Premier Oil have an environmental management system (EMS) in place (ISO 14001) which covers various areas of interest such as water, waste and pollution. We expect this to help Harbour Energy to integrate all the issues that might arise regarding environmental management and we will be monitoring how the EMS is being implemented in practice by the company. • Disclosing policies and actions regarding the use of water and land as well as waste and pollution would be best practice.	3
Disclosure	• Scopes 1,2 and 3 emissions data are available for Premier Oil between 2016 and 2020. Following engagement, Harbour Energy has disclosed data on Scopes 1 and 2 emissions for Chrysaor between 2018 and 2020. Harbour Energy has confirmed that Scope 3 emissions of the company will be assessed in 2022. • Other historic environmental data available for Premier Oil include effluents and waste, air pollutants, water usage and waste management. Moreover, there is 2020 data available on waste, chemical discharges and atmospheric emissions for Chrysaor. • Although there is no readily available data available for either company on biodiversity, Harbour Energy has confirmed that its risk management processes and procedures target biodiversity protection. Biodiversity protection and conservation is being covered as all of Harbour Energy's assets have environmental and social impact assessments. Further disclosure around biodiversity policy inclusion within the company's day-to-day operations and investment decision process would provide transparency and accountability.	2
Evolution	• Scopes 1 and 3 emissions for Premier Oil have been decreasing between 2018 and 2020. Scope 2 emissions, which are linked to electricity consumption from company's offices, registered a significant decrease in 2020 as a result of the Covid-19 pandemic. • Harbour Energy has confirmed that combined Scopes 1 and 2 emissions for Chrysaor have more than doubled between 2018 and 2020 due to the acquisition of UKCS ConocoPhilips assets. However, pro farma emissions for Chrysaor have remained stable in the same period. In addition, gross Scopes 1 and 2 emissions across the two companies that make up Harbour Energy have been reduced by 210,000 tonnes of CO_2e between 2018-2020.	3

Environmental View

Profile	Fitch's View	ESG Rating
	• Premier Oil reported improving trends in air pollutants, discharged produced water, hazardous and non-hazardous waste for the same period. There is no visibility on the relevant historic data for Chrysaor. Improving metrics are viewed positively as they demonstrate the company's commitment to sustainability and energy transition. Harbour Energy should draw from Premier Oil best practice in terms of disclosure, to provide a consolidated picture at end-2021.	
Targets and supply chain	• Harbour Energy commits to achieving net zero Scopes 1 and 2 emissions by 2035. • In 2020 the board of directors of Premier Oil made greenhouse gas (GHG) intensity a remuneration-linked target for the executive directors. The target for GHG intensity, which makes 12.5% of the bonus component of the remuneration, was achieved in 2020. Harbour Energy also links executive remuneration to environmental targets such as carbon emissions. • Looking into the supply chain, environmental factors form part of the screening criteria of suppliers. In addition, Premier Oil used to audit suppliers' compliance with their code of ethics. We would expect such practice to be replicated for the newly created entity. No breaches were reported in 2020. • Premier Oil has used a sustainability consultancy firm to provide assurance for some of the sustainability metrics in its sustainability report. The assurance covers metrics on effluents and waste, emissions, water and occupational health and safety. This is viewed positively and is reflected in our assessment. The assurance on occupational health and safety metric is also viewed positively and this is reflected in our social profile analysis. Fitch considers this to be best practice and so Harbour Energy's confirmation that its ESG report will be independently assured, benefits the company's ESG profile.	2

Entity Analysis

Environmental View

Profile	Fitch's View	ESG Rating
Risks and incident treatment	• In 2020 there was a significant number of non-permitted releases of oil and chemicals into the sea by both Chrysaor and Premier Oil. Chrysaor mentions 21 unplanned releases into the sea across its operated assets; four of those related to oil spills which resulted in 22kg of oil being released to the sea. Premier oil reports seven unplanned releases totalling 50kg of hydrocarbons. In addition, Premier Oil recorded a permitted discharge of 333kg of oil in 2020. • Oil spills have an adverse environmental impact which Fitch considers in the assessment. However, the company's release is within a modest range for the industry it operates in.	3

