

SECOND PARTY OPINION

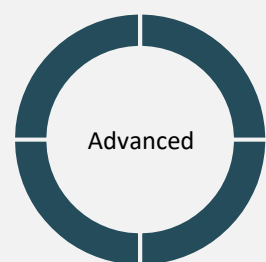
on the sustainability of Andorra's Green, Social and Sustainability Bond Framework

V.E is of the opinion that Principality of Andorra's Framework is aligned with the four core components the Green Bond Principles 2018 ("GBP") and Social Bond Principles 2020 ("SBP").



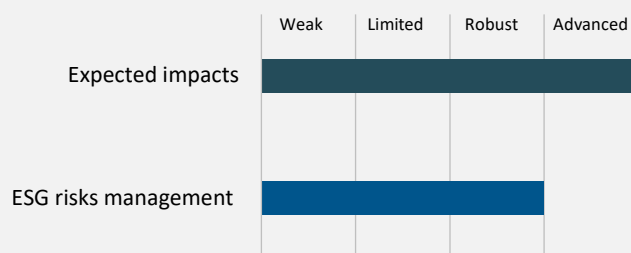
Framework

Contribution to Sustainability :



○ Advanced ○ Limited

○ Robust ○ Weak



SDG Mapping



Characteristics of the Framework

| | |
|-----------------------------|--|
| Green and Social Categories | ⇒ 7 Green Categories ⇒ 5 Social Categories |
| Project locations | Andorra |
| Target Population | Andorra's population, including those identified as vulnerable |
| Existence of framework | Yes |
| Share of refinancing | To be communicated before each issuance |
| Look back period | 3 years |

Coherence

Coherent

Partially coherent

Not coherent

We are of the opinion that the contemplated Framework is coherent with the Principality of Andorra's strategic sustainability priorities and that it contributes to achieving the Issuer's sustainability commitments.

Key findings

V.E is of the opinion that Government of Andorra's Framework is aligned with the four core components of the GBP and SBP.

Use of Proceeds –aligned with GBP/SBP

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

Evaluation and Selection - aligned with GBP/SBP and best practices identified by VE

- The process for Project Evaluation and Selection has been clearly defined by the Issuer. It is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework and in this SPO.
- Eligibility criteria (selection and exclusion) for project selection have been clearly defined by the Issuer for all of the Eligible Expenditures.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed (in the herewith SPO). The Process is considered robust: it combines monitoring, identification and corrective measures for all the Eligible Expenditures (see detailed analysis on pages 26 - 29).

Management of Proceeds - aligned with GBP/SBP and best practices identified by VE

- The Process for the Management and Allocation of Proceeds is clearly defined, detailed and is publicly available in the Framework and in this SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be tracked by the Issuer in an appropriate manner and attested 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 project divestment, postponement and/or cancellation and it has committed to reallocate divested proceeds to expenditures that are compliant with the Framework.

Reporting - aligned with GBP/SBP

- 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 and verification will be publicly available until bond maturity.
- 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 developments related to the projects.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Expenditures will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Categories until full allocation and in case of material changes. Indicators used to report on environmental and social benefits of the Eligible Expenditures will be verified internally by the Issuer.

Contact

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SCOPE

V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Sustainability Bonds¹ (“Bonds”) to be issued by Principality of Andorra (the “Issuer” or “Andorra”) in compliance with the Green, Social and Sustainability 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 voluntary guidelines of ICMA’s Green Bond Principles (GBP) - edited in June 2018 - and Social Bond Principles (SBP) - edited in June 2020 -, and the Sustainability Bond Guidelines (SBG) – edited in June 2018.

Our opinion is built on the review of the Framework, including the coherence between the Framework and the Issuer’s environmental and social commitments, the Bonds’ potential contribution to sustainability and its alignment with the four core components of the GBP 2018, SBG 2018 & SBP 2020.

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 February 22nd, 2021 to April 19th, 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 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”, “Social Bond” or “Sustainability Bond” is to be considered as the bond to be potentially issued, subject to the discretion of the Issuer. The name “Green Bond”, “Social Bond” or “Sustainability 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 contemplated Framework is coherent with the Principality of Andorra's strategic sustainability priorities and that it contributes to achieving the Issuer's sustainability commitments.

In 2015, all United Nations Member States adopted the 2030 Agenda for Sustainable Development, which includes the 17 Sustainable Development Goals (SDGs). With 10 years left to achieve the SDGs, world leaders called for a "Decade of Action" at the SDG Summit in September 2019. Achieving sustainable development 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, integrating sustainability in policies, budgets, institutions and regulatory frameworks, and working with all stakeholders. National governments must lead climate action to limit global warming and protect the environment, and at the same time lead action to reduce inequality through the establishment of national policies and action plans that guarantee sustainable and inclusive growth.

The Government of Andorra seems to recognize its key role in providing solutions to address the challenges of sustainability, in the short term through Andorra's action plan 2020-2023 and in the long term through the National energy strategy for the fight against the climate change (2020-2050).

Andorra's action plan 2020-2023:

This action plan considers addressing three main pillars:

- **Welfare and cohesion:** This pillar is composed by seven Initiatives, aiming to enhance the social welfare, quality of life and a healthy environment. The Initiatives are (i) fight against climate change, (ii) commitment to sustainable mobility, (iii) landscape, biodiversity and quality of life (iv) sports as an instrument of cohesion (v) people at the centre of social policies, (vi) reorientation of employment policies and (vii) pioneering adapted healthcare system.
- **Economy and Innovation:** This pillar is composed by six Initiatives which seek to promote the economic development, diversification, and improvement of connectivity infrastructure. The Initiatives are: (i) new sectors of economic activity, (ii) commitment to an RDI ecosystem, (iii) strengthening of traditional economic sectors, (iv) reorientation of the tourism policy, (v) Andorra as a life and business destination, (vi) advancing towards geographical opening-up.
- **Alliance for change:** This pillar is composed by seven initiatives related to digital transformation, optimisation of resources, public financing and International relations. The Initiatives are (i) modernization of the Public Administration, (ii) digital transformation, (iii) diversification of financing and sustainability of pensions, (iv) establishment of a regional cooperation area, (v) efficiency and rationalization of public expenditure (vi) association agreement with the EU, and (vii) foreign policy.

