

SECOND PARTY OPINION

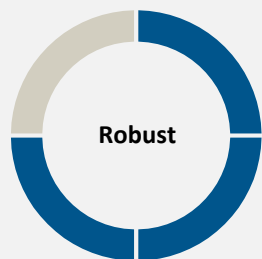
on the sustainability of the Republic of Italy's Green Bond Framework

V.E is of the opinion that the Republic of Italy's Framework is aligned with the four core components of the Green Bond Principles 2018 ("GBP").



Framework

Contribution to Sustainability:



○ Advanced ○ Limited

○ Robust ○ Weak

	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

SDG Mapping

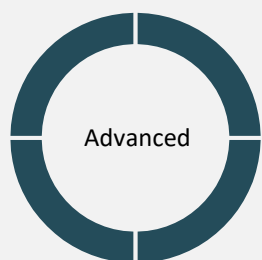


Characteristics of the Framework

Green Eligible Expenditures	6 Categories of Green Eligible Expenditures
Project locations	Italy
Existence of framework	Yes
Share of refinancing	To be disclosed before each bond issuance
Look back period	36 months

Issuer

ESG Performance as of November 2020



○ Advanced ○ Limited

○ Robust ○ Weak

	Weak	Limited	Robust	Advanced
Environment				
Social				
Governance				

Coherence

Coherent

Partially coherent

Not coherent

We are of the opinion that the Green Bond Framework of the Republic of Italy is coherent with the country's strategic sustainability priorities, and that it contributes to the realization of its environmental commitments and targets.

Key findings

V.E is of the opinion that the Green Bond Framework of the Republic of Italy is aligned with the four core components of the Green Bond Principles.

Use of Proceeds – aligned with the GBP

- The Eligible Categories are clearly defined, the Issuer has communicated the nature of the expenditures, the eligibility criteria, and location of Eligible Expenditures.
- The Environmental Objectives are clearly defined, these are relevant for all the eligible categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefits are clear, these are considered relevant, measurable, and will be quantified for all the eligible categories in the reporting.
- The Issuer has committed to transparently communicate the estimated share of refinancing for each bond issuance. The look-back period for refinanced eligible categories will be equal or less than 36 months from the issuance date, in line with market practices.

Evaluation and Selection – aligned with the GBP

- The Process for Expenditure Evaluation and Selection has been clearly defined by the Issuer, and it is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- The Eligibility Criteria (selection and exclusion) have been clearly defined by the Issuer for all of the Eligible Expenditures.
- The E&S risks identification and mitigation process is publicly disclosed in this SPO and is considered robust, it combines monitoring, identification and corrective measures.

Management of Proceeds – aligned with the GBP and best practices identified by VE

- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework.
- The Republic of Italy intends to allocate the proceeds within 24 months.
- The net proceeds of the Bonds will be placed in the cash account of the Treasury General at the Bank of Italy and will be tracked by the Issuer in an appropriate manner and attested to in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that, as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible expenditures made during that period.
- The Issuer has provided information on the procedure that will be applied in case of divestment or postponement of an Eligible Expenditure and it has committed to reallocate the proceeds to expenditures that are compliant with the Framework.

Reporting – aligned with the GBP

- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report will be publicly available until bond maturity on the website of the Ministry of Economy and Finance.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected environmental benefits of the expenditures. The Issuer has also committed to report on material developments, issues and controversies related to the expenditures.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible expenditures will be publicly disclosed.

- An external auditor will verify the tracking and allocation of funds to Eligible expenditures, as well as the indicators used to report on environmental benefits of the eligible expenditures, until full allocation and in case of material changes.

Contact

Sustainable Finance Team | VESustainablefinance@vigeo-eiris.com

SCOPE

V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green Bonds¹ (“Bonds”) to be issued by the Republic of Italy (the “Issuer”) in compliance with the Green Bond Framework (the “Framework”) created to govern their issuance.

Our opinion is established according to V.E’s Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the ICMA’s Green Bond Principles (“GBP”) - edited in June 2018.

Our opinion is built on the review of the following components:

- Framework: we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental commitments, the Bond’s potential contribution to sustainability and its alignment with the four core components of the GBP 2018.
- Issuer: we have assessed the sustainability performance of the Issuer (Sovereign Sustainability Rating©).

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds issuance, held via a telecommunications system.

We carried out our due diligence assessment from December 4th, 2020 to February 24th, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. Reasonable efforts have been made to verify data accuracy.

Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

¹ The “Green Bond” is to be considered as the bond to be potentially issued, subject to the discretion of the Issuer. The name “Green Bond” has been decided by the Issuer: it does not imply any opinion from V.E.

COHERENCE

Coherent
Partially coherent
Not coherent

We are of the opinion that the Green Bond Framework is coherent with the Republic of Italy's strategic sustainability priorities, and that it contributes to the realization of its environmental commitments and targets.

In 2015, the United Nations Member States adopted the 2030 Agenda for Sustainable Development with the 17 Sustainable Development Goals (SDGs), recognising the urgent challenge of achieving sustainable development, including combating climate change. Reaching these goals requires the transition of all economic sectors towards sustainable development models, and the immediate action of all public and private actors. In particular, national governments must mobilise to achieve sustainable development goals through regional and global leadership, the integration of sustainability in policies, budgets, institutions and regulatory frameworks, and by working with all stakeholders. The EU has presented its strategy in 2019, the European Green Deal, aiming to make Europe the first carbon neutral continent by 2050.

Italy is particularly vulnerable to the impacts of climate change. Climate projections show that Italy will be affected by extreme temperatures, a general reduction in precipitation but also an increase in heavy precipitations, and by an increase in climate-related hazards². Climate change is expected to have a major impact in socio-economic and environmental sectors including water resources, desertification, land degradation and drought, hydrogeological risk, biodiversity and ecosystems, forestry, agriculture, aquaculture, fishery, coastal zones, tourism, health, urban settlements, critical infrastructures, energy sector, mountain areas, and river basins³.

Italy appears to acknowledge its mission in facing the aforementioned challenges by ratifying and implementing relevant international and regional agreements, and by formalising significant environmental commitments and action plans, which in some cases have quantitative targets:

- Italy has endorsed the European Commission's long-term strategy to achieve climate neutrality by 2050⁴ and is committed to achieving the goals set in the European Green Deal⁵. In order to contribute to the achievement of this strategy and goals, Italy published the Integrated National Plan for Energy and Climate⁶ (INPEC), establishing different national objectives including targets for 2030 on energy efficiency (reduction of primary energy consumption of 43% and final energy of 39.7%), renewable energy (30% of final energy demand) and CO₂ emissions reduction (33%).
- Italy approved the Decree Law No. 111/2019 (Climate Decree), currently Law No.141/2019, which has introduced measures to encourage environmentally friendly behaviours and actions concerning all sectors vulnerable to climate change.
- Italy ratified the Paris Agreement in 2016 and contributes towards its goals via the EU's Intended Nationally Determined Contribution⁷ (INDC) submitted to the United Nation Framework Convention on Climate Change. Italy has a binding target of an at least 40% domestic reduction in GHG emissions by 2030 compared to 1990 through its National Climate Energy Plan, as set in the joint declaration of EU Member States⁸.
- Italy adheres to Agenda 2030 and engages on the Sustainable Development Goals (SDGs) through its National Sustainable Development Strategy 2017/2030 (NSDS), with an updated version foreseen for 2021.
- As part of the G7 in 2016, Italy made a commitment to "remove inefficient subsidies to fossil fuels by 2025".