Source: Sustainable Fitch, based on environmental report 2020 Chrysaor, environmental report 2020 Premier Oil, Premier Oil sustainability report 2020, Premier Oil sustainability report 2020 data sheet, Chrysaor annual report 2020

Entity Analysis

Social View

Profile	Fitch's View	ESG Rating
Human rights	• A statement on prevention of modern slavery and human trafficking across the Harbour Energy operations and supply chain is available on the Harbour Energy website. • Premier Oil is a signatory to the UN Global Compact and Harbour Energy confirmed its intention to extend this practice by becoming a signatory to UN Global Compact in the close future.	1
Labour rights	• Harbour Energy material provides information on the company's approach to a non-discriminatory working environment. In addition, Harbour Energy ensures the health and safety of its workforce by applying a self-assessment process for each of its facilities in order to identify and manage serious accident hazards. • There were zero fatal accidents among employees and contractors of Premier Oil and Chrysaor between 2016 and 2020. Recording no incidents in an industry such as O&G is a robust performance, positioning the company ahead of the curve when compared against peers. • Premier Oil conducts employee engagement surveys to discover areas of strength and improvement. Employee turnover at Premier Oil was at 5.6% for 2020 and the figure has remained relatively stable in the last three years. This data is not readily available for Chrysaor and hence there is no indication for the turnover ratio of the combined entity.	2
Diversity	• Female employees made up 26% and 22% of the total workforce in Premier Oil and Chrysaor in 2020 respectively. This figure has remained fairly stable between 2018 and 2020. • Premier Oil reporting provides additional data on diversity with the most striking being the gender balance at the senior management level, where female employees make up only 13%. Improving gender diversity across the business and at senior management level would help Harbour Energy to strengthen its ESG profile. • In addition, the median gender pay gap for Premier Oil and Chrysaor for 2020 was at 41.6% and 32.1% respectively. Fitch understands that this figure is a result of skewed distribution as a result of men occupying predominantly senior management positions. Harbour energy provided confidential information demonstrating that gender pay gap variation for equal positions was within minimal range,	4

Social View

Profile	Fitch's View	ESG Rating
	mirroring market best-practice. Harbour Energy will be disclosing information on the gender pay gap and we will be monitoring this.	
Community and customers	• Premier Oil spent USD550,000 in 2020 on community investments and engaged with stakeholders, such as fishing communities, impacted by projects. • Harbour Energy commits to positive engagement with external communities. The company sponsors a variety of educational and socio-environmental programmes. It also sponsors and encourages employee volunteering.	2
Targets and supply chain	• Following engagement with the company, Fitch understands that Harbour Energy has various social targets in place. However, more visibility on the specific targets and timeframes of achievement would allow for a deeper assessment. • Premier Oil had set a social target on lost time injury rate per million man-hours worked, aiming for a target of 0.21. This target was also part of the bonus component of the remuneration of the Premier Oil executives for 2020. The actual number achieved was 0.65 due to three cases of lost time injury; hence the company target was not met. Health and safety targets have been set by Harbour Energy and form part of the executive remuneration. More visibility on the specific target would strengthen Harbour Energy's ESG profile. • Harbour Energy has a supply chain policy in place in which it commits to ensure and monitor the health, safety, environment, security and quality performance throughout its supply chain; and a global code of conduct that suppliers are required to follow as any breach could result in contract termination. • A similar approach was in place at Premier Oil where suppliers were screened based on health, safety, environment and security criteria and on labour and human rights. Premier Oil undertook audits across its supply chain to evaluate compliance and no significant breaches were identified in 2020. Fitch considers targets given to suppliers alongside with screening, audits and disclosure on results to be best practice. Hence, we will continue monitoring whether these practices remain in place at Harbour Energy too.	2

Entity Analysis

Social View

Profile	Fitch's View	ESG Rating
Risks and incident treatment	• Following analytical research and engagement with the company, Fitch is not aware of any incidents that might have affected external communities in the last three years.	1