The National energy strategy for the fight against climate change (2020 – 2050):

The Government of Andorra published its National energy strategy for the fight against climate change. It consists of five action programmes and seventeen activities, with the aim of achieving carbon neutrality in 2050. These five action programmes are:

- **Decarbonisation programme:** decarbonizing the energy sector, transport, agriculture, and industry. This action programme also includes the development of circular economy policies.
- **Adaptation and resilience to climate change programme:** defining a climate change adaptation plan to reduce risk and improve the country's resilience.

- National market for carbon credits and other tax tools programmes: structuring a funding system to carry out the planned actions envisaged in the strategy.
- Systematic innovation, research, and observation: promoting R&D in climate change, in order to better respond to new environmental and technological challenges.
- Social transition programme: to raise awareness, educate and empower the society as a whole with regard to these challenges and goals.

It is expected that Andorra will be able to decrease Greenhouse Gases (GHG) emissions by 37% compared to their Business as Usual (BaU) scenario by 2030 and ensure carbon neutrality by 2050.

FRAMEWORK

The Issuer has described the main characteristics of the Bonds within a formalised Green, Social and Sustainability Bond Framework which covers the four core components of the GBP 2018, SBP 2020 and SBG 2018 (the last updated version was provided to V.E on April 19th, 2021). The Issuer has committed to make this document publicly accessible on the Government of Andorra's website, in line with good market practices.

Alignment with the Green and Social Bond Principles

Use of Proceeds



The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, projects falling under seven Green Project Categories ("Green Expenditures") and five Social Project Categories ("Social Expenditures"), as indicated in Table 1.

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

BEST PRACTICES

- ⇒ Content, eligibility and exclusion criteria are clear and in line with international standards for all categories.
- ⇒ Relevant environmental and social benefits are identified and measurable for all Eligible Categories.
- ⇒ The Issuer has committed to transparently communicate the estimated share of refinancing for each bond issuance in the Investors Presentation.

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

- Nature of expenditures: budgetary expenses including investment, tax, intervention, operating expenditures as well as subsidies, grants and loans. The net proceeds of Bonds may finance and/or refinance different branches of Andorra's central Government as well as the State's dedicated agencies, public entities, enterprises and households.
- Location of Eligible Expenses: Andorra (with a wider geographical scope for expenditures in the context of Andorra's international cooperation)

| ELIGIBLE GREEN & SOCIAL EXPENDITURES | DESCRIPTION | SUSTAINABILITY OBJECTIVES AND BENEFITS | V.E'S ANALYSIS |
|--------------------------------------|---|--|--|
| Renewable Energy | Expenditures related to the production, acquisition, operation and distribution of renewable energy such as: solar PV, concentrated solar power, wind power, bioenergy ² , and geothermal. All facilities are operating at life cycle emissions lower than 100gCO ₂ e/kWh. The projects include, but are not limited to: <ul style="list-style-type: none"> - Acquisition and installation of photovoltaic solar panels | <u>Climate Change Mitigation</u> Avoidance of CO ₂ emissions | The Eligible Category is clearly defined, the Issuer has communicated the nature, the eligibility criteria, and location of Eligible Expenditures. The Environmental Objective is clearly defined, it is relevant and set in coherence with sustainability objectives defined in international standards. The expected Environmental Benefit is clear, it is considered relevant, measurable, and will be quantified in the reporting. |
| Energy Efficiency | Expenditures related to the improvement of energy efficiency in both public and private sectors ³ leading to at least 30% of energy savings compared to Business as usual. The projects include, but are not limited to: <ul style="list-style-type: none"> - Construction, acquisition and refurbishment of buildings meeting national, regional or internationally recognized energy efficiency regulations, standards or certifications [aligned with the European Nearly-Zero-Energy Buildings (NZEB) building standard, Energy Performance Certificate (EPC) A (or above), 30% improvement in energy savings]]. - Projects contributing to the reduction of energy consumption including heating and cooling network and co-generation. | <u>Climate Change Mitigation</u> Avoidance of CO ₂ emissions Energy savings | The Eligible Category is clearly defined, the Issuer has communicated the nature, the eligibility criteria, and location of Eligible Expenditures. The Environmental Objective is clearly defined, it is relevant and set in coherence with sustainability objectives defined in international standards. The expected Environmental Benefit is clear, it is considered relevant, measurable, and will be quantified in the reporting. |
| Low Carbon transportation | Expenditures related to the deployment of low carbon public transportation means ⁴ such as electric, hybrid or biofuel ⁵ or buses, trams, metros, and trains, as well as the promotion of individual low carbon transportation use including hybrid and electric vehicles. | <u>Climate Change Mitigation</u> Avoidance of CO ₂ emissions | The Eligible Category is clearly defined, the Issuer has communicated the nature, the eligibility criteria, and location of Eligible Expenditures. |

² From agricultural or forestry residues (not competing with food production)

³ Investments in fossil fuel-based technologies are excluded

⁴ For biofuel and hybrid technologies, a threshold of direct emissions below 50 gCO₂e/km is applied until 2025 and only zero emission transportation means will be allowed afterwards.

⁵ Hybrid passenger vehicles with an emission threshold of <75gCO₂/km.

| ELIGIBLE GREEN & SOCIAL EXPENDITURES | DESCRIPTION | SUSTAINABILITY OBJECTIVES AND BENEFITS | V.E'S ANALYSIS |
|--|---|---|--|
| | <p>The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Incentives to support Andorra's car fleet renewal through the promotion of hybrid and electric mobility⁶ | | <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> |
| Sustainable water, waste and wastewater management | <p>Expenditures related to the development, construction, operations and maintenance of sustainable water, waste and wastewater projects that contribute to the improvement of water supply, distribution and quality, sanitation as well as waste and wastewater collection and treatment.</p> <p>The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Construction and/or extension of centralized wastewater systems including collection (sewer networks), treatment and discharge - Water recycling and reuse related projects - Support waste and management and prevention including waste reception, sorting, treatment, recovery as well as the increase of recycling and/or reuse of waste material. <p>The issuer transparently communicate that they cannot ensure that will not be GHG emissions associated to water infrastructure projects.</p> | <p><u>Conservation and sustainable use of water resources</u></p> <p>Promotion of sustainable water management to guarantee efficient use and quality of water</p> <p><u>Pollution prevention and control</u></p> <p>Improvement of waste and wastewater management and treatment</p> | <p>The Eligible Category is clearly defined, the Issuer has communicated the nature, the eligibility criteria, and location of Eligible Expenditures.</p> <p>Of note, the water, wastewater and waste management strategies and reports are publicly available on Andorra's website.</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> |
| Circular Economy | <p>Expenditures related to the extension of product's life cycle, waste prevention, promotion of material recycling and reuse.</p> <p>The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Expenditures to prevent waste generation, ensure proper waste management and implement measures to encourage the circular economy | <p><u>Transition to a circular economy</u></p> <p>Reduction in use of virgin materials</p> <p>Increase in re-use and recycling</p> <p><u>Pollution Prevention and Control</u></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, these are considered relevant, measurable, and will be quantified in the reporting.</p> |

