Net Zero Progress & Our Inaugural Transition Plan

Our commitment to Net Zero

Climate change is one of the biggest challenges that the world faces, impacting every person on the planet through weather events such as extreme heat, forest fires, severe rainfall and flooding.

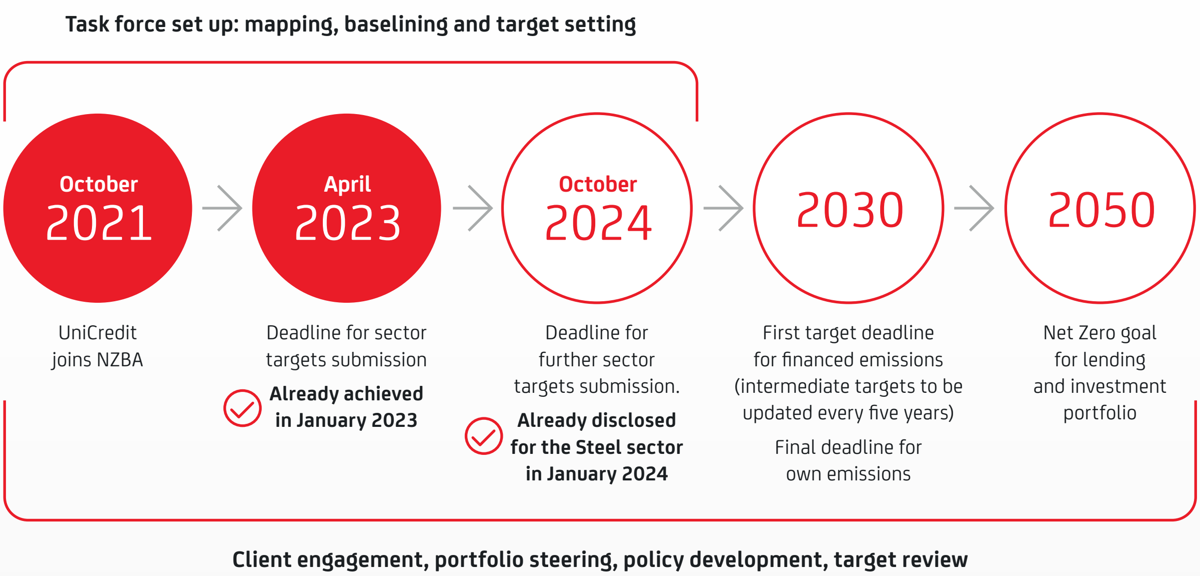
2023 was the warmest year in human history and scientists expect temperatures to continue rising. Concerted action between public and private sectors is critical to a successful energy transition and to the mitigation of impacts and the management of the risks of climate change. In this context, the financial system has an important role in the Net Zero journey, with more than $80 billion in climate finance commitments agreed in COP28.

At UniCredit, we are committed to playing our part. We are striving to reduce our direct and indirect environmental impacts while supporting Europe's green transition. In this context, we committed to Net Zero in October 2021 when **we joined the Net Zero Banking Alliance (NZBA), targeting Net Zero on our own emissions by 2030 and on financed emissions by 2050.**

Since then, we put in place concrete actions to achieve Net Zero on our own emissions. We also set interim 2030 targets to reduce our financed emissions on three of the most carbon-intensive sectors[1] (Oil & Gas, Power Generation, Automotive) in our loan portfolio. We are now complementing this first set of targets with the addition of the Steel sector, in alignment with the methodology and timeline outlined in the Sustainable STEEL Principles, of which UniCredit is a founder.

In the coming months, we will establish Net Zero 2030 interim targets for other carbon-intensive sectors, such as Real Estate. In this further round of target setting, the small and low-materiality sectors will not initially be considered. However, we will continue to monitor them to ensure our approach remains open for future adjustments, if necessary.

Our path towards 2050 Net Zero targets



1. Based on Net Zero Banking Alliance sectors.

Our inaugural transition plan

In line with NZBA requirements and the Glasgow Financial Alliance for Net Zero (GFANZ) recommendations, we are proud to disclose our inaugural transition plan, a further important step in our Net Zero journey.

Since joining the NZBA, we have established our first sectoral targets and identified actions needed to achieve them. In 2023, we dedicated significant effort to designing and setting up the internal engine needed to make our targets operational, involving all the relevant functions of the Bank to deploy the actions identified. The first months of 2024 will focus on turning our commitment into actions, cascading the Net Zero transition plan to the whole Group.

Designing the first version of UniCredit's transition plan has been a **cross-functional strategic exercise,** that also required a deep understanding of the external context and **challenges on the road to Net Zero,** most of which apply to the whole financial sector.

We recognise that financial institutions will only be **effective enablers of the transition if appropriate policies, standards and conditions are in place in the real economy.** This is why we are collaborating with external stakeholders with the aim of clarifying the role of banks and how we can effectively assist our clients. In setting our plan for the years ahead, we are also working to take into account different voluntary frameworks, guidelines and criteria on transition, set by different market-based initiatives and third-sector entities, recognising that **a common framework would simplify execution** and benefit the entire sector.

The landscape is still evolving, with many assumptions still to be made and regulatory requirements to be set. We therefore regard this plan as an **opportunity to provide transparency on the progress we have been making in our journey to Net Zero along with the challenges we have been dealing with** to support our clients in their decarbonisation path.

In addition, we have established a broader ambition to support our clients on a just and fair transition – which means **going beyond Net Zero** to take into account more broadly natural capital (e.g. biodiversity loss) and social aspects (e.g. impact on workers in carbon-intensive sectors, impact on vulnerable categories, etc.). The transition will impact employment, especially in the energy sector, with workers experiencing rapid changes and job insecurity. **Balancing these aspects is a relevant challenge** for the whole financial sector, and this will require adjustments to our strategy in the next years.

Furthermore, in common with the entire financial sector, we are working to **act on challenges linked to data availability and reliability.** We rely on clients and external providers for data on real economy transition, such as clients' transition plans. However, such plans are still nascent, variable in quality and with key data points often missing, with consequent risks of inappropriate transition choices.

Finally, we are not only facing challenges but also opportunities. If investments in clean energy are still below the expected levels to achieve Net Zero, this does nevertheless open up new business opportunities for financial institutions to help companies to decarbonise.

In light of the above-mentioned challenges and opportunities and the dynamic and forward-looking nature of the transition planning exercise, the **UniCredit transition plan will be updated over time** based on the evolution of our overall ESG Strategy and the speed at which we are accompanying our clients in their own transition.

The following sections illustrate the key content of our transition plan, recalled also in other chapters of the Integrated Report (see related references). In line with the GFANZ guidelines for financial institutions, our plan covers:

- Our **foundation** of Net Zero objectives and priorities
- Our **engagement strategy** to foster dialogue with clients and other key stakeholders on transition
- The **implementation strategy** we are deploying to embed Net Zero considerations into our daily activities
- The **Metrics & Targets** we set on Net Zero, and the levers we will use to achieve them, by sector
- How our **ESG governance** supports the transition

Foundation

Our ambition and progress on our own emissions

Even though financed emissions account for most of our climate impact, the management of our own environmental footprint is also key to becoming a Net Zero bank. Our ambition is to reach **Net Zero on own emissions** (Scope 1 and 2, market-based) **by 2030.**

As of 2023, we have **reduced our own GHG emissions by 28% versus 2021** including by procuring electricity from renewable energy sources, improving the energy efficiency of our premises and data centres and promoting sustainable mobility solutions.

