

SECOND PARTY OPINION

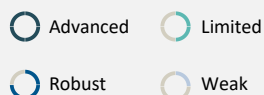
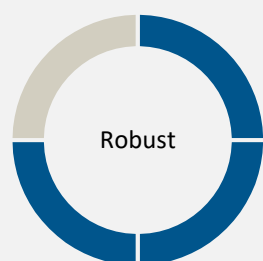
on the sustainability of the European Commission's
NextGenerationEU (NGEU) Green Bond Framework

V.E considers the European Commission's NGEU Green Bond Framework to be aligned
with the four core components the ICMA's Green Bond Principles 2021 ("GBP").



Framework

Contribution to Sustainability:



SDG Mapping



	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

Characteristics of the Framework

Eligible Expenditures Categories	<ul style="list-style-type: none"> Research and innovation activities supporting the green transition Digital technologies supporting the green transition Energy efficiency Clean energy and network Climate change adaptation Water & waste management Clean transport & infrastructure Nature protection, rehabilitation and biodiversity Other
Project locations	European Union Member States
Existence of framework	Yes
Share of refinancing	Up to 100%
Look back period	February 2020 Could be longer than 24 months for future issuances due to the nature of the RRF.

Coherence

Coherent

Partially coherent

Not coherent

V.E considers the European Commission's NGEU Green Bond Framework to be coherent with the European Union's strategic sustainability priorities, and that it contributes to achieving its environmental commitments, objectives and targets.

Key findings

V.E considers the European Commission's NGEU Green Bond Framework to be aligned with the four core components of the GBP 2021.

Use of Proceeds – is 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 Green Expenditures.
- The Environmental objectives are clearly defined, relevant, and set in coherence with sustainability objectives defined in international standards for all the Eligible Categories.
- The expected Environmental Benefits are clear, relevant, measurable and will be quantified for all Eligible Green Expenditures in the reporting.
- The Issuer has communicated that up to 100% of the green bond proceeds will be used for refinancing given the nature of the Recovery and Resilience Facility (RRF). The Issuer has committed to report on the refinancing share of each issuance in the reporting. The Issuer will finance investments that have started after February 2020, which clearly determines the lookback period.

Evaluation and Selection – is aligned with the GBP

- The Process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer. The process is considered well-structured for all the evaluation and selection steps. The roles and responsibilities are clear and include relevant internal expertise. The process will be publicly disclosed in the NGEU Green Bond Framework.
- Eligibility criteria (selection and exclusion) have been clearly defined and detailed by the Issuer for all the Eligible Categories.
- The Environmental and Social risks identification and mitigation process is publicly disclosed in this SPO and is considered advanced, it combines monitoring, identification, corrective and preventive measures (see detailed analysis from p. 28).

Management of Proceeds – is aligned with the GBP and best practices identified by V.E

- The process for the Management and Allocation of Proceeds is clearly defined and detailed by the Issuer. This information is publicly available in the NGEU Green Bond Framework.
- The allocation period will be 24 months or less. In some cases, it may be longer than 24 months given the nature Recovery and Resilience Facility, which can finance Recovery and Resilience Plans of Member States until 2026.
- Net proceeds of the Bonds 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.
- For as long as the Bond is outstanding, the Issuer has committed to periodically adjust the balance of the tracked net proceeds to match allocations to eligible green expenditures made during that period.
- The Issuer has provided information on the procedure that will be applied in case of either project postponement, cancelation, divestment or ineligibility. The Issuer has committed to reallocate divested proceeds to projects that comply with the Framework within 24 months.

Reporting – is aligned with the GBP and best practices identified by V.E

- The Issuer has committed to report on the Use of Proceeds on an annual basis and until full allocation, and on a timely basis in case of material developments. The Issuer's environmental impact reports will be published annually – starting two-to-three years after the first issuance, and ending 2028 at the earliest. Bi-annual reports by Member States will be publicly disclosing information on the achievement of milestones and targets related to environmental benefits until full allocation. The reports will be publicly available in the Commission's website until maturity of the NGEU green bond instruments.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainability benefits of the categories. The Issuer has also committed to report on material developments related to the Eligible Green Expenditures.

- The reporting methodology and assumptions included in the EU's Common Performance Indicator Delegated Act, which are used to report on sustainability benefits of the Eligible Green Expenditures, will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Green Expenditures until full allocation and in case of material changes. For the environmental benefit indicators at the Commission level, an inter-service working group will be established, with experts from several directorates to help with the shaping of quality impact reporting. In addition, the Commission will engage independent external experts to review the Commission's impact reporting.

Contact

Sustainable Finance Team | VEsustainablefinance@vigeo-eiris.com

SCOPE

V.E was commissioned to provide an independent Second Party Opinion (“SPO”) on the sustainability credentials and management of the Green Bonds¹ (“Bonds”) to be issued by the European Commission (the “Issuer” or “Commission”) in compliance with the NextGenerationEU 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 voluntary guidelines of ICMA’s Green Bond Principles (“GBP”) – edited in June 2021.

Our opinion is built on the review of the following components²:

- Framework: we assessed the NGEU Green Bond 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 2021.