² 7th National Communication to the UNFCCC - https://unfccc.int/sites/default/files/resource/258913076_Italy-NC7-2-Italy%20Seventh%20National%20Communication%20Final.pdf

³ 7th National Communication to the UNFCCC - https://unfccc.int/sites/default/files/resource/258913076_Italy-NC7-2-Italy%20Seventh%20National%20Communication%20Final.pdf

⁴ 2050 long-term strategy - Climate Action - European Commission- https://ec.europa.eu/clima/policies/strategies/2050_en#tab-0-0

⁵ A European Green Deal- https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

⁶ Italian Integrated National Energy and Climate Plan https://ec.europa.eu/energy/sites/ener/files/documents/it_final_necp_main_en.pdf

⁷ https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/European%20Union%20First/EU_NDC_Submission_December%202020.pdf

⁸ <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Italy%20First/LV-03-06-EU%20INDC.pdf>

- The Convention on Biological Diversity (CBD) has been implemented through Law 124 of 14/2/1994, together with the Strategic Plan for Biodiversity 2011-2020 in order to reach the Aichi Targets.

In addition, Italy has demonstrated its commitment to address environmental priorities and climate change by incorporating environmental and social considerations in its Budget Law. In particular, as a requirement of art. 68 of the Law of 28 December 2015, n. 221, the Ministry of Environment (MOE) for the first time in 2017, reported the "Catalogue of environmentally harmful subsidies and environmentally friendly subsidies", and annually thereafter, which includes the budgetary cost estimate of subsidies to the government⁹. Moreover, following the provisions of Article 1, paragraph 98 of Law No. 160/2019 of Budget Law 2020, the MOE established a Commission for the study and development of proposals aimed at converting existing environmentally harmful subsidies into environmentally friendly subsidies through the shift of resources towards green and sustainable solutions.

V.E is of the opinion that Italy's Sovereign Green Bond Framework to issue bonds that will finance and refinance Eligible Green Expenditures, coherently aligns with the Issuer's strategic sustainability priorities and contributes to the realization of its environmental commitments and goals, as well as it addresses the main challenges in terms of sustainable development for national governments.

⁹ [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ENV/EPOC/WPEP\(2019\)10&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ENV/EPOC/WPEP(2019)10&docLanguage=En)

FRAMEWORK

The Issuer has described the main characteristics of the Bonds to be potentially issued within a formalised Green Bond Framework which covers the four core components of the GBP 2018 (the last updated version was provided to V.E on February 19th, 2021). The Issuer has committed to make this document publicly accessible on its website, in line with good market practices.

Alignment with the Green Bond Principles

Use of Proceeds



The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, expenditures falling under six Categories of Eligible Green Expenditures ("Eligible Categories"), as indicated in Table 1.

- The Eligible Categories are clearly defined, the Issuer has communicated the nature of the expenditures, the eligibility criteria, and location of Eligible Expenditures.
- The Environmental Objectives are clearly defined, these are relevant for all the eligible categories and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefits are clear, these are considered relevant, measurable, and will be quantified for all the eligible categories in the reporting.
- The Issuer has committed to transparently communicate the estimated share of refinancing for each bond issuance. The look-back period for refinanced eligible categories will be equal or less than 36 months from the issuance date, in line with market practices.

BEST PRACTICES

⇒ The Issuer has committed to transparently communicate the estimated share of refinancing for each bond issuance.

Table 1. V.E' analysis of Eligible Categories, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

- Nature of expenditures: tax expenses, capital expenditures, current expenses and transfers (such as subsidies) in favour of subjects external or internal to the public administration. The assets that are the object of the expenditure can be either tangible or intangible.

Of note, Pursuant to Art. 1, par. 92 of the Budget Law 2020, all expenditures that are incurred by central state administrations and meet the characteristics described in its Framework can be included by the Ministry of Economy and Finance among the expenses relevant to the issue of SGBs, for an amount at least equal to that collected through the issue of the green bonds (the net proceeds).

- Location of Eligible Expenses: Italy (with a wider geographical scope for research projects in collaboration with other countries/institutions)

GREEN ELIGIBLE EXPENDITURES	ELIGIBLE SUB-CATEGORIES	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Renewable electricity and heat	<p>Enabling the transition towards a carbon neutral electricity grid and heating network through the development of renewable and other low-carbon energies such as wind, solar, hydropower, geothermal, hydrogen and other (e.g. heat pumps).</p> <p>All assets have to respect a 100 gCO₂e/kWh threshold.</p> <p>Hydrogen will only be produced by the electrolysis with average carbon intensity of the electricity produced that is used for hydrogen manufacturing at or below 100 gCO₂e/kWh.</p> <p>This category will exclude high carbon stock land, high biodiversity value and conversion from forest and arable land.</p> <p>Example of eligible expenses:</p> <ul style="list-style-type: none"> - Expenses for supporting the production and distribution of energy from renewable sources - Tax expenses (e.g. deduction of investments or ancillary charges) - Non-repayable capital or interest subsidies 	<p><u>Climate Change Mitigation</u></p> <p>GHG emission reduction</p>	<p>The Eligible Category is clearly defined, the Issuer has communicated the nature, the eligibility criteria, and location of Eligible Expenditures.</p> <p>The Environmental Objective is clearly defined, it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefit is clear, it is considered relevant, measurable, and will be quantified in the reporting.</p>

Energy efficiency	<p>Investments require to result in at least a two levels improvement on the Italian energy efficiency scale¹⁰.</p> <p>Smart grids to manage a higher renewable energy production will be considered and SF₆ leakage prevention measures will be included.</p> <p>Eligible heating networks will use at least 50% renewable energy, excluding biomass.</p> <p>Thresholds set by Law¹¹ will be applied when selecting expenditures related to energy efficiency of buildings.</p> <p>Example of eligible expenses:</p> <ul style="list-style-type: none"> - Tax expenses (e.g. deduction of investments or ancillary charges) - Tax allowances for energy efficiency measures - Non-repayable capital or interest subsidies 	<p><u>Climate Change Mitigation</u></p> <p>GHG emission reduction</p> <p>Energy Savings</p>	<p>The Eligible Category is clearly defined, the Issuer has communicated the nature, the eligibility criteria, and location of Eligible Expenditures.</p> <p>The Environmental Objective is clearly defined, it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, they are considered relevant, measurable, and will be quantified in the reporting.</p>
Transport	<p>Supporting the modal shift towards sustainable modes of transport (i.e., public ground transportation, electric and hybrid vehicles) and supporting the development of inter-modality and public transport networks.</p> <p>Expenditures related to Railway Transport will follow the EU taxonomy thresholds.</p> <p>For diesel passenger trains, emissions must be less than 50g CO₂e per passenger-kilometre (gCO₂e / pkm) until 2025 (subsequently only electric or hydrogen locomotives will be allowed). For freight trains, the emissions per tonne-kilometre (gCO₂e / tkm) must be less than 50% of the reference average indicated in the "Heavy Duty CO₂ Regulation" and will be updated in 2025.</p> <p>Expenditures related to the acquisition of new Road Transport will follow the EU Directive on Alternative Fuels Infrastructure (DAFI) which requires that the energy supply of vehicles to be at least 25% from electricity, methane, liquified natural gas and hydrogen.</p> <p>Incentives for the acquisition of hybrid or electrical vehicles for private individuals and companies, of M1 category, new, with CO₂ emission lower than 60 g/km (WLTP), with a price lower than 50.000 (VAT excluded).</p> <p>Expenditures related to Maritime Transport including port infrastructure may apply the cold ironing process to reduce shipping emissions.</p> <p>Example of eligible expenses:</p> <ul style="list-style-type: none"> - Contributions or non-refundable transfers to the operating account, capital account or interest account 	<p><u>Climate Change Mitigation</u></p> <p>GHG emission reduction</p>	<p>The Eligible Category is clearly defined, the Issuer has communicated the nature and location of all Eligible Expenditures, and the eligibility criteria of most Eligible Expenditures.</p> <p>An area for improvement for private hybrid vehicles consists in setting a threshold of tailpipe emission intensity of maximum 50 g CO₂/km (WLTP), and limiting eligibility to 2025, in line with best market practices.</p> <p>Regarding maritime transport, an area for improvement is setting stricter standards/thresholds available in the market such as limiting direct emissions below 50 gCO₂e emissions per passenger kilometre (gCO₂e/pkm), and for freight limiting to the average reference CO₂ emissions of HDVs as defined for the Heavy Duty CO₂ Regulation, and reviewing eligibility in 2025.</p> <p>The Environmental Objective is clearly defined, it is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefit is clear, it is considered relevant, measurable, and will be quantified in the reporting.</p>