⁶ Plan Engega: <https://www.govern.ad/presidencia-economia-i-empresa/item/12481-el-pla-engega-2020-atorga-mig-milio-d-euros-en-ajuts-en-una-aposta-per-la-mobilitat-sostenible-i-l-eficiencia-energetica>

| ELIGIBLE GREEN & SOCIAL EXPENDITURES | DESCRIPTION | SUSTAINABILITY OBJECTIVES AND BENEFITS | V.E'S ANALYSIS |
|--|---|---|---|
| | | Reduction of waste generated | |
| Sustainable management of living natural resources, land use and biodiversity protection | <p>Expenditures related to the development of sustainable agriculture, or to projects that contribute to reforestation, preservation, and restoration of natural landscapes.</p> <p>The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Certified agricultural practices falling under the EU Organic Label. - Certified forestry including FSC, PEFC or equivalent standard - Green urban projects such as parks and green areas - Programmes to protect and/or restore ecosystems, conservation areas, wildlife fauna and flora species - Aquatic and terrestrial biodiversity conservation programmes - Biotic water quality monitoring as well as the protection of aquatic environment - Monitoring of river and torrent's maintenance operations - Fire risk management activities | <p><u>Terrestrial ecosystems Conservation</u></p> <p>Promotion of the protection of terrestrial ecosystems, the preservation of biodiversity, and promotion of sustainable techniques in agriculture and forestry</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, these are considered relevant, measurable, and will be quantified in the reporting.</p> |
| Adaptation | <p>Expenditures related to the improvement of resilience and adaptive capacities with the goal of facing climate change consequences.</p> <p>The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Development of climate change extreme weather events observation systems including meteorological services - Air quality monitoring - Expenditures related to the Office of Energy and Climate Change, responsible for the promotion of projects related to energy transition and climate change - Awareness raising programmes on climate change | <p><u>Climate Change Adaptation</u></p> <p>Strengthening of the resilience of infrastructure in severe weather conditions.</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> |
| Access to essential services (Health & Education). | <p><u>Health</u></p> <p>Expenditures related to provision of healthcare infrastructures and services as well the promotion of healthy habits.</p> <p>The projects include, but are not limited to:</p> | <p><u>Access to Health</u></p> <p>Increase of the access to health facilities and 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 target populations have been clearly identified.</p> |

| ELIGIBLE GREEN & SOCIAL EXPENDITURES | DESCRIPTION | SUSTAINABILITY OBJECTIVES AND BENEFITS | V.E'S ANALYSIS |
|--------------------------------------|---|--|---|
| | <ul style="list-style-type: none"> - Construction, extension, equipment, operation and maintenance of public healthcare facilities including hospitals, health centres including primary care - Subsidies to ensure health coverage of the Andorra's vulnerable population including elders, persons with disabilities, low income households - Prevention and promotion of health, vaccine programmes, drug abuse prevention - Emergency measures to face sanitary crisis such as the Covid-19 pandemic <p><i>Target Population: the projects will include all Andorra's population, including those identified as vulnerable.</i></p> | | <p>The intended social objective is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected benefits are clear, relevant, measurable, and will be quantified in the reporting.</p> |
| | <p><u>Education</u></p> <p>Expenditures related to provision of public education infrastructures and services. The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Construction, extension, equipment maintenance of public education facilities. - Dissemination and promotion of research - Public and national libraries - Scholarships - School transportation programmes for underserved and vulnerable youth <p><i>Target Population: the projects will include all Andorra's population</i></p> | <p><u>Access to Education</u></p> <p>Increase of the access to education facilities and services in all the educational levels</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 target populations have been clearly identified.</p> <p>The intended social objective is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected benefits are clear, relevant, measurable, and will be quantified in the reporting.</p> |
| Employment generation | <p>Expenditures relating to the support and promotion of stable employment creation and preservation including through the support of the SME sector as well as the integration of people with disabilities into the labour market.</p> <p>The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Programmes supporting the professional insertion of people with disabilities - Schemes of reinsertion of the unemployed <p><i>Target population: people with disabilities, unemployed, SMEs, Microenterprises</i></p> | <p><u>Decent Work and Economic Growth</u></p> <p>Increase in integration into the labour market</p> <p><u>Support to SMEs</u></p> <p>Increase in job creation and preservation</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 target populations have been clearly identified.</p> <p>The intended social objectives are relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected benefits are clear, relevant, and measurable, and will be quantified in the reporting.</p> |