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 12 May 2021 to 24 August 2021. We consider that we were provided access to all documents and interviewees we solicited. To this purpose, we made reasonable efforts to verify the accuracy of all data used as part of the assessment.

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.

² The Issuer is not part of our ESG performance rating universe.

COHERENCE

Coherent
Partially coherent
Not coherent

V.E considers the European Commission's NGEU Green Bond Framework to be coherent with the European Union's strategic sustainability priorities, and that it contributes to achieving its environmental commitments, objectives 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, regional and global leadership are key to mobilise national governments to achieve sustainable development goals through the promotion and integration of sustainability in policies, budgets, institutions and regulatory frameworks.

The European Commission acknowledges its mission in facing the aforementioned challenges by ratifying and implementing relevant international and regional agreements, and by formalising significant environmental commitments, policies and action plans, which in some cases have quantitative targets:

- The EU is a signatory of the United Nations Framework Convention on Climate Change (UNFCCC) since 1992³ and the Kyoto Protocol since 1998⁴. In December 2020, the EU submitted and updated First Nationally Determined Contribution (NDC)⁵ on behalf of Member States.
- The EU signed the Paris agreement of 2016⁶ and it has committed to Agenda 2030 by integrating the UN Sustainable Development Goals in its work and policies.
- The Commission's 2019-2024 action plan⁷ comprises six priorities that promote sustainable development, including the European Green Deal⁸ action plan created in 2019, which sets the target to make Europe carbon neutral and resource efficient by 2050, in line with the Paris Agreement. Among the main components of the European Green Deal action plan is the European Green Deal Investment Plan⁹ aimed at mobilising €1 trillion of sustainable investment during the next decade. This is to ensure a just and fair transition for regions and workers affected by the green transition, a circular economy action plan and a biodiversity strategy.
- In March 2018, the Commission put forward the action plan on Financing Sustainable Growth¹⁰ to steer private sector investment towards environmentally sustainable projects – thereby promoting the transition towards a low carbon economy under the European Green Deal and helping achieve carbon neutrality by 2050. This plan involves establishing an EU classification system for sustainable activities, that is, the EU Taxonomy regulation, which came into effect in June 2020¹¹, and the establishment of the voluntary EU Green Bond Standard, adopted and published by the Commission in July 2021.
- In March 2020, under the European Green Deal, the Commission proposed the first European Climate Law¹², which aims to write into law the 2050 climate-neutrality target. The European Parliament and the Council of the EU ("The Council") have adopted the regulation in 2021.

³ https://treaties.un.org/pages/ViewDetailsIII.aspx?src=TREATY&mtidsg_no=XXVII-7&chapter=27&Temp=mtidsg3&clang=en

⁴ <https://unfccc.int/node/61063>

⁵ https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/European%20Union%20First/EU_NDC_Submission_December%202020.pdf

⁶ <https://unfccc.int/node/61063>

⁷ https://europa.eu/european-union/about-eu/priorities_en

⁸ https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

⁹ https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24

¹⁰ https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en

¹¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088. https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

¹² COM/2020/80 final

- In September 2020, under the European Green Deal, the Commission proposed to raise the 2030 GHG emission reduction target to at least 55% – compared to 1990 levels. Current EU targets to support the achievement of climate neutrality include at least 40% cuts in GHG emissions (from 1990 levels); at least 32% share for renewable energy; at least 32.5% improvement in energy efficiency. In July 2021 the Commission adopted the 'Fit for 55'¹³ package proposals updating these climate targets with a view to implement the proposed net greenhouse gas emissions reduction target of at least 55%.

Furthermore, the EU's long-term ambition to achieve climate neutrality by 2050 is reflected in the financing of climate action across the entire EU budget. In July 2020 the European Council approved a target of at least 30% of the total amount of the next long-term EU budget (2021-2027)¹⁴ and NGEU expenditures supporting climate objectives.

The European Commission proposed the NGEU in May 2020, which is a recovery instrument to respond to the challenges from COVID-19. NGEU provides close to €807 billion (current prices) of reforms and investments, in part through the Recovery and Resilience Facility (RRF)¹⁵, which is considered the centrepiece of the recovery instrument, with €723.8 billion (current prices) in loans and grants available to support reforms and investments undertaken by EU countries¹⁶. The Commission targets to raise 30% of the RRF programme through green bonds, which are the object of this SPO. This is in line with the Commission's efforts to reorient capital flows to sustainable investments and support the EU's climate neutrality. Moreover, to access the Funds under the RRF, Member States submitted their Recovery and Resilience Plans (RRPs) to the Commission and are required to allocate at least 37% of each RRP towards climate relevant reforms or investments to be implemented until 2026.

V.E is of the opinion that the European Commission's NGEU Green Framework to issue bonds that will finance and refinance Eligible Green Expenditures, coherently aligns with the Issuer's strategic sustainability priorities. The Framework also contributes to the achievement of the European Union's environmental commitments and goals and addresses the main challenges in terms of climate action and environmental issues at a regional and global level.