¹⁰ <https://www.certificato-energetico.it/en/epc.html>

¹¹ <https://www.efficientzaenergetica.enea.it/media/attachments/2020/06/19/d.-lgs-n.-48-del-10-giugno-2020.pdf>, https://www.mise.gov.it/images/stories/normativa/DM_Linee_guida_APE.pdf

	<ul style="list-style-type: none"> - Tax expenses (e.g. deduction of investments or ancillary charges) - Expenditures for electrical infrastructures in ports to reduce ship fossil fuel use - Expenditures to finance maritime transport complying with the IMO legislation which requires (from 1 January 2020) the use of fuels for ships with a limit of 0.5% m / m to sulphur emissions¹², the reduction of GHG emissions, and of CO₂ produced 		
Pollution prevention and control and circular economy	<p>Increasing efforts to reduce waste in sectors with high potential for recycling and transition to a circular economy (e.g. packaging, plastics).</p> <p>Expenditures targeted to promote sustainable consumption and production modes and aimed at developing pollution monitoring and control systems.</p> <p>Expenditures related to wastewater management.</p> <p>Incineration, landfill, waste-to-energy and desalination assets are excluded from this category.</p> <p>Example of eligible expenses:</p> <ul style="list-style-type: none"> - Expenses for supporting water purification, sanitation, recycling, treatment. - Expenses for collecting, treating and recycling waste. - Expenses for reducing packaging or for reducing the related environmental impact, recycling goods and raw materials. - Tax credit to incentivise an increased use of recyclable packaging. - Tax credit for enterprises buying recycled and reused products. - Tax expenses (e.g. deduction of investments or ancillary charges). 	<p><u>Sustainable use and protection of water and marine resources</u></p> <p><u>Transition to a circular economy</u></p> <p><u>Pollution prevention and control</u></p> <p><u>Protection of biodiversity and ecosystems</u></p> <p>Protection, restoration and improvement of biodiversity, ecosystems and ecosystem services</p>	<p>The Eligible Category is clearly defined, the Issuer has communicated the nature, the eligibility criteria and location of Eligible Expenditures.</p> <p>The Environmental Objectives are clearly defined, they are relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, they are considered relevant, measurable, and will be quantified in the reporting.</p>
Protection of the environment and biological diversity	<p>Promoting biodiversity and natural landscapes such as sustainable land use and preservation of living natural resources.</p> <p>Expenditures focused on sustainable land use and protection as well as protection and restoration of terrestrial and marine biodiversity and ecosystems¹³.</p>	<p><u>Protection of the environment and biological diversity</u></p> <p>Increase in protected areas</p>	<p>The Eligible Category is clearly defined, the Issuer has communicated the nature, the eligibility criteria, and location of Eligible Expenditures.</p> <p>An area for improvement consists in setting losses reduction targets/thresholds for water-related projects.</p>

¹² https://www.assagenti.it/it/news/16447/L%E2%80%99aggiornamento_della_disciplina_normativa_dell%E2%80%99Annex_VI_della_MARPOL; ISPR, Relazione annuale sul tenore di zolfo dell'olio combustibile pesante, del gasolio e dei combustibili utilizzati per uso marittimo nel 2019, Roma 2020

¹³ Of note, the eligible expenditures include flood barriers. It should be noted that in the past, the eligible project MOSE (defense system against flooding and the protection of the Venice lagoon), has been subject to criticisms by external stakeholders over governance and environmental issues as well as on its effectiveness against floods (<https://www.theguardian.com/world/2020/oct/15/venice-controversial-barriers-prevent-flooding-for-second-time>). According to the Ministry of Infrastructure and Transport, these issues have been resolved and, from 10 July 2020 to date, 20 defense lifts have been carried out on the city of Venice with positive results. Evidence provided to V.E addresses these environmental issues and demonstrates the







	<p>Expenditures related to water collection and saving. Primary investments in the security of water supply. Expenditures on sustainable management of water resources. Investments aimed at reducing losses in water distribution networks. Example of eligible expenses:</p> <ul style="list-style-type: none"> - Tax credit for certified organic agriculture (EU or Organic) - Expenses for reforestation or protection interventions of forest and forestry, wildlife and fish heritage (e.g. Natura 2000) - Expenses for the conservation and restoration of threatened marine, river and swamp ecosystems - Expenses for protection interventions of the environmental heritage against fire, drought, floods - Non-repayable capital or interest subsidies - Tax expenses (e.g. deduction of investments or ancillary charges) - Payments for ecosystem services - Expenses for water collection and for supporting water-saving interventions; - Expenses for monitoring water quality 	<p><u>Adaptation to climate change</u></p> <p><u>Sustainable use and protection of water and marine resources</u></p> <p><u>Protection, restoration and improvement of biodiversity, ecosystems and ecosystem services</u></p> <p>Increase in sustainable forests and protected areas</p>	<p>The Environmental Objectives are clearly defined, they are relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, they are considered relevant, measurable, and will be quantified in the reporting.</p>
Research	<p>Supporting knowledge production and technological innovation in all domains of the EU environmental objectives; Supporting Italian participation in international research projects connected to climate change, weather forecasts, sea and waters protections, and new sources of clean energy.</p> <p>Expenditures on research projects on: linear to circular paradigm; policy measures to prompt the achievement of the UN SDG targets (such as policy tools related to nudging, subsidies, incentives schemes, public private partnership, etc.); innovative production processes to reduce water and carbon footprint; new technologies that help the preservation and enhancement of natural capital, biodiversity, and ecosystems; amongst others. Research projects on weather forecast, meteorology and climatology, and on the arctic will also be financed, as well as related to research centres and institutes.</p> <p>Example of eligible expenses:</p>	<p><u>All the above objectives</u></p> <p>Increase in knowledge production and technological innovation</p>	<p>The Eligible Category is clearly defined, the Issuer has communicated the nature, the eligibility criteria and location of Eligible Expenditures. In addition, the Issuer has communicated a list of research projects as examples, which include:</p> <ul style="list-style-type: none"> - Artic Research Programme - Participation in the European programme for scientific and technological cooperation and the convention establishing the European Centre for Medium-Range Weather Forecasting - Contribution to the Euro-Mediterranean centre on Climate Change <p>The Environmental Objectives are clearly defined, they are relevant and set in coherence with sustainability objectives defined in international standards.</p>


different environmental safeguards including conservation, restoration, mitigation, compensation and monitoring measures that are in place to ensure the protection of the lagoon and its surroundings which are included in a specific mitigation plan, and which has been approved by the European Commission. The General Environmental Interventions Plan can be found at <https://www.mosevenezia.eu/piano-generale-interventi/>, and further information on the environmental characteristics can be found at: <https://www.mosevenezia.eu/non-solo-mose/>. Further information on the Venice Lagoon environmental interventions are available at <http://sistemavenezia.regione.veneto.it/>, including effects of the MOSE project.