| ELIGIBLE GREEN & SOCIAL EXPENDITURES | DESCRIPTION | SUSTAINABILITY OBJECTIVES AND BENEFITS | V.E'S ANALYSIS |
|--|--|--|---|
| | | | |
| Affordable housing | <p>Expenditures related to the production and access to affordable housing.</p> <p>Expenditures will be focus on measures referred on the Regulation of economic benefits concerning social services of Andorra⁷ for housing aids.</p> <p>The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Investment in a public private fund intended to create social housing for vulnerable groups <p><i>Target population: households with income equivalent to the minimum wage threshold⁸.</i></p> | <p><u>Access to Housing</u></p> <p>Guaranteed access of the most vulnerable people to decent housing</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 target populations have been clearly identified.</p> <p>The intended social objective is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected benefits are clear, relevant, measurable, and will be quantified in the reporting.</p> |
| Socio-economic advancement and empowerment | <p>Expenditures related to the reduction of social and economic inequalities and promotion of social and economic inclusion.</p> <p>The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Support programs for Young People in Guardianship and Ex-Guardianship with of reaching autonomy and social integration - Emergency shelters for homeless children or those in a situation of risk or social danger such as the Residential Centre for Educational Action - Social rehabilitation programmes for vulnerable youth - Subsidies to Non-profit organisations operating in the field of social promotion programs, projects and actions - Solidarity pension programmes for people with disabilities and elderly - Programmes to support athletes with physical disabilities - Grants to sports organizations to support sport practice for people with disabilities - International cooperation programmes dedicated to the support of associations, non-profit and international United Nations bodies in the promotion of inclusive socio-economic development projects <p><i>Target population: vulnerable youth, Non-Profit organisations, people with disabilities</i></p> | <p><u>Socio-economic advancement and empowerment</u></p> <p>Increase in job creation and preservation</p> <p>Reduction of inequalities</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 target populations have been clearly identified.</p> <p>The intended social objective is relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected benefits are clear, relevant, measurable, and will be quantified in the reporting.</p> |





⁷ Articles 17, 18, 19, 20 and 21 https://www.bopa.ad/bopa/032121/Pagines/GR20201009_12_08_44.aspx.


⁸ The threshold varies depending on the household composition. It is defined according to the national social cohesion threshold (Llindar Econòmic de Cohesió Social (LECS)).

| ELIGIBLE GREEN & SOCIAL EXPENDITURES | DESCRIPTION | SUSTAINABILITY OBJECTIVES AND BENEFITS | V.E'S ANALYSIS |
|---|---|--|---|
| Civil protection, territorial and digital inclusion | <p>Expenditures related to the provision of emergency civil protection as well as digital infrastructures and services with the goal of fostering and facilitating social integration</p> <p>The projects include, but are not limited to:</p> <ul style="list-style-type: none"> - Civil protection and emergency response managements including Red Cross activities - Natural disasters - Programmes to enable increased access to digital administration and e-services for vulnerable populations: digital alphabetisation programmes, online health assistance for elderly or dependent people facing difficulties to get to the healthcare facilities. <p><i>Target population: the projects will include all Andorra's population, including persons at risk, people with disabilities, elderly.</i></p> | <p><u>Civil Protection</u></p> <p>Protection from emergencies</p> <p>Disaster planning</p> <p><u>Social, digital and territorial inclusion</u></p> <p>Increase in social, digital and territorial inclusion</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 target populations have been clearly identified.</p> <p>The intended social objectives are relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected benefits are clear, relevant, measurable, and will be quantified in the reporting.</p> |

SDG Contribution

The Eligible Categories are likely to contribute to 10 of the United Nations' Sustainable Development Goals ("SDGs"), namely:

| ELIGIBLE CATEGORY | SDG | SDG TARGETS |
|--|--|--|
| Access to essential services: Health |  3 Good Health and Well-Being | 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all |
| Access to essential services: Education |  4 Quality Education | 4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes 4.2 By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university |
| Sustainable water, waste and wastewater management |  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 |
| Renewable Energy |  7 Affordable and Clean Energy | 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix |
| Energy Efficiency |  7 Affordable and Clean Energy | 7.3 By 2030, double the global rate of improvement in energy efficiency |
| Employment generation |  8 Decent Work and Economic Growth | 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value |
| Socioeconomic advancement and empowerment Civil protection, social, territorial and digital inclusion |  10 Reduced Inequalities | 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status |
| Affordable Housing | | 11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums |

| ELIGIBLE CATEGORY | SDG | SDG TARGETS |
|--|---|---|
| Low Carbon Transportation | | 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 |
| Civil protection, social, territorial and digital inclusion |  11 Industry, Innovation and Infrastructure | 11.5 By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations |
| Circular Economy | | 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 |
| Circular Economy |  12 Responsible Production and Consumption | 12.1 Implement the 10-year framework of programmes on sustainable consumption and production, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse |
| Renewable Energy Energy Efficiency Low Carbon Transportation | | SDG 13 consists in taking urgent action to combat climate change and its impacts |
| Adaptation |  13 Climate Action | 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning |
| Sustainable management of living natural resources, land use and biodiversity protection |  15 Life on Land | 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 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 15.4 By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development 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 |

Evaluation and Selection of Eligible Expenditures



- The process for Project Evaluation and Selection has been clearly defined by the Issuer. It is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the Framework and in this SPO.
- Eligibility criteria (selection and exclusion) for project selection have been clearly defined by the Issuer for all of the Eligible Expenditures.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed (in the herewith SPO). The Process is considered robust: it combines monitoring, identification and corrective measures for all the Eligible Expenditures (see detailed analysis on pages 26 – 29).

Process for Project Evaluation and Selection

For the purpose of the Bonds, an Inter-Ministerial Working Group (“the Group” or “IMWG”) has been created. This Group is coordinated by the Ministry of Finance and composed by representatives of different ministries:

- The Ministry of Finance
- The Ministry of Environment, Agriculture and Sustainability
- The Ministry of Territorial Planning
- The Ministry of Presidency, Economy and Business
- The Ministry of Health
- The Ministry of Social Affairs, Housing and Youth
- The Ministry of Education and Higher Education
- The Ministry of Culture and Sports
- The Ministry of Civil Service and Simplification of Administration
- The Group is responsible for:
 - Overseeing the implementation and Governance of the Framework.
 - Ensuring that each relevant ministry prepares and submits a preliminary list of Eligible Green and Social Expenditures.
 - Collecting the necessary data to demonstrate the alignment of the projects with the definition set out in the Use of Proceeds section of the Framework.
 - The evaluation and selection of Eligible Green and Social Expenditures to be financed with the Bonds' proceeds.

In addition, there will be a Steering Committee (the "Committee") composed by representatives from the Ministry of Finance.

- The Committee is responsible for:
 - Validating the final list of projects to be financed.
 - Managing any future update of the Framework.

The Group and the Committee will meet at least once a year.

- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
 - The IMWG will meet at least once a year until full allocation to monitor the eligibility of Green and Social Expenditures in order to verify the compliance and determine any changes in case is needed (Cancellation of project, ineligibility, etc.).