¹³ https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3541

¹⁴ <https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>

¹⁵ Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17

¹⁶ https://ec.europa.eu/info/strategy/recovery-plan-europe_en#nextgenerationeu

FRAMEWORK

The European Commission has described the main characteristics of the Bonds within a formalised NextGenerationEU Green Bond Framework (the last updated version was provided to V.E on August 19, 2021) that covers the four core components of the GBP 2021. The Issuer has committed to make this document publicly accessible on the European Commission's 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, projects falling under nine Eligible Green Expenditure Categories ("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 Green Expenditures.
- The Environmental objectives are clearly defined, relevant, and set in coherence with sustainability objectives defined in international standards for all the Eligible Categories.
- The expected Environmental Benefits are clear, relevant, measurable and will be quantified for all Eligible Green Expenditures in the reporting.
- The Issuer has communicated that up to 100% of the green bond proceeds will be used for refinancing given the nature of the Recovery and Resilience Facility (RRF). The Issuer has committed to report on the refinancing share of each issuance in the reporting. The Issuer will finance investments that have started after February 2020, which clearly determines the lookback period.

NGEU Green Bonds will finance the green investments and reforms from February 2020 until 2026, included in the Member States' RRP. Of note, the look-back period of future NGEU Green Bonds issuances could be longer than 24 months as disbursements are linked to milestones and targets achieved and Member States disbursement requests.

Green Eligible Investments in the Recovery and Resilience Plans

Member States are required to allocate at least 37% of each RRP towards climate relevant reforms or investments. In the RRP, Member States will provide details on how the planned reforms and investments are consistent with their national energy and climate plans, how they contribute to the green transition, and to what extent the plan will help the 2030 climate target and the 2050 climate neutrality target.

RRPs are structured around several components that list the respective reforms and investments as one broad investment field (e.g. climate mitigation measures). Investments and reforms themselves consist of groups or portfolios of individual projects related to the same economic activities (e.g. a renovation wave for public buildings) and indicate the expected costs at reform/investment. Each reform and investment are linked to qualitative milestones and quantitative targets, which must be fulfilled to receive funding. Member States can make payment requests to the Commission to finance the investments in their RRP up to twice per year. The proceeds of the bond are then disbursed to the Member States in response to payment requests, following the fulfilment of milestones and targets.

Of note, only intervention fields receiving a climate coefficient of 40% or 100% are eligible, as defined in Annex VI of the Recovery and Resilience Facility regulation¹⁷ and included in Annex of the NGEU Green Bond Framework (for details on the methodology please refer to sub-section 'Eligibility Criteria' under Evaluation and Selection p.17 of this SPO). It is important

¹⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R0241>

to note that although the climate coefficients under the RRF follow aspects of the upcoming EU Taxonomy technical screening criteria, the NGEU Green Bond Framework is based on the ICMA's Green Bond Principles.

Of note, the RRFs provide an ex-ante estimate of the costs of the green eligible investments.

BEST PRACTICES

⇒ The issuer has transparently communicated the estimated share of refinancing at bond level (up to 100%)

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

- Nature of expenditures: Expenditures in the Recovery and Resilience Plans, including CAPEX, OPEX, subsidies, and tax credits, that fulfil the climate coefficients.
- Location of Eligible Projects: European Union Member States

ELIGIBLE GREEN EXPENDITURES	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Research and innovation activities supporting the green transition	<p>Research and innovation processes, technology transfer and cooperation between enterprises focusing on the low carbon or circular economy, resilience and adaptation to climate change.</p> <p>The category is comprised of the following intervention fields in Annex VI of the RRF regulation: 022; 023.</p> <p>Examples of eligible expenditures:</p> <ul style="list-style-type: none"> - Funding of expert group to prepare proposals for CO2 tax in Denmark. - Strategic plan to boost vocational training that contributes to the reskilling and Upskilling to green transition in Spain. 	<p><u>All EU environmental objectives, in particular:</u></p> <p>Climate change mitigation</p> <p>Climate change adaptation</p> <p>Transition to a circular economy, waste prevention and recycling</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature, the eligibility criteria, and location of Eligible Green Expenditures.</p> <p>The Environmental Objectives are clearly defined, relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, relevant, measurable, and will be quantified in the reporting.</p>
Digital technologies supporting the green transition	<p>Digitalisation or ICT infrastructure leading to reduction in GHG emissions.</p> <p>The category is comprised of the following intervention fields in Annex VI of the RRF regulation: 010ter, 011bis, and 055bis.</p> <p>Examples of eligible expenditures:</p> <ul style="list-style-type: none"> - Grant programme for upgrading SME's network infrastructure, resulting in GHG emission reductions. - Upgrade of Cloud-computing infrastructure and services of the National Infrastructures for Research and Technology in Greece (GRNET). 	<p><u>Climate change mitigation</u></p> <p>GHG emissions avoidance or reduction</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature, the eligibility criteria, and location of Eligible Green Expenditures. V.E confirms that intervention fields 010ter, 011bis, and 055bis in Annex VI of the RRF regulation are in line with the technical screening criteria of the EU taxonomy¹⁸.</p> <p>The Environmental Objective is clearly defined, relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, relevant, measurable, and will be quantified in the reporting.</p>