	<ul style="list-style-type: none"> - Contributions or non-refundable transfers to the operating account, capital account or interest account - Tax expenses (e.g. deduction of investments or ancillary charges) - Expenses for financing research projects in the above eligible categories 		The Expected Environmental Benefits are clear, they are considered relevant, measurable, and will be quantified in the reporting.
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SDG Contribution

The Eligible Categories are likely to contribute to seven of the United Nations' Sustainable Development Goals ("SDGs"), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Pollution prevention and control and circular economy Protection of the environment and biological diversity Research	 6 Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally. 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity. 6.6 By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes.
Renewable electricity and heat Research	 7 Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Energy efficiency Research		7.3 By 2030, double the global rate of improvement in energy efficiency.
Transport Research		11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
Pollution prevention and control and circular economy Research	 11 Industry, Innovation and Infrastructure	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management. 11.b By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters, and develop and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015-2030, holistic disaster risk management at all levels
Pollution prevention and control and circular economy Research	 12 Responsible Production and Consumption	12.2 By 2030, achieve the sustainable management and efficient use of natural resources. 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Renewable electricity and heat Energy efficiency Transport Research	 13 Climate Action	UN SDG 13 consists of taking urgent action to combat climate change and its impacts. States can contribute to this goal by investing in renewable energy; improving energy efficiency; reducing GHG emissions from transport through the transition towards electric vehicles; and through research addressing climate change mitigation and adaptation. 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.
Pollution prevention and control and circular economy Protection of the environment and biological diversity Research	 14 Life Below Water	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution. 14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans. 14.5 By 2020, conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Protection of the environment and biological diversity Research	 15 Life on Land	<p>15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.</p> <p>15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.</p> <p>15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation neutral world.</p> <p>15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species</p>

Evaluation and Selection of Green Eligible Expenditures



- The Process for Expenditure Evaluation and Selection has been clearly defined by the Issuer, and it is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework.
- The Eligibility Criteria (selection and exclusion) have been clearly defined by the Issuer for all of the Eligible Expenditures.
- The E&S risks identification and mitigation process is publicly disclosed in this SPO and is considered robust, it combines monitoring, identification and corrective measures (see detailed analysis on pp. 22-25).

Process for Expenditure Evaluation and Selection

For the purpose of the Sovereign Green Bonds, an Inter-ministerial Committee (“the Committee”) has been created and is governed by a specific Decree of the President of the Council of Ministers issued on the 9th of October 2020¹⁴. This Committee is composed of representatives of: the Ministry of Economy and Finance (MEF), who also acts as secretary of the Committee, the Prime Minister Office, the Ministry of the Environment, the Ministry of Economic Development, the Ministry of the Infrastructures and Transportation, the Ministry of the University and Research, the Ministry of Tourism and Cultural Goods, and the Ministry of Agriculture.

The responsibilities of the Committee include:

- Meeting at least twice a year, and more regularly if needed;
- Ensuring the regular obtention of all relevant information necessary to account for the effective use and environmental impact of the Green Bonds¹⁵;
- Reviewing the selection of Eligible Expenditures that meet the eligibility criteria established in the Framework;
- Monitoring the effective use of the funds;
- Guaranteeing a correct allotment of the revenues of the Bonds to the elected expenses; and
- Overseeing the reporting process.

Regarding the process for the selection of eligible expenditures: The Department of the Treasury (MEF) is responsible for identifying potential expenditures based on the screening of budget data received from the General Accounting Department (MEF), which is then followed by interactions with the relevant Ministries, in order to verify the eligibility of expenditures in the portfolio. This portfolio of eligible expenditures is shared with the Committee for information and review.

The traceability and verification of the selection and evaluation of the expenditures is ensured throughout the process:

- The traceability of the decisions is formalised in the decree establishing the Committee and is ensured throughout the process, through minutes of the meetings that will be approved by the Committee and made public in accordance with the provisions of Legislative Decree No 33 of 2013 on administrative transparency.
- The Committee is responsible for ensuring a correct monitoring of the effective use of the funds annually and throughout the lifetime of the bond. This entails both the traceability of the allocation of the proceeds (disbursement of the funds) and the monitoring of the continuing application of eligibility criteria throughout the lifetime of the bond. In case an expense is no longer compliant, the Committee will take action to replace that expense with an eligible expense.
- In case any controversy associated to an eligible expense is identified by the relevant Ministry, the MEF would initiate a specific investigation in cooperation with the relevant Ministry. If required, the Committee will assume

¹⁴ This decree can be found here: <https://www.gazzettaufficiale.it/eli/id/2020/11/27/20A06397/sg>

¹⁵ <https://www.gazzettaufficiale.it/eli/id/2019/12/30/19G00165/sg>

appropriate decisions and take actions following market standards, that is, taking mitigating and corrective action on a controversy, or replacing the expense by another eligible expense in case there is no improvement.

Eligibility Criteria

The process relies on explicit eligibility criteria (selection and exclusion), relevant to the environmental objectives defined for the Eligible Categories.

- The selection criteria are based on the Eligible Categories defined under the “Eligible Green Expenditures” section of the Framework.
- The eligibility of expenditures is assessed against three criteria:
 - i. Significance of the contribution of the expense towards achieving one or more of the six environmental objectives set in the Framework;
 - ii. (In)significance of the contribution of the same expense towards hindering any of the six environmental objectives; and,
 - iii. Conformity with minimum social protection criteria of the legal framework within which the expense is made.
- The Republic of Italy also applies exclusion criteria for certain controversial activities. We consider that the exclusionary criteria are relevant, as they cover the main issues related to environmental responsibility, in line with good market practices. The list of these activities is detailed in the Framework and is as follows:
 - Exploration, manufacturing and transport of fossil fuels;
 - Nuclear power (fission);
 - Energy plants (including biomass) with CO₂ emission level of more than 100g CO₂/kWh;
 - Manufacturing and production of alcoholic beverages;
 - Military contracts;
 - Gambling;
 - Arms manufacturing;
 - Manufacture and production of tobacco products; and,
 - Mining

BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of selected expenditures with eligibility and exclusion criteria specified in the Framework throughout the life of the instrument and has provided details on content, frequency and duration and on procedure adopted in case of non-compliance.
- ⇒ The Issuer reports that it will monitor potential ESG controversies associated with the expenditures throughout the life of the instrument and has provided details on frequency, content and procedures in case a controversy is found on an expenditure.

Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and is publicly available in the Framework.
- The Republic of Italy intends to allocate the proceeds within 24 months.
- The net proceeds of the Bonds will be placed in the General cash Account of the Treasury at the Bank of Italy and will be tracked by the Issuer in an appropriate manner and attested to in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.

- The Issuer has committed that, as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible expenditures made during that period.
- The Issuer has provided information on the procedure that will be applied in case of divestment or postponement of an Eligible Expenditure and it has committed to reallocate the proceeds to expenditures that are compliant with the Framework.

Management Process

- The guidelines ruling the process of allocation, managing, and tracking of the funds of the Green Bonds issuances are embedded in the Budget Law 2019 and in the Prime Minister Decree formally constituting the Inter-ministerial Committee.
- The Republic of Italy intends to fully allocate the proceeds as soon as possible by selecting expenditures that will be incurred in within six months. Certain expenditures, due to their nature (e.g. infrastructure projects) belong to multi-annual budgets and will be disbursed over the course of several years, in which case the first disbursements will take place within 24 months.
- The net proceeds of the Bonds will be credited to the Treasury General cash Account at the Bank of Italy and will be managed in cash.
- Once the bonds have been issued, the proceeds are charged to relevant selected expenses and their use for the intended purpose is tracked. The Ministry of Finance is responsible for guaranteeing the correct allocation of the proceeds to the selected expenses and ensuring the monitoring of the effective use of the funds, throughout the life of the Bonds.
- The unallocated funds would be held within Italy's treasury in accordance with its usual treasury investment strategy. The Ministerial Decree that regulates the functioning of the Treasury cash account is regulated by the Ministerial Decree DM 13 July 2011, published in the Official Gazette on the 2nd of August 2011 n.178. The Decree regulates how the treasury cash account is managed by the MEF in interaction with all the other public administration entities.
- The Issuer has stated that the eligible portfolio will be bigger than the amount of the bond issuance to ensure that the balance of tracked net proceeds matches allocations to eligible expenditures and facilitate reallocation if needed.
- In case of expenditure postponement, cancellation, divestment or ineligibility, the Issuer has committed to replace the no longer Eligible Expenditure by a new Eligible Expenditure. The Issuer commits to reallocate the divested proceeds within twelve months.