Page 138 Read more in the Natural Capital chapter

Our ambition and progress on financed emissions

UniCredit is committed to reducing its financed emissions (Scope 3, Category 15). As mentioned, to prioritise the actions required on our loan portfolio, we first set **interim 2030 targets on Oil & Gas, Power Generation and Automotive,** three of the most carbon-intensive sectors in our portfolio. We have now defined our 2030 targets for the **Steel sector**, and will then set interim targets for other sectors with material impact by October 2024.

Since setting our first Net Zero targets in 2023, emissions **decreased for the Oil & Gas sector, as well as** physical intensity **for the Power Generation sector,** in line with their transition trajectories. Physical intensity remained quite stable for Automotive mainly due to a change in the granularity of data used for emissions baseline estimation. Further details on our progress and action plans by sector are provided in the Metrics & Targets section of this chapter.

Engagement strategy

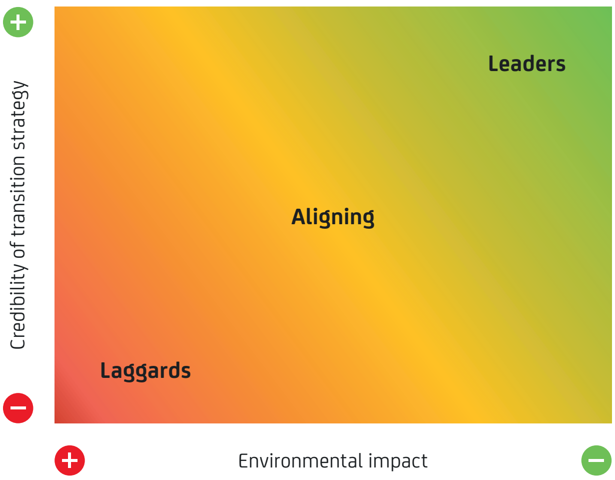
Our engagement strategy outlines how we can most effectively engage key stakeholders in the transition path. These stakeholders include our **clients,** as well as **financial institutions, industry-led associations, regulators, governments, and policymakers.**

Client engagement

Partnering with our clients for a just and fair transition is one of the pillars of our ESG strategic framework and has been at the core of our ESG Strategy for the last few years. Our purpose is to help clients accelerate their transition by providing them with effective advisory, tools and appropriate financing support.

To further tailor our approach to the needs of different clients, we have defined specific **Net Zero clients' engagement strategies**. First, we **clustered our Net Zero clients** based on their actual impact on our financed emissions and on their forward-looking transition strategy, thereby identifying transition leaders, clients aligning to transition, and laggards vis-a-vis transition. The next stage was to set **differentiated engagement strategies** by client cluster and sector, ranging from retaining/expanding our relationship with leaders, to active engagement of aligning clients, and gradual reduction of our support to laggards. In all cases, we regard **green and transition finance as a key lever to assist our clients' transition,** especially for those who are not yet leaders on the transition journey, as explained in the Products and Services section of this chapter.

Net Zero client clusters



To ensure our approach is based on solid ground, one of the key challenges we face is to develop an accurate **understanding of our clients' transition strategy.** To tackle this, we are currently developing a **bespoke approach to reading and interpreting our clients' transition plans,** when available, and to strategically engage with them on their decarbonisation strategy. Based on internationally recognised frameworks and sectoral initiatives on transition planning (e.g. GFANZ, CDP, CA100+), we have selected key qualitative and quantitative elements for evaluating the level of maturity of our clients' transition strategies.

We have already started to test the bespoke approach with pilot cases, and plan to collect this information for our Net Zero sectors' clients based on publicly disclosed documents, ensuring our business is ready to have specific dialogue on these topics. Furthermore, we also plan to rely on external experts to further strengthen our understanding of our clients' transition plans.

This approach represents a fundamental part of our Net Zero engagement strategy to facilitate insightful and data-driven discussions with existing and prospective clients regarding new opportunities to finance their transition and mitigate potential risks.

ESG forms part of the daily dialogue with our clients, both from a strategic and a commercial point of view. We have a **dedicated ESG Advisory team** that supports our business networks across all geographies in assessing and addressing clients' ESG-related needs. Furthermore, at local level we benefit from **dedicated expert roles.** For example, we have set up a team of ESG Experts to support Relationship Managers in the origination and structuring of ESG deals for corporate clients across all Italian commercial regions. Also in Germany we have dedicated supporting roles, such as the Sustainable Finance Experts.

Engaging with other stakeholders

As mentioned, we are operating in a dynamic environment, with the emergence of new, interconnected topics relevant to the transition that are not yet clearly regulated. In this context, **we aim for constant dialogue with key external stakeholders** to ensure a shared approach to reach Net Zero.

This is why UniCredit constantly engages with **sector associations** to help shape financial institutions' role in supporting the real economy transition. For example, we are taking part in NZBA working groups where we provide feedback to set clear guidelines and standards. Furthermore, we maintain active dialogue with **policymakers and regulators** on Net Zero through sector associations such as the Institute of International Finance (IIF), the Association for Financial Markets in Europe (AFME) and the European Banking Federation (EBF), which provide input and feedback on the role of financial institutions in achieving climate goals, on the framework for transition finance and on transition planning.

Likewise, as part of our overall engagement strategy, to strengthen our commitment to green transition over the years we have also actively participated in various **international and national initiatives,** such as the Task Force on Climate-related Financial Disclosure (TCFD) in 2019. Among other examples, we have also published a dedicated standalone TCFD report since 2020 and signed up to the UNEP FI Principles for Responsible Banking (PRB) in 2019.

As we believe that a true transition can only be achieved through a **systemic industry approach,** we maintain constant dialogue with a broader set of stakeholders to understand key trends in the sectors where we have set targets. For example, in the energy sector we understand the importance of **resilience and energy security,** which is why it is one of the topics discussed in our **European Energy Transition Forum.** This forum brings together senior representatives from leading energy companies with international institutional investors. Thanks to our business industry experts, we are able to gain a deeper understanding of our clients' situations, enabling us to develop **360-degree support to clients,** not only on financing but also advising them on which strategic solutions can be adapted to their transition journey. We also act as **facilitators between larger clients, smaller clients and startups** across geographies, enabling connections that help clients in specific sectors sharing best practices in line with their transition strategies.

Engagement strategy continued

More generally speaking, the participation of financial institutions in **industry-led initiatives** is crucial to the provision of the tools required for clients' transition, developing concrete investment projects, and arranging financing. In turn, this fundamental dialogue also enables corporates to understand how to make their projects bankable. Further details on sector-specific initiatives are provided in the Metrics & Targets section of this chapter, where we illustrate our sectoral approach to transition.

To support our clients' transition, we also **partner with institutional stakeholders to channel additional financing.** In 2023, for example, we signed an agreement with the European Investment Fund (EIF), part of the European Investment Bank (EIB) Group, to channel €1bn to small businesses across seven countries in Central and Eastern Europe.