¹⁸ https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#taxonomy

ELIGIBLE GREEN EXPENDITURES	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Energy efficiency	<p>Energy efficiency construction, improvements and renovation.</p> <p>The category is comprised of the following intervention fields in Annex VI of the RRF regulation: 024; 024bis; 024ter; 025; 025bis; 025ter; 026; 026bis.</p> <p>Examples of eligible expenditures:</p> <ul style="list-style-type: none"> - The improvement of energy efficiency in museums and theatres in Italy. - Energy efficiency renovations on residential housing in Greece. - Renovations of public buildings in Latvia in compliance with minimum energy use reductions. - Support of the installation of storage systems to enhance RES penetration in Greece. 	<p><u>Climate change mitigation</u></p> <p>GHG emissions 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 Green Expenditures. V.E confirms that intervention fields 024ter, 025bis, 025ter, 026bis and 33 in Annex VI of the RRF regulation are in line with the technical screening criteria of the EU Taxonomy. The rest of the intervention fields falling in this category are considered in line with ICMA's Green Project definitions.</p> <p>The Environmental Objective is clearly defined, relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, relevant, measurable, and will be quantified in the reporting.</p>
Clean energy and network	<p>Low or zero-emission energy generation (wind, solar, marine, biomass, other).</p> <p>The category is comprised of the following intervention fields in Annex VI of the RRF regulation: 028; 029; 030; 030bis; 031; 032; 033; 034; 034bis.</p> <p>Examples of eligible expenditures:</p> <ul style="list-style-type: none"> - Agri-solar park or investments in smart-energy grids in Italy. - High-efficiency co-generation project in Slovenia 	<p><u>Climate change mitigation</u></p> <p>GHG emissions avoidance</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature, the eligibility criteria, and location of Eligible Green Expenditures. V.E confirms that intervention fields 28, 29, 030bis, 31, and 034bis in Annex VI of the RRF regulation are in line with the technical screening criteria of the EU Taxonomy. The rest of the intervention fields falling in this category are considered in line with ICMA's Green Project definitions.</p> <p>The Environmental Objective is clearly defined, relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefit is clear, relevant, measurable, and will be quantified in the reporting.</p>
Climate change adaptation	<p>Adaptation to and prevention of risks of climate change, e.g. storms, drought, fires, etc.</p> <p>The category is comprised of the following intervention fields in Annex VI of the RRF regulation: 035; 036; 037; 138.</p> <p>Examples of eligible expenditures:</p> <ul style="list-style-type: none"> - Flood and/or wildfire training programmes. 	<p><u>Climate change adaptation</u></p> <p>Increased protection from the effects of climate change</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature, the eligibility criteria, and location of Eligible Green Expenditures.</p> <p>The Environmental Objective is clearly defined, relevant and set in coherence with sustainability objectives defined in international standards.</p>

ELIGIBLE GREEN EXPENDITURES	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
			The expected Environmental Benefit is clear, relevant, measurable, and will be quantified in the reporting.
Water supply & waste management	<p>Provisioning of clean water and environmental and water protection through appropriate wastewater and waste prevention, minimisation, sorting, reuse and recycling measures. Use of recycled raw materials.</p> <p>Rehabilitation of industrial sites.</p> <p>The category is comprised of the following fields in Annex VI of the RRF regulation: 039; 039bis; 040; 041; 041bis; 042; 042bis; 044; 045bis; 046bis.</p> <p>Examples of eligible expenditures:</p> <ul style="list-style-type: none"> - Treatment of wastewater project. - The construction and retrofitting of sorting facilities. 	<p><u>Sustainable use and protection of water and marine resources</u></p> <p>Increase in water savings</p> <p>Increase in access to clean water</p> <p>Increase in treatment of wastewater</p> <p><u>Transition to a circular economy, waste prevention and recycling</u></p> <p>Increase in reuse and recycling</p> <p>Waste prevention</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature, the eligibility criteria, and location of Eligible Expenditures. V.E confirms that intervention fields 039bis, 041bis, 045bis and 046bis in Annex VI of the RRF regulation are in line with the technical screening criteria of the EU Taxonomy. The rest of the intervention fields falling in this category are considered in line with ICMA's Green Project definitions. The Issuer has declared that these intervention fields only include household and some commercial or industrial waste management as well as recycling, i.e. prevention, minimisation, sorting, reuse and recycling measures. Waste treatment activities such as incineration and landfills are excluded.</p> <p>The Environmental Objectives are clearly defined, relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefits are clear, relevant, measurable, and will be quantified in the reporting.</p>
Clean transport & infrastructure	<p>Investing in low carbon transportation or in public transportation systems and infrastructure to significantly reduce the carbon emission of transportation systems.</p> <p>E.g. railway reconstruction or modernisation, Clean/zero-emission transport, clean transport infrastructure, alternative fuel infrastructure.</p> <p>The category is comprised of the following intervention fields in Annex VI of the RRF regulation: 063bis; 064; 065; 066; 066bis; 067; 068; 069; 069bis; 070; 071; 072; 072bis; 073; 074; 075; 076bis; 077; 078; 079; 080bis; 082bis; 084bis.</p> <p>Examples of eligible expenditures:</p> <ul style="list-style-type: none"> - Recharging points for electric vehicles. - Zero-emission buses. 	<p><u>Climate change mitigation</u></p> <p>GHG emissions avoidance</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the nature, the eligibility criteria, and location of Eligible Green Expenditures. V.E confirms that intervention fields 066bis and 069bis in Annex VI of the RRF regulation are in line with the technical screening criteria of the EU Taxonomy. The rest of the intervention fields falling in this category are considered in line with ICMA's Green Project definitions.</p> <ul style="list-style-type: none"> - Not-zero emissions railway will receive a lower climate coefficient. - For cars, only zero-emission vehicles will be eligible. - For the expenditures related to alternative fuel infrastructure, the objective of the measure has to be in line with Directive (EU) 2018/2001.