BEST PRACTICES

- ⇒ The Issuer has provided information on the procedure that will be applied in case of expenditure divestment or postponement and it has committed to reallocate divested proceeds to expenditures that are compliant with the bond framework.

Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until full allocation and on a timely basis in case of material developments. The report will be publicly available until bond maturity on the website of the Ministry of Economy and Finance.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected environmental benefits of the expenditures. The Issuer has also committed to report on material developments, issues and controversies related to the expenditures.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible expenditures will be publicly disclosed.

- An external auditor will verify the tracking and allocation of funds to Eligible expenditures, as well as the indicators used to report on environmental benefits of the eligible expenditures, until full allocation and in case of material changes.

Indicators

The Issuer has committed to transparently communicate Bond by Bond and at Eligible Expenditure level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds cover all the relevant information.

REPORTING INDICATORS
⇒ A description of Eligible Expenditures (re)financed, including the progress of the disbursement of the proceeds at least at sector level
⇒ The amount of (re)allocated net proceeds to Eligible Expenditures
⇒ Share of financing vs. re-financing
⇒ Percentage of co-financing

- Environmental benefits: The indicators selected by the Issuer to report on the environmental benefits are clear and relevant for most eligible expenditures.

ELIGIBLE EXPENDITURES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Renewable electricity and heat	Power installed capacity (MW) Annual power output (MWh)	GHG emissions avoided (tCO ₂ e)
Energy Efficiency	Expected energy savings (MWh/year)	GHG emissions avoided (tCO ₂ e)
Transport	Expected energy savings (MWh/year) Number of electrical vehicles financed annually Kilometres of public transport constructed or renovated	GHG emissions avoided (tCO ₂ e per passenger/tonne-km)
Pollution prevention and control and circular economy	Volume of treated water (m ³ /year) Volume of treated waste (m ³ /year) Amount of recyclable goods produced (tons) Amount of wastewater for reuse (%): Total volume of wastewater treated and reused / Total volume of wastewater treated Amount of sludge used (tons/year) (%): t/year reused sludge / t/year produced	

ELIGIBLE EXPENDITURES	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Protection of the environment and biological diversity	Hectares of sustainable agriculture Hectares of sustainable forest Number of Natura 2000 sites Hectares of protected areas restored/ maintained Number of interventions on reservoirs and water supply systems and number of complex water systems whose safety is increased Restoration of reservoir storage capacity (m3) Number of interventions on water networks M1 indicators of water losses defined by the Italian Authority for the Regulation of Energy, Networks and Environment (ARERA). (expressed in cubic meters/km/day and percentage of losses related to the total volume entering the aqueduct system)	
Research and enabling activities	Number of funded projects	

BEST PRACTICES

- ⇒ The Issuer's report will be publicly available.
- ⇒ The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the categories. The Issuer has also committed to report on material development related to the expenditures, including ESG controversies.
- ⇒ The issuer will report on allocation of proceeds and on environmental benefits at expenditure level.
- ⇒ The reporting methodology and assumptions used to report on environmental benefits of the Eligible Expenditures will be publicly disclosed.
- ⇒ Environmental benefits and impacts will be externally verified, until full allocation.

Contribution to sustainability

Expected Impacts

The potential positive Impact of the eligible projects on environmental objectives is considered to be robust.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Renewable electricity and heat	ADVANCED	According to the International Energy Agency ¹⁶ , the Italian energy mix is powered at around 59% by fossil fuels, therefore there is a particular need for the country to decarbonise its electricity production. Hydropower potential is exploited at more than 90% ¹⁷ in Italy, local issues due to the installation or enlargement of hydropower capacities is not likely. The category follows the best technology available in the sector to contribute to the claimed objective in the location/context of the category.
Energy efficiency	ROBUST	The role of states is essential in organising the renovation of both private and public buildings. Renovation has a positive impact on relative energy consumption and is likely to reduce the overall absolute GHG emissions. The Issuer has committed to ensure the improvement results in at least a two levels improvement on the Italian energy efficiency scale ¹⁸ . However, there is no indication on the intended absolute level performance of the buildings financed.
Transport	ROBUST	States have a key role in reducing CO ₂ emissions and pollution by financing alternative modes of transport and improving fuel efficiency in the transport sector. The category includes expenditures relating to local public transport, intermodal transport, freight transport, and port infrastructure. Most of the expenditures follow a long-term approach in line with international standards, specifically with the EU's Directive on Alternative Fuels Infrastructure (DAFI), which has the objective to reduce the reliance on oil for transport, with evident environmental benefits for the contribution to mitigation of climate change. Criteria have been set for private hybrid vehicles, however they are not the most stringent nor excluded for future issuances, while hybrid vehicles are excluded from certain environmental standards, starting from 2025. For maritime transport, the IMO regulations are followed, which ensures some minimum environmental standards, and although it has lower emissions than other forms of transport, it still has locked-in negative environmental impacts and there are more stringent thresholds/standards available in the market.
Pollution prevention and control and circular economy	ROBUST	Financing waste management and incentivising recycling is key for governments, and it requires long term investments. Italy has excluded incineration, landfill, waste-to-energy, and desalination, which give us assurance on the lack of negative impact of eligible expenditures in this category. However, regarding waste management and circular economy, initiatives on waste reduction and reuse have greater impact than recycling and waste management. Water related projects are also included in this category such as water purification, sanitation, recycling, and treatment interventions.
Protection of the environment and biological diversity	ADVANCED	States have a key role in financing biodiversity and ecosystem protection as private funds are rare on this sector. The category includes expenses with a long-term approach that seek to contribute to the conservation of terrestrial and aquatic biodiversity in specific areas of the country where the need has been identified (e.g. Natura 2000 sites). The projects include reforestation, protection of protected areas (including marine ecosystems), forest management, and flood defence systems, among others. In addition, agricultural expenses are only eligible if a certification of process has been obtained, which provides further assurance on the positive environmental impact of this category. An area for improvement consists in setting losses reduction targets/thresholds for water-related projects.

¹⁶ <https://www.iea.org/countries/italy>

¹⁷ <http://www.eniscuola.net/en/argomento/hydroelectric/hydroelectric-knowledge/hydroelectric-power-in-italy/>

¹⁸ <https://www.certificato-energetico.it/en/epc.html>

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Research	ROBUST	States have a key role in financing R&D and especially on non-profitable topics. The nature of the projects is clear, and the projects are in line with the objectives and eligibility criteria of the other categories, therefore, we consider that the expenses follow internationally recognised standards.
OVERALL ASSESSMENT	ROBUST	

ESG Risks Identification and Management systems in place at expenditure level

The identification and management of the environmental and social risks associated with the Eligible Projects are considered robust.

	GREEN ELIGIBLE EXPENDITURES
Environmental risks	ROBUST
Social risks	ROBUST
Ethical risks	ROBUST
OVERALL ASSESSMENT	ROBUST

Environmental risks

Italy has set up a Green Public Procurement (thereafter “GPP”) National Action Plan operated by a Management Committee under the coordination of the Ministry of Environment, which introduces mandatory requirements for all Italian public institutions to include minimum environmental criteria in their public procurement actions (through article 18 of law n°221/2015, which entered into force on 2 February 2016) defined as:

- Technical indications mainly within the environmental sphere and where possible in the ethical and social nature of the product. The criteria are developed to promote and ensure:
 - efficiency and savings in the use of resources;
 - reduction in the use of hazardous substances;
 - quantitative reduction in waste products
- Any participant to public tenders must comply with the minimal environmental criteria: technical reports, assessment and certification systems are used, and tenders’ accredited assessors shall provide verification according to the agreement. These minimum environmental criteria are based on the life cycle assessment of the product (therefore involving sub-contractors and suppliers) and are explicitly defined at sector level. To date 18 sectors are covered by the minimum environmental criteria¹⁹. An ex post verification is conducted on all suppliers²⁰ in order to ensure compliance with the GPP requirements by the contracting authorities and the person responsible for the execution of the contracts²¹. Ex post verification of violation of such standards implies false declaration of the bidder at the moment of the tender and is therefore punished according to Italian law.
- Based on art. 34 d.lgs. 50/2016 contracting authorities that do not apply properly the minimal environmental requirements can be brought to Court by environmental associations and other stakeholders.