We also strive to **engage locally with industry sectors and other stakeholders** in the countries where we are present. For example, UniCredit Bank Austria is working together with WWF Austria on consistently anchoring sustainability goals in its lending portfolio and is also a partner in Klimaaktiv, alongside 10 other companies in Austria. The Klimaaktiv pact envisions a reduction in greenhouse gas emissions by participating companies of at least 50% by 2030, compared to 2005. Members of the Klimaaktiv pact are regularly and rigorously audited. Annual inspections and robust criteria guarantee that the pact partners meet the requirements for climate-friendly business in a credible manner.

Finally, last November we held our **inaugural ESG Day, "Empowering a Just and Fair Transition"**, a one-day event dedicated to meetings and discussions involving both internal and external stakeholders, including employees, clients and partners, as well as renowned ESG experts. The opening panel session was dedicated to climate change and the green transition, "The road ahead: Safeguarding the climate in troubling times", with the participation of experts from different disciplines, including representatives from NGOs.

Page 26 Read more in the Stakeholder Engagement chapter

Implementation strategy

A key pillar of UniCredit's transition plan is our implementation strategy, which defines how we integrate **Net Zero considerations into all our core business activities and decision-making processes.** There are five main components to this strategy:

1. **Target setting**
   to ensure we structurally embed Net Zero into our planning process for the coming years, constantly adjusting our Net Zero trajectory based on the most recent data and effectively cascading it through the organisation
2. **Monitoring**
   to effectively track our progress against our targets, and to identify corrective measures in case of deviations
3. **Risk management**
   to ensure we adequately manage the different risks (reputational risk, climate and environmental risk and credit risk) linked to our clients' transition to more sustainable business models
4. **Products and services**
   to effectively assist our clients' journeys to Net Zero
5. **Supporting tools**
   to ensure the organisation has all the relevant information to operate in this space

1. Target setting

In 2023 we disclosed our **first 2030 interim targets** for three of the most carbon-intensive sectors in our portfolio. The process for target definition involved a broad **cross-functional working group** with support from our ESG, Risk Management, Finance and Business functions. It entailed the development of a **dedicated internal methodology** to calculate our emissions baseline and to project its potential future trajectory, based on Net Zero reference market practices (SBTi, PCAF, IEA) and on sector guidelines (e.g. by NZBA). It also required **gathering new information from external and internal data sources** and using tools to model the future evolution of our financed emissions. Once targets were set, they were broken down by division and cascaded to the whole organisation.

While this was a one-off effort, it clearly needs to become **part of our normal activities in future years** to ensure we constantly adjust our targets over time based on our financed emissions' evolution. This is why in 2023 we already started working to embed target setting, breakdown, and cascading activities into our existing planning processes, assigning clear responsibilities within existing governance and setting up adequate tools to systematically gather and model all data required.

2. Monitoring

Monitoring our progress against targets is fundamental to the effective and timely steering of our loan portfolio. To achieve this, we have set up a **dedicated process to track our Net Zero KPIs evolution** vis-à-vis our baseline and targets.

The Net Zero monitoring process demands strong collaboration between all Net Zero involved functions (Risk Management, Finance, ESG, Digital and Business) given high interdependencies between targets breakdown, targets cascading and data strategy. It requires that we not only track the evolution of our exposure on existing clients but also periodically refresh climate data for the calculation of climate impact. In this context, **data strategy is critical** to improve coverage and ensure quality, also leveraging on specialised providers.

Thanks to the new monitoring process we have put in place, we are now able to provide our business functions with dedicated periodic reports on Net Zero impact evolution, including all underlying drivers needed to steer our Net Zero portfolio.

3. Risk management

As a result of our commitment to sustainability, we have been embedding **climate and environmental risks in our risk framework across all the various risk types** (credit risk, financial risks, non-financial risks).

We started to integrate climate factors within our Risk Appetite Framework and our Risk Strategies for managing credit, financial and non-financial risks. We developed a specific methodology and process based on a dedicated climate and environmental questionnaire to determine our clients' position on the transition pathway. We introduced sector-specific policies which commit us to stop financing controversial carbon-intensive activities, such as energy production from thermal coal and the most impactful Oil & Gas operations (e.g. tar sands, fracking, ultra-deep water drilling, arctic extraction, etc.) and to phase out similar financing that had been granted in the past, before the policy came into effect. We continually update our policies to ensure that the most recent evolution of related risks are considered and properly managed.

In 2024, we are further building on this approach by introducing **specific considerations on the three sectors in our portfolio for which we set interim Net Zero targets**, i.e. we:

- Updated our **Oil & Gas policy** by integrating Net Zero provisions as a driver for the reputational risk classification of customers
- Introduced specific KPIs related to our Net Zero targets into our **Risk Appetite Framework** (RAF)
- Included more comprehensive qualitative guidelines to incorporate Net Zero commitments in our **Credit Risk Strategies**
- Embedded **Net Zero client strategies into the credit process** (see Engagement strategy section of this chapter for more details)

Page 160 Read more in the Risk Management and Compliance chapter

Implementation strategy continued

4. Products and services

In line with UniCredit ESG Strategy, in the last few years we have been at the forefront of sustainable lending. We are supporting many of our clients with dedicated products such as green loans (aligned to market standards such as ICMA or EU Taxonomy), green financing in partnership with public entities at local and European level (e.g. Kreditanstalt für Wiederaufbau, European Investment Fund, etc.), Sustainability linked loans and much more.

Moreover, since starting our Net Zero journey we realised that **supporting our clients also with dedicated transition finance is key to reaching our Net Zero ambition.** There are many different definitions of financial products that constitute "transition finance", including those proposed by the International Energy Agency, GFANZ, OECD, and United Nations. Most definitions generally focus on financial offers dedicated to reducing real economy emissions by financing either transitional activities or high emitters transitioning to Net Zero.

We have established our own internal definition of transition finance based on EU Commission recommendations and included it in our **ESG Product Guidelines** at the end of 2023. This is a key enabler to support Net Zero clients that are aligned with our path. Our ESG guidelines apply to all Group countries. They aim to define a comprehensive methodology for the homogeneous classification and reporting of UniCredit's ESG products and services offer, and define the criteria for eligibility. The objective is to protect the Group against greenwashing and social washing risks. The guidelines also require our clients to have certified transition plans in place to access transition finance, so that we ensure that the required financing is dedicated to eligible transition initiatives.

Accounting is a key challenge related to financing transition: in fact, a **transition finance loan may lead to a temporary increase in financed emissions** and move us further away from our targets in the near term. To address this, we are working to provide adequate disclosure of our transition finance volumes in our future reporting. Furthermore, we aim to develop methodologies to quantify medium- to long-term expected benefits in terms of reduced financed emissions.

Finally, to effectively identify which of our products are most effective for our clients, we will continue to leverage our dedicated ESG functions such as the ESG advisory team, which helps business network colleagues analyse clients' ESG needs and identify the most appropriate products to support them.

5. Supporting tools

To provide all involved UniCredit functions with relevant Net Zero information and methodologies needed to effectively implement our transition strategy, we are also **upgrading our supporting tools and introducing new functionalities,** e.g.:

- Introducing **clients' transition plans assessment** functionalities into existing tools
- Displaying **Net Zero relevant data by client** (including their impact, cluster and recommended strategy) to our business network leveraging on existing dashboards
- Enabling business colleagues to **simulate Net Zero impact** at single deal and portfolio level through dedicated tools

The additional functionalities described above were designed during 2023 with the involvement of cross-functional working groups from the ESG, Risk Management, Business and Digital functions, and will be progressively rolled-out and fine-tuned during 2024.