ELIGIBLE GREEN EXPENDITURES	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
			<p>- Expenditures supporting inter-modality must follow the TEN-T regulation. The main characteristic of the TEN-T regulation and the network is full electrification for rail transport.</p> <p>- For bi-mode trains the Issuer has declared in internal documentation that the intervention field requires that the trains and wagons have zero direct tailpipe CO2 emissions when operated on a track with necessary infrastructure, and that they will only use a conventional engine where such infrastructure is not available.</p> <p>The Environmental Objective is clearly defined, relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefit is clear, relevant, measurable, and will be quantified in the reporting.</p>
Nature protection, rehabilitation and biodiversity	<p>Green infrastructure, protection of Natura 2000 sites.</p> <p>The category is comprised of the following intervention fields in Annex VI of the RRF regulation: 049; 050.</p> <p>Examples of eligible expenditures:</p> <ul style="list-style-type: none"> - Waste land recycling projects in France. - Large-scale remediation of the 10 most complex contaminated sites in Denmark. 	<p><u>The protection and restoration of biodiversity and ecosystems</u></p> <p>Increase in the surface of land or species under protection</p> <p>Improvement in air quality</p>	<p>The Eligible Category is clearly defined. The Issuer has communicated the eligibility criteria and location of Eligible Green Expenditures. The rest of the intervention fields falling in this category are considered in line with ICMA's Green Project definitions.</p> <p>The Environmental Objective is clearly defined, relevant and set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefit is clear, relevant, measurable, and will be quantified in the reporting.</p>
Other	<p>The category largely contains enabling activities, which serve to support the green transition and measures under other categories and to indirectly lead to GHG emission reductions and/or adaptation measures, such as support to environmentally friendly production processes or contributing to green skills and jobs and the green economy.</p> <p>Air quality and noise reduction is included in addition.</p> <p>The category is comprised of the following intervention fields in Annex VI of the RRF regulation: 027; 047; 047bis; 048; 01.</p> <p>Examples of eligible expenditures:</p> <ul style="list-style-type: none"> - Plan to support the re-skilling and employability of workers and people affected by the energy transition in Spain. 	<p><u>Climate Change Mitigation and Adaptation</u></p> <p>(indirect)</p>	<p>The Eligible Category is defined in general terms. Nevertheless, the review and selection process of Eligible Expenditures conducted by the Issuer requires expenditures to demonstrate their potential environmental benefits, providing assurance on their eligibility as green projects. An area for improvement consists in providing further details for the intervention fields 047, 047bis and 01.</p> <p>The Environmental Objective and Benefits have been generally defined. The Issuer has declared that expenditures are meant to support the fight against climate change and the Issuer has committed to report on the benefits of the expenditures falling into this category. As described, the category contains mainly</p>

ELIGIBLE GREEN EXPENDITURES	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
			enabling activities, and thus the environmental objectives and benefits are indirect.

SDG Contribution

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

ELIGIBLE GREEN EXPENDITURE CATEGORIES	SDG	SDG TARGETS
Water supply & Waste management Nature protection, rehabilitation and biodiversity	 6 Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimising 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.
Clean Energy and Network	 7 Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
Energy efficiency Other		7.3 By 2030, double the global rate of improvement in energy efficiency.
Research and innovation activities supporting the green transition Digital technologies supporting the green transition Other	 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. 8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead.
Energy Efficiency Clean transport & Infrastructure Digital technologies supporting the green transition	 9 Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.
Research and innovation activities supporting the green transition Energy Efficiency Clean transport & Infrastructure Water supply & Waste management Climate Change Adaptation	 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.