¹⁹ <https://www.minambiente.it/pagina/i-criteri-ambientali-minimi>

²⁰ Following Art. 34 of the procurement code, Decree n. 50/2016

²¹ Following Art.7 of the ministerial decree n. 49/2018

- Furthermore, in the green taxation field, art. 68 of the Law of 28 December 2015, n. 221 has established that the Ministry of Environment must prepare, annually, the "Catalogue of environmentally harmful subsidies and environmentally friendly subsidies". Subsidies are defined in a wide approach, including exceptions, rebates, reductions, differentiations. The monitoring of the GPP is conducted annually, based on the gathering of data from a representative sample of public bodies.

Concerning the environmental evaluation process of expenditures, the Republic of Italy follows: 1) the EU Directive 2001/42 / CE of the European Parliament and of Council of 27 June 2001 concerning the evaluation of effects of certain plans and programmes on the environment; 2) EU Directive 2014/52 / EU of the European Parliament and of Council of 16 April 2014 amending Directive 2011/92 / EU concerning the environmental impact assessment of certain public and private projects; 3) and Directive 2008/1/ EC of the European Parliament and of Council of 15 January 2008, concerning prevention and integrated reduction of pollution. These three directives are integrated in Italian regulation under the Legislative Decree 152/2006, which determines that certain plans and programmes must be subject to an environmental impact assessment (EIA), strategic environmental assessment (SEA) and an integrated pollution prevention and reduction (IPPC). The Issuer has stated that an EIA will be conducted only to the eligible expenditures and projects expressly subject to EIA or SEA according to EU normative requirements, or the projects referred to by Directive 2014/52/UE modifying Directive 2011/92/UE, which is included in Italian regulation under the Legislative Decree n° 152/2006²². Accordingly, the majority of eligible expenditures will be subject to an EIA. The Ministry of the Environment, Land and Sea and the Regions are responsible for the monitoring and correct application of the EIA or SEA for projects respectively falling in the national or regional competence.

Regarding the monitoring of ESG risks of transport expenditures, the Ministry of Infrastructure and Transport (MIT), and the MEF for the part of rail investments, ensure rigorous monitoring of the implementation of the interventions before disbursing the loans awarded on the basis of a certification relating to the progress of the work performed. The beneficiaries of the resources must also comply with the criteria, conditions and requirements indicated in the decrees of the Ministry of Infrastructure and Transport for the allocation of resources that guarantee compliance with ESG standards. The provisions for the allocation of resources always contain a clause to revoke them in the event of non-compliance with the aforementioned criteria, which define conditions and requirements that obliges the subject/entity to repay the sums received. In the case of railway interventions, the conditions are contained in the Programme Contracts signed between MIT and Italy's railway public infrastructure operator "Rete Ferroviaria Italiana" (RFI). In the case of the environmental risks related to railways, these are managed directly by RFI through its own Integrated Management System since 2003 which includes an Environmental Management system certified to the ISO 14001:2015 standard which helps ensure compliance with the corporate Environmental Policy and with the legislation in relation to the whole life cycle of the works.

An area for improvement consists in setting grievance mechanisms to report any environmental infringements for the expenditures financed under the Framework.

Social risks

The award and execution of contracts and concessions are based on the key principles of the Code of Public Contracts²³ which includes the compliance with social and labour obligations established by European and national legislation, by collective agreements or by international provisions. The rules contained in the Code of Public Contracts, therefore, ensure that procedures related to public expenditures, including public works and interventions, consider social responsibility considerations. In addition, the legislation based on the "Documento Unico di Regolarità Contributiva - DURC" (employer's certificate of social security contributions)²⁴ intends to guarantee the social security and insurance of the entities/subjects receiving public resources, through a certification that attests the legality of a company or an economic operator in terms of social security, payments, welfare contributions and insurance. This document is mandatorily verified by public bodies prior the payment of their public work providers, goods acquisition and service contracts, pursuant to article 31 of Law Decree 69 of 2013²⁵. As to the monitoring measures of such social risks, supervision and surveillance is carried out by the social security and insurance institutions and the National Industrial Accidents Insurance Institute (INAIL), as well as by the Local Health Authorities at regional level on matters of health and safety. Furthermore, CONSIP²⁶, a joint stock company of the Ministry of Economy and Finance, acts as the public central agency for the purchase of public goods and services, which also exercises a control function.

Concerning public participation, the Republic of Italy follows the Annex 1 to Directive 2003/35 / EC of European Parliament and of the Council of 26 May 2003 and follows the laws from the Legislative Decree 152/2006 which ensure public participation in the process of elaboration, modification and review of proposals of plans or programmes related to the

²² The projects falling within this law are listed in Part II, annexes II, II-bis, III, IV, VIII and XII of the Environmental Law Code: <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2006-04-03;152>

²³ https://www.gazzettaufficiale.it/atto/serie_generale/caricaDettaglioAtto/originario?atto.dataPubblicazioneGazzetta=2016-04-19&atto.codiceRedazionale=16G00062

²⁴ https://www1.interno.gov.it/mininterno/export/sites/default/it/assets/files/20/0229_AT_VADEMECUM_DEL_DURC.pdf

²⁵ <https://www.normattiva.it/atto/caricaDettaglioAtto?atto.dataPubblicazioneGazzetta=2013-06-21&atto.codiceRedazionale=13G00116&atto.articolo.numero=0&qId=&tabID=0.8530123593173395&title=lbl.dettaglioAtto>

²⁶ <https://www.consip.it/azienda/chi-siamo>

environment before they are adopted²⁷. In addition, Art. 22 of the Code of Public Contracts (Legislative Decree 18 April 2016, n. 50) establishes the "public debate" as a compulsory activity for the choice and therefore realization of "major works" of particular social, environmental and territorial importance. The debates may consist of information meetings, in-depth analysis, discussion and conflict management, and is managed by an independent third person which acts as a coordinator and is selected through public tender procedures. The process is reasonably structured through the National Commission for public debate set up by the MIT, which is in charge of monitoring the proper conduct of public debates, and submitting a report to the chambers every two years on the progress of the debates and propose corrective measures, among other tasks.

As to social risks related to transport expenditures, Italian legislation has been introduced to guarantee both the rapid completion of works and the protection of workers jobs. Art. 47, paragraph 1-bis, of Legislative Decree no. 34/2019 established within the MIT is a special fund for construction works which ensure that in case of insolvency proceedings of the contracting authority, sub-contractors and sub-suppliers are paid before to guarantee the continuity of construction sites.

Regarding the social risks related to railway expenditures, the RFI has a Safety Management System, specifically dedicated to the safety of train traffic and railway operations, which was accepted by the National Agency for Railway Safety (ANSF) and granted the Safety Authorization to RFI, pursuant to Legislative Decree 162/2007 in June 2014 (and renewed, as required by law, in June 2019) which is also certified in accordance with ISO 9001: 2015. RFI also has an Occupational Health and Safety Management System, certified in compliance with the OHSAS 18001: 2007 standard, for the protection and well-being of workers during the construction and maintenance phase of the works. Moreover, in order to prevent risks related human and workers' rights, RFI refers to dedicated bodies, including the RFI Ethics Committee which verifies compliance with the principles and standards of conduct in the company and along the value chain (e.g. suppliers, customers, etc.) and the Equal Opportunities Committee of the Gruppo FS Italiane (Italian state railways), a bilateral and joint body that supports principles of equality and non-discrimination on the basis of gender.