- IMWG will be in charge of the monitoring annually and until the Bonds maturity, potential ESG controversies that might occurs in the projects financed. Such controversy would lead to the exclusion of related expenditure and substitution on as soon as reasonably practicable.
- The IMWG and the Steering Committee will produce minutes of the meetings held to ensure traceability of the decisions taken in all their meetings.

Eligibility Criteria

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

- The selection criteria are based on definitions in Eligible Categories defined Table 1 in the Use of Proceeds section.
- The exclusion criteria consider any expenditure related to the following activities:
 - Alcohol, tobacco, gaming
 - Armament and defence sector
 - Deforestation, degradation of forest
 - Fossil fuel production and power generation
 - Palm oil industries
 - Nuclear Power

We consider that the exclusionary criteria are relevant, since they cover the main issues related to environmental and social responsibility, in line with good market practices.

BEST PRACTICES

- ⇒ Eligibility and exclusion criteria for project/asset selection are clearly defined and detailed for all of the Eligible Expenditures.
- ⇒ 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/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 a project

Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined, detailed and is publicly available in the Framework and in this SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be tracked by the Issuer in an appropriate manner and attested 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 project divestment, postponement and/or cancellation and it has committed to reallocate divested proceeds to expenditures that are compliant with the Framework.

Management Process

- The net proceeds of the Bonds will be credited to the Issuer's treasury liquidity portfolio and will be managed in cash. Once the Steering Committee approve the expenditures to be financed, an amount equal to the net proceeds will be allocated to Eligible Green and Social Expenditures on nominal equivalence basis.
- The Steering Committee and the Ministry of Finance will monitor the allocation, tracking and matching of the Bonds' proceeds on annual basis. The tracking process is composed by the following steps:
 - (i) the relevant Ministry involved in each project operates the first control;
 - (ii) all expenditures are monitored by the Ministry of Finance through the General controller Unit;
 - (iii) an external audit is conducted;
 - (iv) The Court of Auditor intervenes when necessary
- The unallocated funds would be managed in accordance with its usual treasury policy, in low risk and high liquidity instruments.
- In case of projects postponement, cancelation, divestment or ineligibility, Andorra will strive to reallocate the proceeds to other Eligible Expenditures as soon as reasonably practicable.

BEST PRACTICES

- ⇒ The allocation period is 24 months or less.
- ⇒ The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework.

Monitoring & Reporting

| | | | |
|-------------|-------------------|---------|----------------|
| Not Aligned | Partially Aligned | Aligned | Best Practices |
|-------------|-------------------|---------|----------------|

- 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 and verification will be publicly available until bond maturity.
- 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 developments related to the projects.
- The reporting methodology and assumptions used to report on environmental and social benefits of the Eligible Expenditures will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Categories until full allocation and in case of material changes. Indicators used to report on environmental and social benefits of the Eligible Expenditures will be verified internally by the Issuer.

Indicators

The Issuer has committed to transparently communicate at Eligible Category level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds are relevant and exhaustive.

| REPORTING INDICATORS |
|---|
| <ul style="list-style-type: none"> ⇒ Total amount of Green, Social and Sustainability Bonds issued ⇒ A breakdown of allocated proceeds by Eligible Green and Social Expenditures categories. ⇒ The amount of new financing versus refinancing. ⇒ The balance (if any) of unallocated proceeds. ⇒ Co-financing (when feasible). |

- Environmental and social benefits: The indicators selected by the Issuer to report on the environmental and social benefits are relevant and exhaustive⁹.

| ELIGIBLE CATEGORIES | ENVIRONMENTAL BENEFITS INDICATORS | |
|---------------------------|---|--|
| | OUTPUTS AND OUTCOMES | IMPACT INDICATORS |
| Renewable Energy | Number of Projects (#) Total renewable energy capacity (MW) | Expected annual energy production (MWh/year) Estimated annual GHG emissions avoidance (tCO ₂ e/year) |
| Energy Efficiency | Number of buildings built / refurbished (#) Number of dwellings by type of certification (#) | Estimated ex-ante annual energy savings (MWh/year) Estimated annual GHG emissions avoidance (tCO ₂ e/year) |
| Low Carbon transportation | Number of low carbon vehicles deployed by type (#) Number of people served (#) | Estimated annual GHG emissions avoidance (tCO ₂ e/year) |

⁹ The indicators are referential. The issuer will strive to provide this list of indicators and will provide the evolution of the indicators when feasible..

| ELIGIBLE CATEGORIES | ENVIRONMENTAL BENEFITS INDICATORS | |
|--|--|-------------------|
| | OUTPUTS AND OUTCOMES | IMPACT INDICATORS |
| Sustainable water, waste and wastewater management | Annual volume of water, waste, wastewater treated (% or m3/year) | |
| Circular Economy | Annual amount of material recovered/recycled (tons/year) Number of projects supported by type (#) | |
| Sustainable management of living natural resources, land use and biodiversity protection | Number of projects supported by type (#) | |
| Adaptation | Number of projects supported by type (#) | |

| ELIGIBLE CATEGORIES | SOCIAL BENEFITS INDICATORS |
|---|---|
| Access to Health | Number of healthcare infrastructures financed (#) Estimated number of beneficiaries (#) |
| Access to education | Number of education infrastructures financed (#) Number and amount of equipment/supplies installed (# and €m) Estimated number of beneficiaries (#) |
| Affordable housing | Estimated number of beneficiaries (#) |
| Employment generation | Number of jobs created and or maintained |
| Socio-economic advancement and empowerment | Estimated number of beneficiaries (#) |
| Civil protection, social, territorial and digital inclusion | Estimated number of beneficiaries (#) |

| BEST PRACTICES |
|---|
| <p>⇒ The issuer report will be publicly available at least until bond maturity.</p> <p>⇒ 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 projects, including ESG controversies.</p> <p>⇒ The indicators selected by the Issuer are exhaustive with regards to allocation reporting.</p> |

- ⇒ The indicators selected by the Issuer are clear and relevant and cover all expected benefits associated with the Eligible Categories.
- ⇒ The reporting methodology and assumptions used to report on environmental/social benefits of the Eligible Expenditures will be disclosed publicly.