Source: Sustainable Fitch, based on Premier Oil sustainability report 2020, Premier Oil sustainability report 2020 data sheet Chrysaor pay gap report 2020, Premier Oil pay gap report 2020, Harbour Energy material

Entity Analysis

Governance View

Profile	Fitch's View	ESG Rating
Financials and reporting	• An independent auditor's statement is included in the annual reports of both Chrysaor and Premier Oil. • There is no evidence of any audit remarks or fines for either of the two companies in the last three years.	1
Top management and control	• There are 11 directors (including the CEO) in Harbour Energy's board of directors; six of those are independent. Gender diversity at the board level stands at 36% with one of the four women being the CEO. There is also a clear split between the chairman and the CEO. • The majority of the board is between 60 and 64 years old. Three nationalities are represented at the board level; UK (five members), US (four members) and Norway (four members). • The board has established four committees to assist it with the governance of the company. These committees are the audit and risk committee; the health, safety, environment and security committee; the nomination committee; and the remuneration committee. The former is responsible for monitoring and reviewing the company's risk management and the internal audit and systems of control. The latter approves the remuneration of the chairman and of the executive and senior directors. • Fitch considers disclosure of information on the results of the internal audit monitored by the audit and risk committee as best practice. We will be monitoring visibility on this in Harbour Energy's reporting.	2
Remuneration	• The remuneration of the company's executive and senior directors is determined by the remuneration committee. In the case of Premier Oil, remuneration of executives for 2020 was linked to the achievement of specific ESG and operational goals. We expect a similar approach by Harbour Energy. • The CEO pay ratio was 6.94 and 7.5 for Chrysaor and Premier Oil respectively in 2020. This ratio is considerably low when compared to that of other companies in the energy industry, which is viewed positively.	1

Governance View

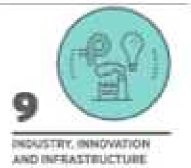
Profile	Fitch's View	ESG Rating
Risk management	• Fitch finds risk management procedures at Harbour Energy comprehensive. • Harbour Energy's global code of conduct addresses the company's approach to risk management factors such as compliance with the law, corruption and competition. The board of directors and the audit and risk committee are responsible for managing and monitoring compliance with the code. The company commits to review effectiveness of the code at least annually and examine any requirements for amendment. • Looking into Premier Oil reporting, there were zero incidents of non-compliance with the global code of conduct in 2020. In addition, the company was not subject to any fines or legal action related to business ethics in 2020. Lastly, from a security perspective there were zero major incidents affecting Premier Oil's assets or cyber infrastructure in 2020.	1
Tax management	• Harbour Energy has a tax policy in place which applies across the company and its subsidiaries. The company commits not to engage in artificial tax avoidance and to implement procedures in place to prevent tax evasion. • There is also no indication of use of tax havens from Premier Oil or Chrysaor in the recent past.	1

Source: Sustainable Fitch, based on Premier Oil annual report, Chrysaor annual report, Premier Oil sustainability report, Harbour Energy material

Entity Analysis

Relevant UN Sustainable Development Goals – Entity

- 9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.



Source: Sustainable Fitch, United Nations

Appendix A: Key Terms

Term	Definition
Debt types	
Green	Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Green Bond Principles or other principles, guidelines or taxonomies.
Social	Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Social Bond Principles or other principles, guidelines or taxonomies.
Sustainability	Proceeds will be used for a mix of green and social projects and/or environmental and social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies.
Sustainability-linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan).
Conventional	Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective.
Other	Any other type of financing instrument or a combination of the above instruments.

Term	Definition
Standards	
Transition	A term applied to green, social, sustainable or sustainability-linked instruments, only when the purpose of the debt instrument is to enable the issuer to achieve a climate change-related strategy according to Fitch criteria or methodology.
ICMA	International Capital Market Association. The "ICMA" credential on page 1 refers to alignment with ICMA's Green Bond Principles: a series of principles and guidelines for green, social, sustainability and sustainability-linked (or KPI-linked) instruments.
EU Green Bond Standard	A set of voluntary standards created by the EU to "enhance the effectiveness, transparency, accountability, comparability and credibility of the green bond market".
Other terms	
ESG debt	Green, social, sustainability and sustainability-linked types of debt.
Short term	Within five years.
Long term	At least six years away.
Entity's business activity overlap with use of proceeds	The share of the entity's total business activities that can use proceeds from the debt instrument in question.
NACE	An industry standard classification system for economic activities in the EU, based on the United Nations' International Standard Industrial Classification of All Economic Activities (ISIC).

Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group

Appendix B: Methodology and ESG Rating Definitions

Fitch's ESG Ratings are designed to indicate an entity's Environmental, Social and Governance (ESG) performance and commitment, as well as its integration of ESG considerations into its business, strategy and management, with a focus on actions and outcomes rather than purely on policies and broader commitments.

There are three ratings: the ESG Entity Rating (ESG ER), ESG Instrument Rating (ESG IR) and, for debt instruments linked to ESG key performance indicators (KPIs) and/or use of proceeds, the ESG Framework Rating (ESG FR). ESG Ratings are on a scale from one to five, where one represents full alignment with ESG best practice. Behind each rating sit scores of zero to 100, as well as sub-scores for even greater granularity.

Sustainable Fitch's analysts assess all the business activities of an entity and more than 40 additional headline factors, covering all three ESG pillars. For debt instruments, they assess use of proceeds and more than 20 additional headline factors.

Fitch provides individual datasets with grades and commentary through a feed. The score and sub-score database allows direct comparison of entities and instruments, on a full ESG basis or on selected fields.

ESG ERs consider the issuer's strategy, how it relates to sustainability, and how sustainability is embedded in the issuer's business, including ESG policies, procedures and outcomes. The entity is broken down into constituent business units, with NACE codes, for a granular assessment of E and S factors. Fitch assesses G aspects at the company level.

ESG FRs consider any type of bond, with varying analysis if there is a defined use of proceeds, KPI-linked coupon or conventional bond. The rating aims to identify the strength of the bond framework on a standalone basis, separate to the entity, regardless of any self-assigned descriptions. Fitch analysts categorise bonds as Green, Social or Sustainability (GSS) types independently, based on their view of the main area covered by the use of proceeds, rather than automatically using the entity's categorisation. They will also determine if the bond should be classed as a transition bond and if it aligns with the EU Green Bond Standard and ICMA principles. Analysis considerations include the use of proceeds and sustainability-linked targets that form the primary purpose of the instrument, and the structure and effectiveness of the framework being used to further that purpose.

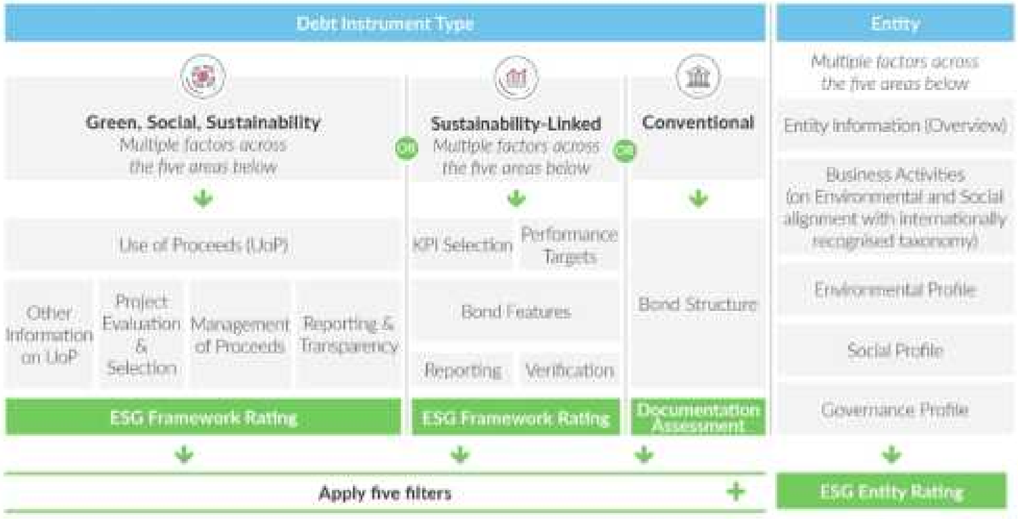
ESG IRs consider different types of debt instruments in the context of the issuing entity, enabling absolute ESG credentials comparisons for similar types of instruments issued by different types of entities, different types of instruments issued by different issuers, as well as different types of instruments issued by a single entity.