ELIGIBLE GREEN EXPENDITURE CATEGORIES	SDG	SDG TARGETS
Research and innovation activities supporting the green transition Water supply & Waste management	 12 Responsible Production and Consumption	12.2 By 2030, achieve the sustainable management and efficient use of natural resources. 12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment. 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Other		12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle
Energy efficiency Clean Energy and Network Clean transport & Infrastructure Climate change adaptation Other	 13 Climate Action	UN SDG 13 consists of taking urgent action to combat climate change and its impacts. The European Union can contribute to this goal by investing in climate expenditures of its Member States which in turn will support a green transition and the achievement of the EU's 2030 climate and energy targets, as well as climate neutrality by 2050 and other environmental goals. 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.
Water supply & Waste management Nature protection, rehabilitation and biodiversity	 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
Nature protection, rehabilitation and biodiversity	 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. 15.3 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. 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 Green Expenditures



- The Process for Project Evaluation and Selection has been clearly defined and detailed by the Issuer. The process is considered well-structured for all the evaluation and selection steps. The roles and responsibilities are clear and include relevant internal expertise. The process will be publicly disclosed in the NGEU Green Bond Framework.
- Eligibility criteria (selection and exclusion) have been clearly defined and detailed by the Issuer for all the Eligible Categories.
- The Environmental and Social risks identification and mitigation process is publicly disclosed in this SPO and is considered advanced, it combines monitoring, identification, corrective and preventive measures (see detailed analysis from p. 28).

Process for Expenditure Evaluation and Selection

NGEU Bonds will finance green investments and reforms in the Member States' recovery and resilience plans (RRPs) which were submitted to the European Commission for approval in April 2021.

- For the purpose of the Green Bonds, the European Commission is responsible for:
 - Assessing the RRP of Member States to identify the Eligible Green Expenditures to be included in the Green Bonds in accordance with the selection criteria established in NGEU Green Bond Framework. The European Commission will check and confirm that at least 37% of the RRP's expenditures contribute to the EU's climate objectives. The Commission will also ensure the compliance of RRP with the Do Not Significant Harm (DNSH) principle.
 - The Commission may accept or reject a plan that does not fulfil the criteria established in the Framework and may request changes to Member States on their RRP to meet the criteria. The Commission can also request changes to milestones and targets during the approval process. Therefore, the Commission has a direct impact on the selection and approval of investments.
 - After the assessment by the Commission, RRP is sent to the European Council for approval and are adopted as Council Implementing Decisions.
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
 - The European Commission and Member States are responsible for monitoring the Eligible Green Expenditures and checking for compliance with the eligibility criteria until the full allocation of funds. The Commission verifies the appropriateness of the assignment of every climate coefficient during the approval process of national RRP. Milestones and/or targets relating to the implementation of 'green' measures are included, where necessary, to ensure that climate coefficient requirements are applied and thereby green bond eligibility is justified.
 - The European Commission can audit all the information in Member State's RRP. The Commission has stated that not all items will be audited, rather that they will conduct spot checks. In addition, Member State authorities are responsible for monitoring the implementation of the respective investments. The Commission will replace Eligible Green Expenditures which no longer meet the eligibility criteria or where irregularities are found.
 - The assessments of the RRP by the Commission will be confirmed by the Council.
 - The European Court of Audit (ECA) has already announced an audit the RRF approval process, although the scope of the audit is unclear. The European Parliament and the Council will scrutinise the implementation of the RRF by the Commission, including payments and their link to performance.
 - The European Commission will not actively monitor ESG controversies related to the RRP, but it will react if a controversy is brought to its attention. In case a controversy concerning an Eligible Green Expenditure is brought to the Commission's attention or is subject to legal sanctions, the Committee will deliberate on the course of action (status quo, monitoring or exclusion).

- The traceability of the decisions is formalised and documented in the implementing act by the European Council which details the assessment of each RRP. Information on the selection of investments and reforms are documented in the RRP which are publicly available.

Eligibility Criteria

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

The Commission evaluates each RRP based on 11 assessment criteria, structured around four dimensions: relevance, effectiveness, efficiency and coherence (for more details please refer to section 2.1 The Recovery and Resilience Facility of the Framework). The Commission will not positively assess an RRP if it considers that the 11 assessment criteria have not been fulfilled to a satisfactory degree. Among the criteria's discussed with Member States, of particular interest for green bond issuances include: the fulfilment of the DNSH principle for every reform and investment; the plausibility and reasonability of cost estimates; the implementation of adequate control systems; the support to the green transition, including in terms of reaching the climate target, and applying appropriate climate coefficients to individual reforms and investments (see Annex). Furthermore, specific to the investments and reforms financed by the NGEU green bonds, the selection criteria are based on the definitions of Eligible Green Expenditures under sections "3.1 Use of Proceeds", "3.2 Process for expenditure evaluation and investment selection", and Annex 1 of the NGEU Green Bond Framework. The eligibility of expenditures is assessed against two main criteria:

1. Contribute to the climate mainstreaming target as assessed by the coefficients for climate relevance of a given project category as published and adopted in Annex VI of the Recovery and Resilience Facility Regulation¹⁹, thereby also contributing to the environmental objectives 1 and 2 of the EU Taxonomy Regulation (climate mitigation and climate adaptation). In particular, proceeds from Green Bond issued under the NGEU Green Bond Framework will only be used for investments or reforms that receive a 40% or 100% climate coefficient. Additionally, Member States may suggest a climate coefficient for reforms and investments not covered by existing climate coefficients which will be subject to a case-by-case assessment by the Commission.
2. Comply with the DNSH principle as defined in article 17 of the Taxonomy Regulation and explained in Commission notice C (2021) 1054 final.