Contribution to sustainability

Expected Impacts

The potential positive Impact of the Eligible Expenditures on environmental and social objectives is considered to be advanced.

| ELIGIBLE CATEGORY | EXPECTED IMPACT | ANALYSIS |
|--|-----------------|---|
| Renewable Energy | ADVANCED | The energy sector is the main source of GHG emissions in Andorra ¹⁰ . According to data from IRENA ¹¹ , in 2017 Renewables represented only 24% of Total Primary Energy Supply. In addition, Andorra has a large reliance on impact of energy sources, in particular in the form of fossil fuels. In this context, investing in renewable energy production and operation in Andorra is relevant both for climate change mitigation and as a tool of energy self-sufficiency. The scope of the impact of global, through the contribution to climate change mitigation. In addition, the Eligible Expenditures are in line with the EU Taxonomy, and thus follow one of the most stringent market standards. |
| Energy Efficiency | ADVANCED | Improving energy efficiency in buildings is the second lever that has been identified by the Government of Andorra to reduce GHG emissions ¹² . Refurbishing existing buildings and ensuring that new constructions respect energy efficiency standards are relevant actions to contribute to climate change mitigation, with a global positive impact. Further, the Eligible Expenditures follow one of the most stringent market standards., complying with the European Nearly-Zero-Energy Buildings (NZEB) building standard, Energy Performance Certificate (EPC) A (or above), representing a 30% improvement in energy savings. |
| Low Carbon transportation | ADVANCED | Transportation accounts for 67.5% of total emissions from the energy sector, which is itself the main source of GHG emissions in Andorra. Between 1990 and 2017 emissions from the sector increased by 24.7% ¹³ . This demonstrated the relevance of low carbon transportation projects for the objective of climate change mitigation. In addition, low carbon transportation also has positive impacts on air quality, thus creating an additional benefit for local stakeholders. Of note, electrical transportation has clear long-term benefits, whereas hybrid vehicles are only considered eligible until 2025. By following the technical screening criteria present in the EU Taxonomy and Climate Bonds Initiative, Eligible Expenditures are aligned with most stringent international standards. |
| Sustainable water, waste and wastewater management | ROBUST | Sustainable management of water, wastewater and waste are key responsibilities of a State. These projects have a positive impact on all relevant stakeholders, and on local environmental resources. Regarding waste management, only sorting, recycling and recovery are eligible, ensuring alignment with most stringent international standards. |
| Circular Economy | ADVANCED | In 2020, Andorra exported 70% of its waste ¹⁴ , indicating that it does not have the capacity to treat all the waste generated. The best strategy to address waste is through prevention, highlighting the relevance of circular economy strategies and actions. Circular economy strategies have a wide scope of positive impact, benefitting local stakeholders as well as value chains. By focusing on waste prevention, resource reuse, and other circular economy strategies, the eligible expenditures are aligned with most stringent international standards. |

¹⁰ https://unfccc.int/sites/default/files/resource/tasr2020_AND.pdf

¹¹ https://www.irena.org/IRENADocuments/Statistical_Profiles/Europe/Andorra_Europe_RE_SP.pdf

¹² https://unfccc.int/sites/default/files/resource/tasr2020_AND.pdf

¹³ Ibid

¹⁴ https://www.mediambient.ad/images/stories/PDF/residus/Gestio_residus_2020.pdf

| ELIGIBLE CATEGORY | EXPECTED IMPACT | ANALYSIS |
|--|-----------------|---|
| Sustainable management of living natural resources, land use and biodiversity protection | ADVANCED | One of the responsibilities of states is to protect the natural resources of their territory, and ensure sustainable land use and protection of biodiversity, supporting the relevance of this category. In addition, land use in Andorra represents negative GHG emissions, absorbing 128.40 Gg of CO ₂ eq. in 2017 ¹⁵ . The Eligible Expenditures have positive long-term effects on both biodiversity and climate change mitigation. Conservation and monitoring are the practices with least negative impacts. Regarding agriculture, only certified practices are eligible, giving assurance on alignment with stringent international standards. |
| Adaptation | ADVANCED | Climate change adaptation is a key challenge for Governments, in particular in mountainous regions such as Andorra where the impacts of climate change are already apparent. Observation and monitoring tools are fundamental for short and long-term climate change adaptation, aligning with international strategies. |
| Access to Health | ADVANCED | Governments have a key role to play in ensuring access to health. According to the WHO expenditure database, the out of pocket expenditure per capita on healthcare has increased from 2000 to 2015 ¹⁶ . At the same time, public expenditure on healthcare represented 78% of total healthcare expenditure in 2014 ¹⁷ , showing the relevance of the government's role in funding health expenditure. The target population for these Eligible Expenditures is the general population, and additional targeting mechanisms are put in place for the largest share of eligible expenditures, thus ensuring coverage of Andorra's vulnerable population, including elders, persons with disabilities, and low-income households. |
| Access to education | ADVANCED | Andorra achieved good scores in the Education indicators of the Human Development Indicator ¹⁸ , as such access to Education does not seem to be of particular challenge. Of note, the majority of the population is enrolled in public institutions ¹⁹ highlighting the importance of the government in providing access to education. The expenditures target the general population, supporting universal access to education, and ensures access to those most in need. Education enables empowerment, which ensures the highest level of durability of social benefits. |
| Employment generation | ROBUST | Figures from 2017 show that unemployment rates in Andorra are very low (2.4%) ²⁰ , in particular in comparison to the neighbouring countries of France and Spain. However, Andorra's economy is highly dependent on tourism, and thus has been affected by the Covid-19 pandemic ²¹ , which highlights the relevance of supporting employment programs. The Expenditures target the populations most in need, by targeting SMEs, microenterprises, and people with disabilities. The insertion of vulnerable people in the labour force has long term positive social effects. |
| Affordable housing | ADVANCED | Ensuring access to decent housing to its most vulnerable population is a key responsibility of Governments. The eligibility criteria for affordable housing ensures that it targets the population most in need. Providing access to adequate housing provides empowerment to the beneficiaries. |
| Socio-economic advancement and empowerment | ROBUST | Governments play an important role in socioeconomic advancement and empowerment, in ensuring social and economic inclusion of their populations. Target population has been defined as vulnerable youth, non-profit organisations, people with disabilities, ensuring that the Eligible Expenditures will benefit populations in need. The Eligible Expenditures include a mixture |