An area for improvement is to create a single formalised mechanism followed by all Ministries for the integration of social responsibility factors by the contractors/suppliers in charge of construction and/or operation of projects, through minimum selection criteria and contractual clauses regarding respect for human and labour rights, working conditions, and health and safety measures.

Ethical risks

Business ethics issues related to public works are guaranteed by the provisions of the Code of Public Contracts²⁸, as well as other legal provisions related to public procurement matters. As previously mentioned, the award and execution of contracts and concessions are based on the key principles of the Code of Public Contracts which also include: free competition, non-discrimination, transparency, proportionality, advertising; prohibition of limiting competition in order to unduly favour or disadvantage certain economic operators or, in the procedures for awarding concessions; among others. In particular, under the Code of Public Contracts there's an obligation on the part of contracting authorities to adopt adequate measures to combat fraud and corruption as well as to effectively identify, prevent and resolve any hypothesis of conflict of interest in carrying out the procedures for awarding contracts and concessions. Personnel in a situation of conflict of interest are required to notify the contracting authority, to refrain from participating in the procedure for awarding contracts and concessions.

The Republic of Italy has also introduced traceability obligations of financial flows pursuant to art. 3 of Law 13 August 2010, n. 136, to prevent criminal infiltration, contractors, subcontractors and concessionaires of public funding. According to this law, all financial movements concerning public work, services and supplies must be recorded in dedicated current accounts and must be carried out exclusively by a bank or postal transfer. The above-mentioned economic entities shall communicate the identification details of the current accounts to the contracting authority, as well as, the personal information and tax code of individuals delegated to operate on them. Contracting authority must also include in its contracts, under penalty of nullity, a specific clause by which they assume the obligations of traceability of financial flows, pursuant to Law 136/2010.

Furthermore, the National Anti-Corruption Authority (ANAC) was established in the Italian legal system which has the institutional mission of preventing and combating illegality and corruption in public administrations, in subsidiaries and controlled companies, also through the implementation of transparency in all management aspects, as well as through the supervisory activity in the context of public contracts, offices and in every sector of the public administration that could potentially develop corruption. The Public Contracts Code assigns different monitoring and controlling competencies and powers to ANAC including: supervising and surveillance activities of public contracts for works, services and supplies; reporting cases of non-compliance to the Government or Parliament; reporting irregularities of criminal relevance to competent public prosecutors; ordering inspections; imposing administrative pecuniary sanctions against subjects who refuse or omit, to provide the information or to exhibit the documents requested and to economic operators who do not

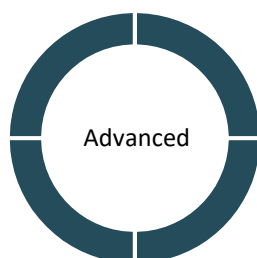
²⁷ <https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2006-04-03;152>

²⁸ Legislative Decree no. 50 of 2016

comply with the request of the contracting authority to prove that it possesses the requisites for participation in the award procedure; among others.

Information regarding the management of governance and ethical risks related to railway expenditures, is defined in the representative document of the Organization, Management and Control Model pursuant to Legislative Decree 231/2001 adopted starting from 2004. Vigilance over the function of and compliance with this document is supervised by a specific Supervisory Body through the Anti Bribery & Corruption Management System (ABC System).

ISSUER



Level of Issuer's sustainability performance

According to the *Sovereign Sustainability Rating* © last updated by V.E (Vigeo Eiris) in November 2020, Italy received a rating of 77/100 which indicates an overall advanced sustainability performance. Italy ranks 20th out of 178 countries rated in our global sovereign sustainability index, and 18th out of 37 OECD countries²⁹ rated by V.E³⁰.

V.E's assessment of the Issuer's sustainability performance is based on publicly available country information and statistics derived from sources that have been agreed for use in our data collection and rating methodologies for the Sovereign Sustainability Rating.

By sustainability pillar, Italy has an advanced performance across all three pillars: Environmental Responsibility (71/100), Social Responsibility (75/100), and Governance Responsibility (84/100).

PILLAR	COMMENTS	PERFORMANCE LEVEL
Environmental Responsibility	<p>Italy has an advanced performance in the Environmental Responsibility pillar; however, its score of 71/100 is the lowest across the three pillars of sustainability. The country ranks in the top quartile in V.E's rated sovereign universe (26th out of 178).</p> <p>At the time of the evaluation, Italy has ratified most relevant international environmental conventions included in our rating framework, including the Paris Agreement, the United Nations Framework Convention on Climate Change, the Convention on Biological Diversity, the United Nations Framework Convention to Combat Desertification and the Aarhus Convention on access to environmental justice. The country has not ratified the Stockholm Convention on persistent organic pollutants.</p> <p>Like most OECD countries, Italy's economy is highly carbon intensive. The reduction of GHG emissions and air pollution, energy efficiency and transition to renewable energy are the areas that need improvement. As a member of the European Union (EU), Italy endorsed the collective pledge to reduce GHG emissions by 40% by 2030, compared to 1990.³¹</p> <p>The carbon intensity by GDP output and consumption-based emissions are below the OECD average (e.g. CO2 emissions of 0.14 kg per PPP dollar and 5.3 metric tonnes per capita in 2014). Italy has the eleventh highest production of electricity from renewable sources excluding hydropower (23% in 2015) in the OECD group, however its share of renewables in total energy consumption (17% in 2015) is lower than the OECD average. The country has the eleventh highest urban pollution levels among its OECD peers – e.g. Italy's annual mean levels of fine particulate matter (PM2.5) in cities (population weighted) was 15.3 microgram/m3 in 2016.³²</p>	Advanced
		Robust

²⁹ There are 37 countries that are members of the Organization for Economic Cooperation and Development (OECD): Australia, Austria, Belgium, Canada, Chile, Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. Source <https://www.oecd.org/about/members-and-partners/>. All these countries are covered by V.E in the Sovereign Sustainability Rating.

³⁰ Note: The Issuer has not been subject to a review of its ability to mitigate sustainability risks based on the review of stakeholder opinion.

³¹ EU's First INDC, 2015 <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Italy%20First/LV-03-06-EU%20INDC.pdf>.