In addition, in March 2023 we announced the **partnership with ENI Open-es,** an alliance that brings together entrepreneurial, financial and associated networks. Open-es supports all stakeholders on their sustainable development path through a digital and innovative platform which aims to equip our clients with a best-in-class tool to enable their decarbonisation path.

Page 47 Read more in the ESG Strategy chapter

Metrics & Targets

Financed emissions

After joining the Net Zero Banking Alliance in 2021, with a Net Zero ambition for our portfolio by 2050, in 2023 we disclosed **our first 2030 targets for Oil & Gas, Power Generation and Automotive,** three of the most carbon-intensive sectors in our portfolio. We are now monitoring our decarbonisation **progress against these targets,** while also disclosing our **first target for an additional carbon-intensive sector, Steel.** By the end of 2024, we will establish Net Zero **2030 interim targets for other material sectors, such as Real Estate.** In this second round of target setting for the NZBA carbon-intensive sectors, the small and low-material sectors will not be considered. However, we will continue to monitor them to ensure our approach remains adaptable for future adjustments, if necessary.

Sector	Scope	Value Chain	Metric	Scenario Benchmark	Baseline		2022YE Progress	2030 Target
					Year	Value		
Oil & Gas	Scope 3 Category 11	Upstream, Midstream, Downstream	Absolute Financed Emissions	IEA NZ 2050 (World)	2021	21.4 $MtCO_2e$	-10% vs. baseline (19.3 $MtCO_2e$)	-29% vs baseline (15.2 $MtCO_2e$)
Power Generation	Scope 1	Power Generation	Emission Intensity	IEA NZ 2050 (Europe)	2021	208 gCO_2e/kWh	152 gCO_2e/kWh	111 gCO_2e/kWh
Automotive	Scope 3 Category 11 Tank-to-wheel	Automotive Manufacturers (Light-duty Vehicles)	Emission Intensity	IEA NZ 2050 (World)	2021	161 gCO_2/vKm	165 gCO_2/vKm	95 gCO_2/vKm
Steel	Fixed Boundary System – Scope 1, 2 and 3 (Category 1 and 10)	Crude steel makers	Emission Intensity	IEA NZ 2050 (World)	2022	1.45 tCO_2/tSteel	-	1.11 tCO_2/tSteel
			Alignment score		2022	-0.69	-	

Metrics & Targets continued

Oil & Gas

Progress so far

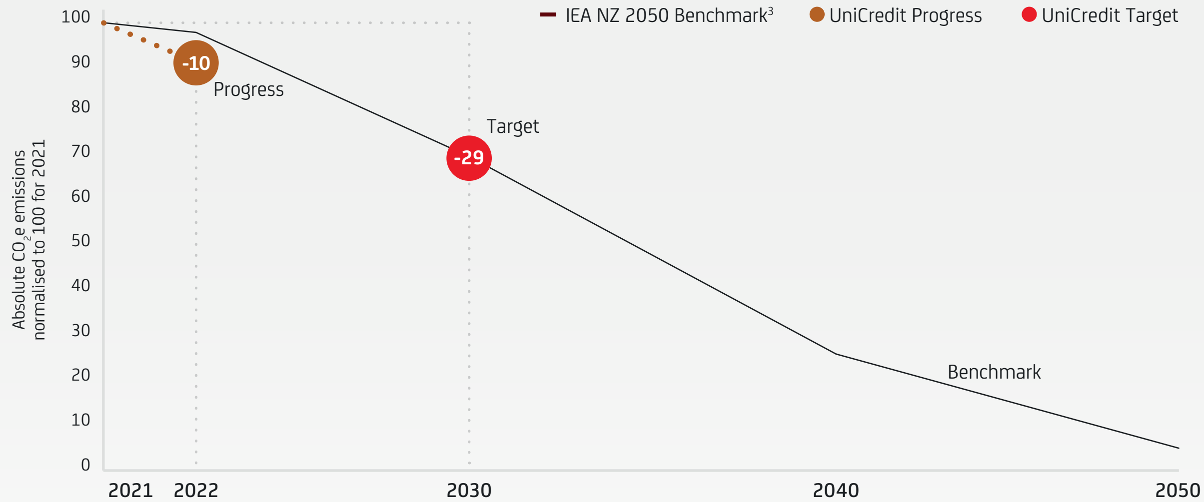
To achieve our target for the sector, we started working on defining how to reduce the impact of our portfolio of Oil & Gas clients. During the last year, our focus has been on further engaging clients with transition strategies to actively support them in their transition path, and on gradually reducing our exposure to clients with high impact sector Scope 3 emissions not aligned to the transition. This approach allows to balance the need to ensure energy security while at the same time shifting to more sustainable energy sources.

As a result, **in 2022 our financed emissions already decreased by 10% vs 2021.** The achieved reduction has been mainly driven by the deleveraging of non-strategic clients, partially counterbalanced by the decrease of the company value of Russian counterparties that increased our share of financed emissions for those clients[2] (coherently with the volatility of the metric).

Key levers for transition

With regard to the Oil & Gas sector, traditional business models are increasingly under pressure because the effects of climate change are worsening, with energy security becoming even more relevant. A key strategic challenge for Oil & Gas companies is aligning existing skills and capital with new requirements of energy transition. As the industry landscape is diverse and there's no "one size fits all", a **collaborative dialogue between companies, shareholders and financial actors** is necessary. As highlighted by the IEA, most Oil & Gas companies are watching the energy transition from the sidelines, with only 1% of total clean energy investment globally coming from Oil & Gas producers. For this reason, the **industry's engagement will be key in the upcoming decades.**

Oil & Gas Financed emissions % of reduction



In scope on balance sheet lending YE2022 **€5.7bn**	Financed emissions baseline YE2021[4] **21.4 $MtCO_2e$**	Financed emissions YE2022 vs YE2021[4] **-10% (to 19.3 $MtCO_2e$)**	Financed emissions 2030 Target vs 2021 **-29% (to 15.2 $MtCO_2e$)**

2. i.e., increase of 'client attribution factor' given by the lending to the client on the client's company value (financed emissions calculation according to PCAF methodology).
3. World scenario, including Oil & Gas only.
4. Computed on portfolio in scope when data available (Scope 3 emissions for midstream companies not computed in line with current literature).

In this scenario, we believe that Oil & Gas players have several opportunities to play a meaningful role in the energy transition to **scale up crucial technologies such as hydrogen, biofuels, and carbon capture, utilisation and storage (CCUS).** At UniCredit, we are working to encourage the industry transition on multiple fronts:

- Engaging with clients to **educate them about transition** and make them aware of the importance of clear transition plans as a pre-requisite for the financing of transition projects
- **Rebalancing our loan portfolio**:
  - Supporting clients investing in alternative, more sustainable fuels
  - Gradually reducing the financing of the most carbon-intensive activities
  - Collaborating in sector-led initiatives and with new ventures for sector technology innovation, even when solutions are not yet fully mature

To sustain our clients' transition, we are supporting companies that are planning to rebalance and diversify their activities, helping them address sector challenges linked to the energy crisis, such as the need to provide energy security.