¹⁵ https://unfccc.int/sites/default/files/resource/tasr2020_AND.pdf

¹⁶ <https://ourworldindata.org/grapher/out-of-pocket-expenditure-per-capita-on-healthcare?tab=chart&country=AND>

¹⁷ <https://ourworldindata.org/grapher/share-of-public-expenditure-on-healthcare-by-country?tab=chart&country=AND>

¹⁸ <http://hdr.undp.org/en/countries/profiles/AND>

¹⁹ <https://ourworldindata.org/grapher/percentage-enrolled-in-private-institutions-at-the-primary-education-level?tab=chart&country=AND>

²⁰ <https://www.actua.ad/en/actualitat/unemployment-andorra-was-24-2017-lowest-rate-eight-years/>

²¹ https://santandertrade.com/en/portal/reach-business-counterparts/andorra/economic-outline?url_de_la_page=%2Fen%2Fportal%2Freach-business-counterparts%2Fandorra%2Feconomic-outline&&actualiser_id_banque=oui&id_banque=0&memoriser_choix=memoriser

| ELIGIBLE CATEGORY | EXPECTED IMPACT | ANALYSIS |
|---|-----------------|---|
| | | of long-term social benefits (such as support to people with disabilities, pensions) and empowerment measures (such as programs supporting young people to reach autonomy). |
| Civil protection, territorial and digital inclusion | ADVANCED | Civil protection and digital inclusion are key responsibilities of Governments. The target population has been defined as the whole population, highlighting persons at risk, people with disabilities, and the elderly. Emergency planning and responses offer a mixture of short-term relief and long-term improvement through preparedness. In addition, digital inclusion has long term benefits, ensuring access to other essential services such as health. |
| OVERALL ASSESSMENT | ADVANCED | |

ESG Risks Identification and Management systems in place at project level

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

| | ELIGIBLE CATEGORIES |
|--------------------|---------------------|
| Environmental | Advanced |
| Social | Robust |
| Public tenders | Advanced |
| Ethics | Robust |
| OVERALL ASSESSMENT | ROBUST |

Environmental due diligence

V.E considers that Andorra's due diligence appropriately covers the potential environmental risks of the projects to be financed. Andorra has an Environmental Impact Assessment²² (EIA) methodology which is applied for projects established in its legislation. As main principle, Andorra's environmental impact assessment must identify, describe, evaluate and correct or compensate appropriately for all direct, indirect and cumulative effects of the projects on: (i) humans, (ii) the fauna and flora, (iii) the soil, (iv) the water, (v) the air, (vi) the climate and the landscape, (vii) the material goods and (viii) the cultural heritage. In this way, potential degradation can be anticipated and mitigated by applying preventive and / or corrective measures and is a criterion to decide whether a project is approved.

The EIA is applied to public and private projects, in the following activities: (i) Industrial (ii) Agricultural (iii) Infrastructure (iv) Urbanization and (v) Recreation.

The EIA is composed of the following pillars²³:

- Impact assessment: Information about the location, initial state of the area, taking into account different environmental aspects (i.e. climatic, geological, hydrogeological, hydrological, sociological and biological factors, the landscape, air quality, infrastructures and their uses, the sound environment), description of the project, a study of the effects of the project on the environment (direct, indirect, cumulative, short, medium and long term, permanent and temporary, positive and negative, effects of the activity or project on the environment with corrective measures and without, and both in the construction and exploitation phases), preventive and/or corrective measures and the budget to implement them, among other topics.
- Restauration plan: In the event that impacts cannot be avoided, the assessment must include measures to minimize their effects and compensate for the impacts. The restoration plan describes all the preventive and corrective measures identified in the impact assessment, including the restoration project when relevant.
- Surveillance plan: it establishes the modalities of control and the effectiveness of the preventive and corrective measures.

Of note, detailed information on EIA is publicly available²⁴, including a manual and a technical guide detailing the content of the environmental impact assessment, and the restoration and monitoring plans. There is a supplement to the guide that further specifies the methodology to be followed for the initial sound state and the assessment of the noise impact of an activity or project.

In accordance with the sectoral regulations²⁵, certain projects are subject to public information after the issuing of the preliminary environmental impact report by the ministry responsible for the environment. This part of the environmental impact assessment procedure begins with the publication in Andorra's Official Journal (BOPA) of the edict submitting the

²² For further details of Andorra's Environmental Impact Assessment procedures, please check the Andorra's Environmental Impact Assessment Guidelines: https://www.mediambient.ad/images/stories/PDF/temes-interes/publicacions/Pub_ManualAIA.pdf

²³ The components of the EIA are presented in this webpage: <https://www.mediambient.ad/contingut-avaluacio-impacte-ambiental>

²⁴ on the Environment page of the Andorran Government: <https://www.mediambient.ad/publicacions>

²⁵ <https://www.mediambient.ad/normativa-impacte-ambiental>

project to public information. Once the edict is published, interested citizens can go to consult it at the communal administration of the municipality where the project is located or at the government, at its promoter. If citizens deem it appropriate, they can enter the allegations they deem pertinent by means of a request to the communal administration or to the government.

The EIA are carried out by external companies. These companies and those which undertake environmental surveillance management tasks are subject to the requirements and provisions that are determined by Andorra's regulations.

Monitoring and control of the project's compliance with regulations is ensured throughout the life of the operation. During the construction phase, the construction general managers have the obligation to designate an engineer responsible for environmental monitoring. The authors of the EIA are also responsible to ensure that the measures outlined in their assessment are respected. There are weekly revisions lead by environmental direction, during the monitoring of the work, of which a record is kept in the construction workbook.

In the case of problems or complaints, environmental inspectors take action. They open an investigation, write a detailed report and give fines. Complaints can be made by any citizen, through a form or by submitting photos, and the process and summary of complaints is publicly disclosed on Andorra's website²⁶. In the event of a complaint, the official inspectors act.

Social risks

Andorra's legislation covers topics related the health and safety and prevention and respect of human and labour rights in the workplace.