Regarding the EU climate coefficient methodology used for selecting investments and reforms in RRP, the coefficients assign a 100%, 40% or 0% climate relevance to individual reforms and investments. A 100% climate coefficient is defined as "substantial contribution" when an activity's expected results make a substantial contribution to climate mitigation or adaptation objectives and/or comply with the Taxonomy technical screening criteria as incorporated in the EU climate coefficient. A 40% coefficient is defined as 'moderate contribution' and could be considered if an activity does not fully comply with the necessary conditions for the 100% coefficient but would still be expected to have a positive impact on climate mitigation or adaptation.

The exclusion criteria can be found under the Annex 1 of the framework, which lists multiple intervention fields assigned with a 0% climate coefficient, thereby acting as exclusion criteria given that eligibility is conditional to either a 40% or 100% climate coefficient. V.E considers that the exclusionary criteria are relevant, as they cover the main issues related to environmental responsibility, in line with good market practices.

BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of selected eligible green expenditures with eligibility and exclusion criteria specified in the Framework and has provided details on content, frequency and on procedure adopted in case of non-compliance.

¹⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R0241>

Management of Proceeds

Not Aligned	Partially Aligned	Aligned	Best Practices
<ul style="list-style-type: none"> • The process for the Management and Allocation of Proceeds is clearly defined and detailed by the Issuer. This information is publicly available in the NGEU Green Bond Framework. • The allocation period will be 24 months or less. In some cases, it may be longer than 24 months given the nature Recovery and Resilience Facility, which can finance Recovery and Resilience Plans of Members States until 2026. • Net proceeds of the Bonds 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. • For as long as the Bond is outstanding, the Issuer has committed to periodically adjust the balance of the tracked net proceeds to match allocations to eligible green expenditures made during that period. • The Issuer has provided information on the procedure that will be applied in case of either project postponement, cancelation, divestment or ineligibility. The Issuer has committed to reallocate divested proceeds to projects that comply with the Framework within 24 months. 			

Management Process

- Pending full allocation, the net proceeds of the Bonds will be credited to a general NGEU account held by the European Central Bank and will be managed in cash.
- The allocation period is linked to reaching the milestones and targets detailed in each Member State's RRP (except for 13% of pre-financing). While the allocation period is estimated to be no longer than 24 months for each issuance, the period could be longer if Member States delay reporting on green expenditures. All NGEU green bond proceeds will be allocated to expenditures incurred in the period between the inaugural Issuance and December 2026.
- The Commission will track the net proceeds of all bonds through its standard accounting system. Like all proceeds under the RRF, the Commission pays green bond proceeds into Member States' national budgets after milestones and targets have been met. National accounting systems therefore apply after payment.
- In addition, Member States must report the Green Eligible Investments to the Commission. The actual cost of the investments and reforms are in most cases initially financed by the Member States with national funds, while funds under the RRF are transferred from the Commission to the Member States following the fulfilment of milestones and targets, independently of the investments made by the Member States to achieve those milestones and targets. The Member States must report the expenditures they incur on investments with a positive climate coefficient to the Commission, so that the Commission can then match the proceeds of the Bonds to the actual Eligible Green Expenditures.
- The Commission commits to periodically adjust the balance of the tracked proceeds to match allocation to Eligible Green Expenditures by maintaining a buffer of green eligible investments bigger than the planned green bond issuances. The unallocated proceeds will be held in a cash account by the European Central Bank in accordance with its usual treasury investment strategy.

BEST PRACTICES

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

Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds on an annual basis and until full allocation, and on a timely basis in case of material developments. The Issuer's environmental impact reports will be published annually – starting two-to-three years after the first issuance, and ending 2028 at the earliest. Bi-annual reports by Member States will be publicly disclosing information on the achievement of milestones and targets related to environmental benefits until full allocation. The reports will be publicly available in the Commission's website until maturity of the NGEU green bond instruments.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainability benefits of the categories. The Issuer has also committed to report on material developments related to the Eligible Green Expenditures.
- The reporting methodology and assumptions included in the EU's Common Performance Indicator Delegated Act, which are used to report on sustainability benefits of the Eligible Green Expenditures, will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Green Expenditures until full allocation and in case of material changes. For the environmental benefit indicators at the Commission level, an inter-service working group will be established, with experts from several directorates to help with the shaping of quality impact reporting. In addition, the Commission will engage independent external experts to review the Commission's impact reporting.

Indicators

Member States will be reporting to the Commission at Intervention field level based on their RRFs and the Commission will consolidate the information and report on it 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.

Due to the structure of the RRF, there are two steps in the allocation reporting:

1. The reporting of the Commission on the payments made to Member States linked to the achievement of milestones and targets. This reporting will be provided by the Commission each year. In addition, the reporting from Member States to the Commission based on the milestones and targets that they have achieved, in order to receive disbursements. This reporting occurs twice a year and will be publicly disclosed.
2. The reporting of the Commission on the NGEU Green Bonds, through the green expenditures incurred by Member States. With each payment request, Member States are required to report to the Commission the total cumulative expenditure disbursed for the implementation of each reform and investment assigned a positive climate marker. The Commission will use this information to match the proceeds of the NGEU green bonds with the concrete expenditure for climate relevant investments. This reporting will be provided in a consolidated form by Eligible Category and will be publicly available.