To support the sector's transition, we are also **promoting sector-based initiatives that facilitate the growth of alternative clean fuels**, such as hydrogen. Since 2021, we have been a member of the **European Clean Hydrogen Alliance,** established by the European Commission to support the development of green hydrogen projects to drive the energy transition. Through this alliance, we successfully contribute to the deployment of low carbon solutions across Europe, working closely with key industry players and regulators. The alliance also enables us to stay abreast with the latest developments in the rapidly growing hydrogen sector.

Supporting sustainable natural gas

To facilitate the transition from fossil-based to cleaner fuels, UniCredit is investing in new climate technologies such as those developed by Tree Energy Solutions (TES). TES is an integrated industrial scale energy transition company leading the way in the production of e-NG (electric natural gas derived from green hydrogen).

e-NG will be produced in areas of low-cost renewable energy where green hydrogen is obtained via water electrolysis. The green hydrogen is then transformed into electric natural gas by methanisation, before the gas is transported using existing infrastructure. TES has announced two e-NG production projects in North America, one in Texas and one in Canada, and has a further pipeline of projects in North America, Middle East and Australia. TES plans to distribute e-NG from the production sites to customers in Europe and Asia by 2028.

One of TES' key projects in Europe is the import terminal in Wilhemshaven, Germany. In the short term, the project will accommodate LNG imports, before transitioning to importing e-NG (electric natural gas) in liquefied form.

TES plans to build several green hydrogen and e-NG production sites across the world, thereby substantially supporting the development of new types of fuel, alternatives to fossil-based ones.

Group

Metrics & Targets
continued

Supporting a traditional player's shift from oil to renewables

For years, UniCredit has been supporting more virtuous clients operating in Oil & Gas sector to accompany their transition, helping them reconverting their operations toward activities in the energy sector that rely more on green sources.

For instance UniCredit is a core bank for ERG, with which we have a solid and long-standing relationship with a proven track record for both mergers and acquisitions (M&A) and financing solutions. UniCredit has been at ERG's side throughout its transition from being an oil company to a pure renewable player over the last few years.

We were at the side of ERG since its first Debt Capital Market (DCM) activity in 2017, when we acted as Joint Lead Manager of a €100m privately placed transaction whose proceeds were classified as "general corporate purposes" with specific reference to new investments in renewable energy infrastructure, energy efficiency and refinancing of investments in hydroelectric plants. Around two years later, ERG made its debut on the public bond market with a €500m inaugural Green bond offering, while in the following years the Company continued to adopt the green format, successfully placing additional Green Bonds. As of January 2024, the totality of ERG's outstanding bonds (€1.6bn) are labelled as Green, financing/refinancing eligible green projects under ERG's Green Bond Framework. In line with its status of pure renewable player, ERG is now recognised as an established green bond issuer by the DCM community. Having being involved in all the bond transactions, UniCredit can be considered as the partner of choice for ERG.

UniCredit is also one of the ERG Group core banks for project financing, having successfully supported several ERG projects since the beginning of its business development in the renewables sector (c.460 MW installed capacity in wind/PV sector).

We also supported ERG with other financing instruments, acting for instance as Additional Bookrunner and Mandated Lead Arranger (MLA) of a €600m sustainability-linked Revolving Credit Facility (RCF) that ERG entered into in 2022. The deal was structured around two sustainability KPIs:

– a sustainable environmental KPI based on renewable capacity and
– a sustainable social KPI based on work force's diversity

In the course of its transition journey, ERG has completed many M&A transactions in the renewable energy sector, with UniCredit acting as advisor for the majority of the deals carried out in the last 15 years. Among the most recent deals, in 2022 we acted as sole M&A advisor for ERG's acquisition of seven wind farms from EDP Renováveis, a transaction that allowed the company to further consolidate its position in the Italian wind market. That same year, UniCredit also supported ERG in the acquisition of MP solar, a Dutch solar photovoltaic platform with 18 plants situated across four Italian regions, thus supporting ERG's growth also in the Italian photovoltaic market.

Deals of the type performed with ERG allow us to further support renewables in the Power Generation sector.

Italy

Power Generation

Progress so far

To achieve our target for the sector, we started working on our portfolio of Power Generation clients to define how to reduce our impact. Our focus has been on further growing our financing to clients with credible transition plans and that already have low levels of physical intensity (leveraging more renewables in the production of energy) or clear plans to reduce it, to pursue a climate transition. At the same time, we have started to gradually reduce exposure to those clients with high levels of physical intensity and whose transition strategy is missing or not credible enough.

In 2022 the physical intensity of our loan portfolio achieved the value of 152 gCO_2e/kWh down by 27% vs 2021. The result achieved is well below the target trajectory thanks to the improvement of:

- Data quality that helped a better identification of renewable financing. More than €5bn in our portfolio are related to lending to "pure" renewable companies or dedicated loans to traditional players to support power production from renewables
- Average physical intensity of our client base that is progressively changing the technology mix towards more sustainable sources, consistent with their transition plan

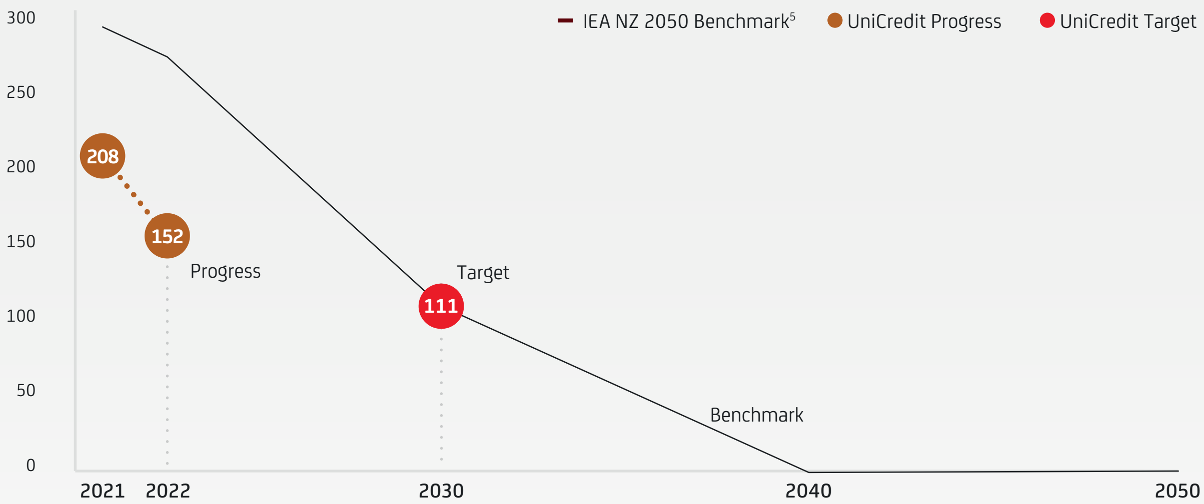
Scaling up renewable energy capacity

Statkraft is a leading company in hydropower internationally and Europe's largest generator of renewable energy. It is 100% owned by the Kingdom of Norway and one of our Nordic Core Clients. Statkraft has an ambitious growth plan for renewable energy in order to achieve a Net Zero future.