Health and Safety

The Andorra's Law 34/2008²⁷ covers the relevant aspects in terms of health and safety in the workplace. This law aims to ensure the safety and health of workers and details the obligations of companies both to adopt the necessary measures for the protection and prevention of risks, as well as for adaptation to change and for the integration of preventive activity. This law regulates the measures that companies must comply with, preventive controls, mandatory training for employees. In Health and safety in the workplace, security plans that companies must have, among others. All the companies hired by the Public Administration must ensure compliance with law. The Labour Inspection Service, according to the procedures included in the laws, based on inspections or complaints, ensures the labour law enforcement. Inspections lead to record-taking for each inspection and may lead to the initiation of disciplinary proceedings. Police services intervene in case of work accidents, preparing the corresponding reports which are sent to the Police Service, for the purpose of being sent to the respective Court.

Human and Labour Rights

Other laws regulate relevant social topics to prevent the violations of Human and Labour Rights in the workplace. Working conditions such as minimum age, maximum working hours, salary base, among others, are regulated to prevent child labour or modern slavery. Freedom of association and other rules related to collective bargaining are regulated by law²⁸. Labour Inspection Service oversees that companies respect these laws.

Responsible treatment with beneficiaries and vulnerable population

For these Social Expenditures with direct beneficiaries, according to article 17 of the Law of social services, primary care social services inform the population about the different resources of the Andorran protection system. Andorra's Government may use different channels to communicate the programmes and benefits to the target population (different government websites, press releases, publication on social networks, among other).

In case of beneficiaries identify a problem or have a complaint, they have 2 options: (i) Appeals: every person has the right to appeal any resolution issued by the ministry. The appeal is processed by the Legal Department of the Government of Andorra. If the appellants don't agree with the resolution of the appeal, they can access the judicial sphere, including the High Court, the Constitutional Court and the international courts. (ii) Complaint: the right to complaint is granted by the principle of compulsory response through the different ministries. The complaint can be presented in person or by electronic mechanisms, and through the institution of the Ombudsman.

Security standards and access to basic services in Affordable Housing

The Ministry has a portfolio of economic and technical support measures in order to cover the expenditures linked to housing and its basic equipment. In addition, the Ministry has professional teams located on the territory who work closely with the citizens, in order to identify and adopt actions against the lack of basic services. Moreover, according to the Andorran law, it

²⁶ <https://www.mediambient.ad/denuncies-inspeccio>

²⁷ <https://www.bopa.ad/bopa/021004/Pagines/58872.aspx>

²⁸ https://www.bopa.ad/bopa/031003/Pagines/CGL20190107_12_46_51.aspx, https://www.bopa.ad/bopa/031003/Pagines/CGL20190107_12_48_05.aspx

is not permitted to turn off the utilities without previous request to the social services. Furthermore, it is forbidden to turn off utilities during the winter period and when there are low temperatures.

Public tenders

The criteria of the public tendering process are based on the best quality-price ratio. The quality criteria established by the contracting body to evaluate the best quality-price ratio may include environmental or social aspects linked to the object of the contract. Quality criteria include technical value, aesthetic and functional characteristics, accessibility for all users, social, environmental, and innovative characteristics, and commercialisation and its conditions. Regarding the environment, priority is given to all elements that mitigate the causes of climate change and to the use of renewable energies, in line with the sustainable development objectives of the United Nations. The impact that the service covered by the contract may have on the environment, as well as the measures proposed to correct this impact, are also elements taken into consideration. Regarding social measures, priority is given to measures that integrate people with disabilities and other vulnerable groups.

In addition, the Public Administration promotes, through contract clauses, the social integration and employment of women; of people with disabilities, by means of contracting or subcontracting companies that aim for the social and labour inclusion of people with disabilities or self-employed people with disabilities; of people in the most vulnerable groups; and of people in a situation or at risk of social exclusion. They also promote measures and plans for equality between men and women, including measures to promote the reconciliation of personal, family and working lives of working people. These requirements/clauses are included in the administrative clauses and technical specifications of public contract tenders and are evaluated by the contracting committee in accordance with the criteria established in the specifications. The contracting bodies verify the fulfilment of these requirements by means of monitoring reports and validating the certificates or invoices.

Of note, the Government of Andorra is planning to approve a new public procurement law during the first half of 2021, to come into application in 2022, which would include the international commitments promoted by the United Nations in terms of sustainable, innovative and inclusive development. Currently, these measures are included in the administrative clauses and technical specifications that govern tenders for public contracts for Eligible Expenditures.

Ethics

In accordance with the provisions of the Andorra's Public Procurement Law²⁹, a due diligence is carried out to identify whether the bidders or economic operators who want to contract with the Public Administration are entitled to be contracted. In this sense, it is verified that they are not involved in any of the cases of contract prohibition, and that they are legally authorized to carry out the activity that is the object of the contract, while assuring their economic and financial solvency to execute the contract.

In addition, there are legal provisions that prohibit companies that have been repeatedly warned or fined at the administrative level or firmly condemned for some of the crimes mentioned to prevent them from re-contracting with the administration.

The Civil Service Law of 15 December 2000 defined the guiding principles of the civil service system, which are required in the behavior of the Administration and its staff: efficiency, professionalism, neutrality and fairness. Andorra's Government has established a Code of Conduct and Professional Ethics that aims to be a collection of rules already existing in current legislation with the intention of ratify the Criminal and Civil Conventions on Corruption and guidelines from the Council of Europe. Failure to comply with the provisions of the Code of Conduct is classified as conduct punishable in the Civil Service Act shall be through the sanctioning regime established. The Ministry of Civil Service and Simplification of Administration oversees the compliance with the Code. Violations to the Code must be made at the police station and the identity of the reporter might be protected when relevant.

²⁹ <https://www.bopa.ad/bopa/012075/Pagines/1F9DA.aspx>

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 International Capital Market Association's (ICMA) Green Bond Principles - June 2018 ("GBP") and/or the Social Bond Principles - June 2020 ("SBP"), 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;³⁰
- 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.

³⁰ 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.

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 | |
|---|--|---|---|
| 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. | 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. |
| 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. | 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. |
| 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 advanced expected impact combined with a weak level of assurance of E&S risk management. | 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. |
| 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. | 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 Bonds, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer/Borrower's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer/Borrower. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer/Borrower. The Issuer/Borrower 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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