³² Source: <http://unstats.un.org/sdgs/indicators/database/?indicator=11.6.2>

PILLAR	COMMENTS	PERFORMANCE LEVEL
	<p>Areas related to water management, biodiversity and the protection of sensitive areas also need improvement. Regarding water availability and supply, Italy has a modest performance compared to its OECD peers – e.g. the country has the eight highest annual freshwater consumption in total internal water resources (29.45% in 2012), but only the fifteenth highest renewable internal freshwater resources available per capita (3,002 m³ in 2014) in the OECD group.</p> <p>Italy has an overall mixed performance on ecosystem management. Although the country has developed a reasonable coverage of protected areas aimed to safeguard the country's rich terrestrial and marine biodiversity, challenges remain regarding how effective these protected areas are in reducing biodiversity loss. Compared to its OECD peers, Italy has an overall high proportion of key sites for terrestrial biodiversity that are covered by protected areas (77% in 2019). However, the country's Red List Index has recorded a deteriorating trend over time (0.89 in 2020 from 0.91 in 2000), which indicates that the rate of biodiversity loss is increasing.</p>	Limited
		Weak
Social Responsibility	<p>Italy's performance in the Social Responsibility pillar is assessed as advanced with a score of 75/100. The country ranks in the top quartile in V.E.'s rated sovereign universe (20th out of 178). Like most OECD peers, Italy has high enrolment rates for both primary and secondary education. However, the government spending on education, which amounted to 4.04% of GDP (2017), is below the OECD average.³³ Income equality is high, with a Gini coefficient of 0.33 (2017), which is the thirteen highest within the OECD economies. Unemployment is also high, in particular youth unemployment, which amounted to 29% in 2020, the third highest in the OECD group.³⁴ Poverty levels have increased over the last ten years to reach a rate of 0.139 in 2017, the twelfth highest in the OECD group. The working population enjoy fundamental rights such as freedom of association and collective bargaining. According to International Trade Union Confederation (ITUC), Italy is facing sporadic violations of workers' rights and ranked among the twelve best performing countries in 2019.³⁵</p> <p>Compared to OECD peers, Italy fares average in areas such as accessibility of healthcare and gender equality. With 5.7 nurses & midwives and 3.9 physicians per 1,000 people,³⁶ the density of medical staff in Italy is above the WHO estimates of 2.5 medical staff per 1,000 people needed to provide adequate coverage with primary care interventions.³⁷ However the medical staff to patients ratios are only average when matched against other European countries within the OECD group. Italy has average rates of women representation in political life and participation in the labour force.³⁸ Increasing women's access to education and the labour market is identified as a determinant for change by the Sustainable Development Goals (SDGs) in tackling world poverty.</p> <p>Italy has an overall good performance in the promotion of healthy lives and access to a balanced nutrition for the areas where there is sufficient data available to assess performance. Maternal, child and infant mortality rates have steadily decreased, while life expectancy at birth has increased, over the last ten years.³⁹ Similarly, on food security, the prevalence of undernourishment and obesity rates have recorded stable levels over the last ten years.⁴⁰ However, there is inadequate data available for Italy to determine the country's efforts to prevent child malnutrition.</p>	Advanced
		Robust
		Limited

³³ Source: <https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS>

³⁴ Source: <https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

³⁵ Source: ITUC Global Rights Index 2020 <https://www.ituc-csi.org/ituc-global-rights-index-2020>

³⁶ Source: Nurses & midwives per 1,000 people <https://data.worldbank.org/indicator/SH.MED.NUMW.P3>; Physicians per 1,000 people <https://data.worldbank.org/indicator/SH.MED.PHYS.ZS>

³⁷ As per the definition of medical staff shortage in the 2006 World Health Report https://www.who.int/whr/2006/whr06_en.pdf?ua=1

³⁸ Labour force participation rate, female <https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>; Proportion of seats held by women in national parliaments (%) <https://data.worldbank.org/indicator/SG.GEN.PARL.ZS>

³⁹ Source: Under-five mortality rate <https://data.worldbank.org/indicator/SH.DYN.MORT>; Infant mortality rate <https://data.worldbank.org/indicator/SP.DYN.IMRT.IN> and Life expectancy at birth <https://data.worldbank.org/indicator/SP.DYN.LE00.IN>

⁴⁰ Source: Prevalence of under-five malnutrition <https://unstats.un.org/sdgs/indicators/database/?indicator=2.2.2>; Overweight or obese population <https://data.oecd.org/healthrisk/overweight-or-obese-population.htm>

PILLAR	COMMENTS	PERFORMANCE LEVEL
		Weak
Governance Responsibility	<p>Italy's performance in the Governance Responsibility pillar is assessed as advanced with a score of 84/100. The country ranks in the top quartile in V.E.'s rated sovereign universe (20th out of 178).</p> <p>Italy has ratified fundamental conventions relating to human rights, children's rights, and labour rights such as forced labour, freedom of association and collective bargaining. However, Italy has not endorsed international conventions related to a minimum wage, occupational health and safety or the rights of migrants and refugees. The country abolished the death penalty for all crimes.⁴¹</p> <p>Italy scores well in all the areas related to the promotion of rule of law, public governance, control of corruption and democratic accountability that are measured by the Worldwide Governance Indicators. However, all areas have recorded negative trends over the last five to ten years. Italy has strong regional disparities, with organized crime still influential in the South, however, bank and corporate balance sheets had improved in the years leading to the pandemic and pandemic-exposed sectors regained competitiveness.⁴²</p> <p>An increase in the country's public debt outshines Italy's relatively low economic dependency on international trade, as found by the Global Peace Index (GPI). Italy ranked as the 31st most peaceful country in 2020 and its key economic challenges will be mostly shaped by the ability of the government to fund and manage the revival of a stale post-Covid-19 economy.⁴³</p> <p>Some weaknesses in Italy's political governance environment also poses a reasonable high risk for domestic companies of defaulting on their financial commitments.⁴⁴ In addition, Italy's adjusted net savings, including damage from particulate emission pollution (% of GNI) have steadily decreased over the last ten years and are the seventh lowest in the OECD group, indicating a consistent run down in the country's overall resources and wealth.⁴⁵</p>	Advanced
		Robust
		Limited
		Weak

⁴¹ Source: <https://www.amnesty.org/en/countries/europe-and-central-asia/italy/>

⁴² Source: <http://www.coface.com/Economic-Studies-and-Country-Risks>

⁴³ The Global Peace Index (GPI) scores 169 countries on a scale of 1-5, where 1 is most peaceful and 5 is least peaceful. Source: https://www.visionofhumanity.org/wp-content/uploads/2020/10/GPI_2020_web.pdf

⁴⁴ V.E (Vigeo Eiris) uses country risk analysis published by Coface to assess the country's business resilience to market risks. Source: <http://www.coface.com/Economic-Studies-and-Country-Risks>

⁴⁵ Adjusted Net Saving (ANS) was developed as an indicator to approximate the change in wealth—based on simple economic theory in which savings equals investment, and investment equals the change in wealth. ANS measures gross national savings, adjusted for gains (spending on education) and losses (consumption of fixed capital, depletion of subsoil assets and forests, pollution damages). Source: <https://data.worldbank.org/indicator/NY.ADJ.SVNG.GN.ZS>

METHODOLOGY

In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council. All employees are signatories of V.E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

ISSUANCE

Alignment with the Green and/or Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

The Framework has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2018 ("GBP"), and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.

Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;⁴⁶
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

ISSUER

Level of the Issuer's Sustainability Performance

Scale of assessment of Sustainability performance: Weak, Limited, Robust, Advanced

V.E has reviewed its Sustainability Sovereign Rating®, resulting from a continuous improvement process and is based on a permanent monitoring of international normative developments as well as stakeholder expectations and debates. This enhanced version includes 69 new factors to meet market needs. The 172 indicators are put into perspective with the UN Sustainable Development Goals and are organized into 56 criteria, 17 sub-domains and 3 rating domains. Of note, the new methodology leads to a decrease in the absolute scores of the majority of countries.

V.E's Sustainability Sovereign Rating® methodology, measures and compares the levels of integration of international public law and soft law frameworks, including for the recent period the Sustainable Development Goals (SDGs), and the action programmes of Agenda 21, adopted by 178 countries at the Rio Earth Summit in 1992. We pay particular attention to the commitments, policies and impacts of public policies in terms of respect of fundamental human rights, access to economic, social, cultural and environmental rights, quality of governance, as well as international solidarity and cooperation. Based on the analysis of a universe composed of 178 countries, the results provide a comparative view of risks and performances, with regard to universally acknowledged sustainability objectives.

The sustainability performance of the Republic of Italy was most recently assessed by V.E in November 2020 based on three rating domains, all equally weighted in the model: Environment (i.e. environmental protection), Social (i.e. social protection and solidarity) and Institutions (i.e. rule of law and governance):

- Commitment indicators: reflecting the state's level of commitment to the goals and principles set by major international agreements: Conventions, recommendations and statements of the ILO; UN Charters and treaties; guiding principles of the OECD; regional instruments (assuming their full compliance with the United Nations Charter); the Universal Declaration of Human Rights and its related protocols and treaties.
- Result indicators: measuring the efficiency of the country's sustainable development actions. V.E gathers information from diversified sources including international organisations such as intergovernmental organisations, international trade unions and NGOs.

V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability

Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles

⁴⁶ The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact combined with a weak level of assurance of E&S risk management.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.

Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.

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This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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