As part of this strategy, Statkraft has signed a binding agreement to acquire the Spanish-based renewables business Enerfin from Elecnor Group. The acquisition of Enerfin adds 1.5 GW of operational wind power, wind and solar capacity currently under construction plus a sizeable pipeline of projects in development to Statkraft's portfolio. This reinforces the Norwegian company's position as a major international renewable energy player, and significantly strengthens its position in Spain and Brazil.

Following the announcement of the acquisition, Statkraft successfully issued a €1bn Green Bond, with UniCredit acting as Active Bookrunner. The net proceeds from the bond issue will be used to finance eligible projects as specified in Statkraft's Green Finance Framework.

Power Generation Emissions Intensity (gCO2e/kWh)



In scope on balance sheet lending YE2022 **€10.4bn**	Emissions Intensity Baseline YE2021[6] **208 gCO_2e/kWh**	Emissions Intensity YE2022[6] **152 gCO_2e/kWh**	Emissions Intensity 2030 Target **111 gCO_2e/kWh**

5. Scenario scaled down to European level (excluding Ammonia and Hydrogen).
6. Computed on portfolio in scope when data available.

Metrics & Targets continued

Key levers for transition

For the Power Generation sector, energy transition is taking place in two key ways: on one hand, an **increase in generation from renewable sources with a reduced contribution from coal and other fossil fuel sources;** on the other, ensuring **related infrastructures are upgraded and expanded** to enable the necessary system resilience and flexibility.

Specifically on Power Generation, our strategy is primarily focused on supporting our clients to shift from fossil fuel energy production to more sustainable sources of energy (e.g. pure renewables).

To this extent, our industry experts work with clients that want to **refocus their business model** and also with clients that want to further **invest in renewable energy projects.** For example, we work with utilities that need to rebalance their portfolio of activities/assets on more sustainable technologies. Thanks to our extended network, we are also able to serve pure renewable players through project financing initiatives, especially in wind, photovoltaic and advisory activities.

Through sector-specific events, we are also involved in discussions on how to best approach energy transition. For example, in **Czech Republic and Slovakia, UniCredit is a member of the Solar Association,** the largest professional association of solar energy entrepreneurs to promote technical, legislative and economic conditions for the operation of the renewable energy sector. We are also a partner of **Climate & Sustainable Leaders,** a unique platform in Czech Republic to foster sustainability and climate protection.

Promoting renewables

In line with EDP's commitment to achieve 100% renewables generation by 2030 and reach Net Zero by 2040, in July 2023 the company raised a €3bn sustainability linked Revolving Credit Facility (RCF), with UniCredit acting as Mandated Lead Arranger and Bookrunner. The RCF is a sustainability-linked loan and was structured according to the Sustainability linked Loan Principles of the Loan Market Association, in particular with two ESG KPIs:

- **reduction of Scope 1 and 2 greenhouse gas emissions and**
- **an increase in the percentage of installed capacity from renewable sources within EDP Group**

In addition to this facility, in September 2023 we acted as a Global Coordinator in the issuance of a dual-tranche green senior bond through which EDP managed to raise a total of €1.35bn. Both instruments allow for greater alignment of EDP's financial strategy with its sustainability strategy and reinforce EDP's commitment to decarbonisation, including the fight against climate change and the promotion of renewable energy.

Group

Helping to fund Europe's largest solar panel factory

Acting as Structuring Mandated Lead Arranger, Global Coordinator and Bookrunner, we signed the green loan project financing agreement for an amount of €560m, to finance 3SUN, an Enel Green Power company. Through this financing, 3SUN has secured funding for the expansion of its gigafactory in Sicily (Italy), which is expected to become Europe's largest factory producing high-performance bifacial photovoltaic modules. 3SUN's financing is the largest such arrangement in the energy sector in Italy – and one of the largest in Europe – over the last year and is the first project financing for a solar panel factory of this size in Italy/Europe. The senior term loan benefits from an 80% financial guarantee issued by the Italian Export Credit Agency (SACE) under its Green Guarantee programme, which promotes, among others, projects aiming to mitigate climate change as part of Italy's Green New Deal.

The project has great significance for all of Europe because it strongly promotes the global energy transition, in line with EU green goals, which will enable the EU to become energy independent and not reliant on non-EU producers. The 3 GW of panels that will be produced annually by the gigafactory can generate up to around 5.5 TWh of renewable electricity per year, which from a sustainability perspective has the potential to avoid the equivalent of nearly 25 million tons of CO_2 in their first 10 years of operation.

Similarly, the production generated by the gigafactory's modules have the potential to avoid the purchase of nearly 1.2 billion cubic metres of gas per year, replaced by internally generated renewable energy.

At the same time, the gigafactory also plays a key role from a social perspective. It is expected to create around 900 direct and 1,000 indirect jobs by 2024, and to support the "Ray of Hope" European Commission project aimed at providing Ukraine with enough photovoltaic modules to cover 11,400m^2 of rooftops of several public buildings such as hospitals and schools.

The project is expected to become a model for the development of gigawatt-scale photovoltaic factories in Europe in the coming years.

Group

Metrics & Targets continued

Automotive

Progress so far

To achieve our target for this sector, our focus has been on supporting the transition of our clients, the majority of which have already started on their transition path by defining and disclosing credible Net Zero targets and plans to progressively switch their production from vehicles with internal combustion engines to hybrid and electric vehicles.

In 2022 the physical intensity of our loan portfolio remained quite stable vs 2021 at 165 gCO_2/vkm, showing a slight increase (+2.3% vs 2021).

Our 2022 performance can be explained by two trends that offset each other. On the one hand, we have observed an improvement of the metric thanks to the strong increase of sales of hybrid and electric vehicles of the car manufacturers in our portfolio. On the other hand, this benefit was totally offset by the negative effect caused by an improvement of data used to calculate the emissions (i.e. more granular data of sales per car model and brand by geography enabling a better estimation of the emissions).

We expect an improvement of our metric, already in next the monitoring cycle, thanks to the financing of some specific projects of our clients dedicated to the production of electric vehicles.

Key levers for transition

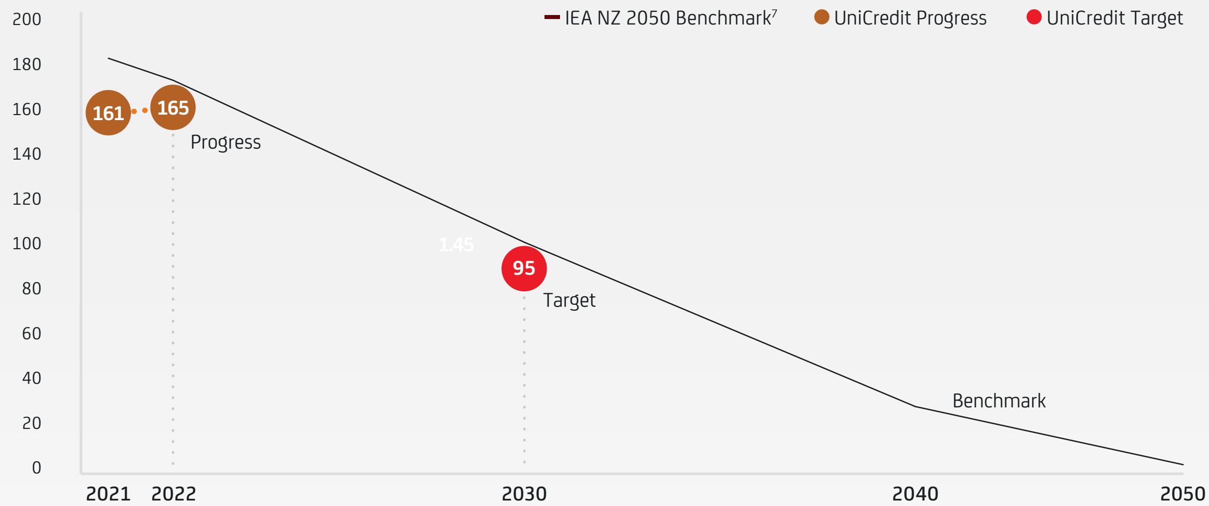
The Automotive sector is a pillar of the global economy and at the same time one of the major contributors to climate change. Road transport in Europe accounts for around one fifth of greenhouse gas (GHGs) emissions. Despite an observed shift towards cleaner road vehicles and fuels, **total GHGs from passenger cars and heavy good vehicles have increased in Europe** due to increasing transport volumes.