Analytical Process

Analysis considers all available relevant information (ESG and financial), including the entity's ESG report. Fitch's ESG Rating Reports transparently display the sources of information analysed for each section and provide a line-by-line commentary on the sub-factors analysed.

Fitch's ESG Rating Process

A visual guide to our debt and entity analysis



Note: KPI – key performance indicator
Source: Sustainable Fitch

An important part of the analysis is the assessment of the E and S aspects of the use of proceeds and business activities. In considering those aspects, the rating framework is inspired by major taxonomies (e.g. the EU taxonomy for E aspects, and the UN Sustainable Development Goals for S aspects). Once the analyst has completed the model, with commentary for the related ESG Ratings, it is submitted to the approval committee, which reviews the model for accuracy and consistency. ESG Ratings are monitored annually or more frequently if new information becomes available.

Use Cases

Sustainable Fitch's ESG Ratings can help inform decisions related to:

- Investment strategy
- Asset allocation and portfolio construction
- Benchmarking and index construction
- Risk management and stress testing
- Identification of transition bonds
- Disclosure and reporting.

Appendix B: Methodology and ESG Rating Definitions

Rating Scale and Definitions

	ESG Entity	ESG Instrument	ESG Framework
1	ESG ER of '1' indicates that the entity analysed evidences an excellent ESG profile. Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '1' indicates that the debt instrument in the context of the ultimate issuing entity evidences an excellent ESG profile. Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is excellent in terms of framework structure and proceeds destination.	ESG FR of '1' indicates that the framework for the instrument evidences an excellent ESG profile. Framework structure is excellent in terms of alignment with ambitious best practises and proceeds are dedicated to excellent environmental and/or social activities/projects according to taxonomies of reference.
2	ESG ER of '2' indicates that the entity analysed evidences a good ESG profile. Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '2' indicates that the debt instrument in the context of the ultimate issuing entity evidences a good ESG profile. Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is good in terms of framework structure and proceeds destination.	ESG FR of '2' indicates that the framework for the instrument evidences a good ESG profile. Framework structure is good in terms of alignment with ambitious best practises and proceeds are dedicated to good environmental and/or social activities/projects according to taxonomies of reference.
3	ESG ER of '3' indicates that the entity analysed evidences an average ESG profile. Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '3' indicates that the debt instrument in the context of the ultimate issuing entity evidences an average ESG profile. Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is average in terms of framework structure and proceeds destination.	ESG FR of '3' indicates that the framework for the instrument evidences an average ESG profile. Framework structure is average in terms of alignment with ambitious best practises and proceeds are dedicated to average environmental and/or social activities/projects according to taxonomies of reference.
4	ESG ER of '4' indicates that the entity analysed evidences a sub-average ESG profile. Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '4' indicates that the debt instrument in the context of the ultimate issuing entity evidences a sub-average ESG profile. Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is sub-average in terms of framework structure and proceeds destination.	ESG FR of '4' indicates that the framework for the instrument evidences a sub-average ESG profile. Framework structure is sub-average in terms of alignment with ambitious best practises and proceeds are dedicated to sub-average environmental and/or social activities/projects according to taxonomies of reference.
5	ESG ER of '5' indicates that the entity analysed evidences a poor ESG profile. Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '5' indicates that the debt instrument in the context of the ultimate issuing entity evidences a poor ESG profile. Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is poor in terms of framework structure and proceeds destination.	ESG FR of '5' indicates that the framework for the instrument evidences a poor ESG profile. Framework structure is poor in terms of alignment with ambitious best practises and proceeds are dedicated to poor environmental and/or social activities/projects according to taxonomies of reference.

Source: Sustainable Fitch