Europe, driven by its ambitious Green Deal target, is expected to electrify rapidly, according to McKinsey Quarterly, Transition to Net Zero – Road mobility (August 2022) and the European Environment Agency, Road Transport – Road transport (europa.eu). This will have a significant impact on the entire automotive supply chain, include driving greater demand for e-batteries.

Our strategy for the Automotive sector aims to help our clients seize new market opportunities across their value chain (including EV battery manufacturing, infrastructure management etc) as they **shift towards low-emission vehicles.** We have started to actively work with a range of our clients – including some of the top car manufacturers in the market – to finance specific projects entirely dedicated to electric vehicle production, such as finance for a new dedicated factory.

Our **holistic industry approach** ("In Motion"), combines the expertise of all our specialists along the total automotive value chain, from natural resources to recycling. With the support of the ESG Advisory team, we offer tailor-made sustainable financing for investments into new technology to support the sector in its transformation towards zero emission mobility.

Automotive Emissions Intensity TTW (gCO_2/vkm)



In scope on balance sheet lending YE2022 **€2bn**	Emissions Intensity Baseline YE2021[8] **161 gCO_2/vkm**	Emissions Intensity YE2022[8] **165 gCO_2/vkm**	Emissions Intensity 2030 Target **95 gCO_2/vkm**

7. World scenario on whole fleet.
8. Computed on portfolio in scope when data available.

Green bond for leading auto manufacturer

In May 2023, Mercedes-Benz Group brought a dual-tranche €2bn green bond to the market – the first EUR green bond issued since April 2021.

UniCredit acted as Bookrunner, Technical Lead, Billing and Delivery Manager of the deal.

Group

New Net Zero target on Steel

Following the definition of the first set of sectoral targets for Oil & Gas, Power Generation and Automotive – which were published in January 2023 – **we have now defined our interim target for the Steel sector** to meet our 2050 Net Zero ambition.

UniCredit is one of the founding members of the **Sustainable STEEL Principles** which were launched in 2022. These principles established a level playing field for green projects by encouraging transparent reporting and providing a clear goal setting methodology for the Steel sector. The Fixed System Boundary coupled with a methodology that addresses both primary and secondary production provides the most comprehensive reporting guide to date.

Following the Sustainable STEEL Principles[9] methodology, the **baseline was calculated** by identifying all **relevant crude steel producing clients[10]** and computing the **exposure weighted emission intensity** and **the alignment score of the Bank's lending portfolio,** taking into consideration the split between primary and secondary steel production. The baseline was calculated for **the on-balance sheet lending exposure** as of **31 December 2022,** in line with PCAF methodology[11], which is consistent with the approach used for the other sectors.

We selected the more ambitious trajectory referenced in the Sustainable STEEL Principles methodology – International Energy Agency (IEA) Net Zero 1.5 2050 Scenario – as the reference benchmark for the definition of the 2030 intermediate target.

GHG emissions data quality was evaluated according to the PCAF scoring methodology.

9. www.steelprinciples.org
10. Value chain includes steel makers' activities related to crude steel manufacture and basic steel processing, steel sales and steel products' production and other business controlled by steel groups. In-scope counterparties producing less than 250 kt/y of crude steel were also included in the reporting, but with negligible impact (less than 0.1% of total exposure).
11. www.carbonaccountingfinancials.com/standard

Metrics & Targets continued

Overview of key design choices

Clients in Scope	Crude steel producers[12]
Activities	– Crude steel making[13] and basic steel processing – Steel sales and steel products production (related to crude steel making Groups)
Emission Scope	Fixed System Boundary (Scope 1, 2 and 3 Category 1 and 10)[14]
Metric	Emission intensity tCO_2/tSteel
Financing Activities	Corporate lending book: on-balance sheet exposure
PCAF Data Quality Score	2.32
Scenario	IEA NZ 1.5 2050 (World)[15]

As recommended by the Sustainable STEEL Principles Association, we defined the baseline and targets for all crude steel Group producers in the Bank's lending portfolio (based on balance sheet exposure). Activities included in scope are:

- Crude steel making and basic steel processing
- Steel sales and steel product production (related to crude steel making Groups)

In line with Sustainable STEEL Principles, the carbon emissions scope follows a **Fixed System Boundary,** which identifies a consistent boundary of activities to be reported on, regardless of whether they are executed by the steel mill itself, a supplier, or off-taker (i.e. regardless of whether they are Scope 1, 2, or 3 emissions of an individual company). This approach takes into account the Steel sector's high degree of variability in emissions, particularly elements of Scope 3, depending on the ownership structure and level of vertical integration.

Exposure-weighted emission intensity in tons of CO_2 emissions per tons of produced steel (tCO_2/tSteel) is the selected metric **to calculate the baseline and set our 2030 interim target.**

The **portfolio alignment score** is an additional metric that we consider, and is calculated according to the Sustainable STEEL Principles' definition. The score enables us to assess the alignment of both the client and the Bank's portfolio to the benchmark pathway scenarios (i.e. IEA Net Zero and MPP TM[16] specific trajectories) that consider the percentage of primary (i.e. iron ore) and secondary (i.e. scrap) steel production.

Baseline estimation

Data	Description
Input data	– Exposure from internal source – Emissions, production, scrap charge from an external data provider
On balance sheet lending (drawn exposure)	EUR 2.2bn
Baseline emission intensity	1.45 tCO_2/ tSteel
Baseline alignment score	-0.69
Scrap Charge %	47%

12. Steel manufacturers that are processing crude steel purchased from third parties (i.e. re-roller) are not considered.
13. Following SSP methodology, also included exposure for Holding, Financial Service and Trading companies, if related to Steel Groups in perimeter, and other supporting business activities controlled by Steel Group.
14. Category 1. Purchased goods and services and Category 10. Processing of sold products. All emissions in the Fixed System Boundary are included, as defined by the Sustainable STEEL Principles.
15. IEA Net Zero 1.5 2050 benchmark is adjusted to the Fixed System Boundary according to the Sustainable STEEL Principles methodology and considering the trajectory split into primary and secondary production. Benchmark is tailored to the UniCredit portfolio scrap charge.
16. Mission Possible Partnership Technology Moratorium.
17. Category 1 and 10.

Considering the selected design elements, the on-balance sheet lending in scope for the sector is €2.2bn, as of 31/12/2022.

We have used the following inputs to calculate the Group emission baseline and alignment score for the Steel sector: production data, emissions data and scrap charge. This data was sourced from the third-party data provider to the Sustainable STEEL Principles Association.

The 2022 baseline emission intensity of the Steel sector, as per the Fixed System Boundary (Scope 1, 2 and 3[17]) **was estimated at 1.45 tCO_2/ tSteel,** which is lower than the value of the selected IEA Net Zero benchmark, equal to 1.51 tCO_2/ tSteel in 2022.

We used the weighted average scrap charge of our portfolio, equal to 47% in 2022, to tailor the IEA Net Zero and MPP TM benchmarks, taking into account the input raw material mix used in the production by our clients, that generates different emission intensities.

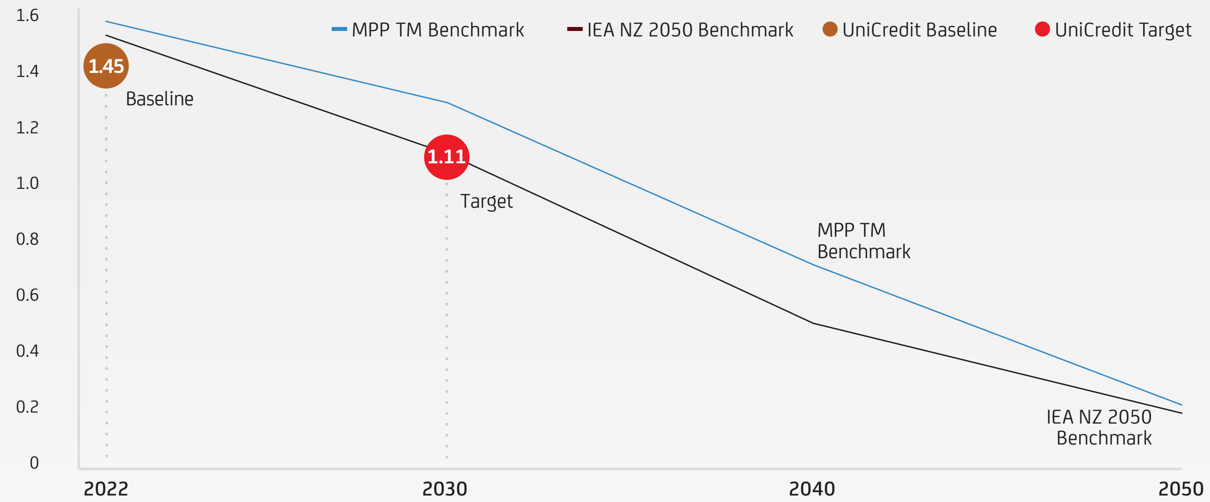
Comparing our 2022 emission intensity with 2022 benchmark values, **the 2022 Bank portfolio alignment score is -0.69.**

Target setting

We selected the **IEA Net Zero 1.5 2050 benchmark**[18] as the reference scenario to set the 2030 intermediate target. Benchmark is based on the UniCredit portfolio scrap charge in 2022.

We are targeting a **2030 emission intensity of 1.11 tCO_2/ tSteel in line with the benchmark** and market practices for the Steel sector, corresponding to an alignment score equal to 0 in 2030[19].

Steel Emissions Intensity (tCO_2/tSteel)



On balance sheet lending YE2022
€2.2bn

Emissions Intensity Baseline YE2022
1.45 tCO_2/tSteel

Emissions Intensity 2030 Target
1.11 tCO_2/tSteel

18. IEA trajectory is an enhancement of IEA NZE providing split trajectory and following a fixed boundary approach.
19. According to benchmark tailored on UCG portfolio with 2022 portfolio weighted average scrap charge.

Metrics & Targets continued

Key levers for transition

The decarbonisation of the steel industry to Net Zero requires joint efforts from all stakeholders including regulators, producers, and final customers – which is why **industry-backed initiatives are key to the adoption of a unified standard.** At UniCredit, we believe this is a key step to help the Steel industry transition into a greener future, as we continue to support our clients in their ambitions and engage in strategic industry discussions around the development of concrete investment projects.

In recognition of the importance of collaboration between the financial word and the steel industry, we are taking part in the **Steel Climate-Aligned Finance Working Group** facilitated by RMI's Center for Climate-Aligned Finance. This working group seeks to support decarbonisation in an industry responsible for over 7% of global CO_2 emissions.

Enabling greener steel

Steel is the world's most important engineering and construction material, used in almost every aspect of our lives – from the cars we drive and the buildings we work in, to the homes in which we live and the kitchen appliances we use every day.

But steel is also responsible for over 7% of global CO_2 emissions and the industry is considered as one of the hard-to-abate sectors. The greenest steel globally will be produced by H2 Green Steel in Sweden, from 2026 onwards. This greenfield project will become the first hydrogen-based flat steel mill and is designed to abate up to 95% of CO_2 emissions in comparison with traditional blast furnace steel making. UniCredit has been involved early in the financing process as a 'Pathfinder Bank' to coordinate the lenders' technical and environmental and social due diligence. As one of the leading lenders, we are also engaged as Bookrunner and Mandated Lead Arranger.

Group

Governance

Over the last years, we have continued to evolve our organisation to further integrate climate-related criteria into the Group Strategy. In support of our commitment to Net Zero, the most recent updates to our approach to ESG governance include the establishment of **a dedicated Net Zero project** at Group level, which was initially set up in 2022 and is led by a cross-functional team. This project brings together ESG, Finance, Risk Management, Business and Digital to identify and implement the key actions needed to define and support our transition strategy.

To further highlight its strategic importance, the Net Zero Project – which is divided into two sub-projects: financed emissions and own emissions – is also part of the Group ESG Roadmap.

The Group ESG function works with the relevant bank functions across all aspects of Group Strategy and ESG – and is therefore integral to our Net Zero Governance initiatives.

As a key part of our transition plan, we are working to increasingly **embed Net Zero into our core banking processes**, such as the planning, risk and business processes. As part of this effort, we embedded Net Zero KPIs into our Risk Appetite Framework (RAF), as mentioned before in the Risk Management section.

In terms of our clients, we are leveraging the Bank's existing ESG functions, further promoting crucial capabilities – such as our **ESG advisory experts** – that have pivotal roles in the client engagement process.

To support our enhanced ESG governance processes and maintain our Net Zero momentum, during the year we delivered **dedicated Net Zero training sessions** at Group level for UniCredit internal functions involved in all our operating countries. For the year ahead, our training focus will be on the key skills and knowledge needed for Net Zero decision-making. These modules will include: basic training on Net Zero fundamentals; how to assess clients' transition plans; clients' Net Zero engagement strategies and their implications for the credit process; and transition finance and its applicability for Net Zero clients.

Finally, to ensure the right commitment of the organisation, we also **aligned our remuneration policy to Net Zero objectives**. We introduced Net Zero KPIs in the Sustainability Section of our Top Management long-term performance conditions. The Sustainability Section (non-financial section of the scorecard) has a 20% weight of the overall long-term scorecard.

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