REPORTING INDICATORS

- ⇒ Allocation of the green bond proceeds to the categories.
- ⇒ A geographical breakdown of proceeds allocations.
- ⇒ The balance of the unallocated proceeds (if applicable).
- ⇒ The proportion of financing vs refinancing (%).
- ⇒ The amount of co-financing.

Of note, the reporting information on the proportion of financing versus refinancing, as well as co-financing, will be on a “best-effort basis” – dependent on the information provided to the Commission from Member States, and only available after full allocation.

Regarding co-financing, an agreement between the European Commission and Member States ensures that any expenditures financed by the NGEU green bonds will not be eligible for financing by Green Bonds issued by Member States themselves, to avoid potential “double counting” of Green Expenditures in the context of Green Bonds.

- Sustainability benefits: The Issuer has identified potential output and/or impact indicators to report on the sustainability benefits of all the Eligible Categories. These are considered clear and relevant.

Although V.E does not have visibility on all the selected impact indicators, V.E considers the process for selecting the indicators to be appropriate. In V.E’s view, the process supports the creation of exhaustive impact reporting. The Commission will establish an inter-service working group, with experts from several directorates general, to develop appropriate indicators and help with the shaping of quality impact reporting.

The impact reporting at Commission level will rely on a range of information sources, including:

- 1- Information on the climate and environmental contributions of individual RRP, including an explanation by Member States on how the RRP are consistent with national climate plans.
- 2- Member States will provide the Commission with information using Common Indicators (CIs). These CIs will include impact indicators, which the Commission will use for impact reporting. The precise CIs to report on will be established in a delegated act, with a set methodology, which ensures harmonisation of impact indicators between different Member States, and which measure the impact of a majority of the eligible intervention fields. These CIs will be reported separately from green bond reporting as well in the annual budget performance exercise and the RRF scoreboard.
- 3- Reforms and investments assigned with climate coefficients in line with the Taxonomy which are assumed to produce a beneficial impact in supporting the progress towards climate neutrality by 2050. The Commission will report on the share of climate expenditure under the RRF that it considers to be aligned with the EU Taxonomy.

Regarding the verification of the impact reporting at Member State level, which is linked to the reporting on the achievement of milestones and targets, the Commission will rely on national quality controls but will also provide guidance for Member States to develop a solid methodology that is comparable between Member States.

ELIGIBLE GREEN EXPENDITURES	SUSTAINABILITY BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Research and innovation activities supporting the green transition	<ul style="list-style-type: none"> - Total funding to research supporting the green transition - Investments in pollution control technologies - Researchers working in supported research facilities 	

ELIGIBLE GREEN EXPENDITURES	SUSTAINABILITY BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Digital technologies supporting the green transition	<ul style="list-style-type: none"> - Total funding to data analysis for GHG reduction - Additional dwellings with broadband access of very high capacity - Enterprises supported to develop digital products, services and application processes - Users of new and upgraded public digital services, products and processes 	<ul style="list-style-type: none"> - Reduction in GHG emissions or annual GHG emissions avoided (tonnes of CO2 equivalent)
Energy efficiency	<ul style="list-style-type: none"> - Savings in annual primary energy consumption 	<ul style="list-style-type: none"> - Annual GHG emissions avoided (tonnes of CO2)
Clean energy and network	<ul style="list-style-type: none"> - Additional capacity for renewable energy - Share of fossil fuel in total available energy (% yoy) 	<ul style="list-style-type: none"> - Annual GHG emissions avoided (tonnes of CO2)
Climate change adaptation	<ul style="list-style-type: none"> - Population benefiting from protection measures against floods, wildfires, and other climate related natural disasters 	
Water supply & Waste management		<ul style="list-style-type: none"> - Annual water savings - Annual wastewater treated - Annual waste prevented
Clean transport & Infrastructure	<ul style="list-style-type: none"> - Alternative fuels infrastructure (refuelling/recharging points) 	<ul style="list-style-type: none"> - Reduction of total GHG emission from transport (emission per passenger/km and emissions per tonne/km)
Nature protection, rehabilitation and biodiversity	<ul style="list-style-type: none"> - Surface area of converted land - Area under conservation or preservation - Surface covered by biodiversity measures 	
Other	Number of people benefitting from green skills training	

BEST PRACTICES

- ⇒ The Issuer's report will be publicly available at least 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 development related to the projects, including ESG controversies.
- ⇒ The indicators selected by the Issuer are clear and relevant. In addition, the process for selecting the indicators is considered appropriate and supports the creation of an exhaustive impact reporting.
- ⇒ Environmental benefits and impacts will be externally verified, until full allocation and in case of material changes.

Contribution to sustainability

Expected Impacts

The potential positive Impact of the Eligible Green Expenditures on environmental objectives is considered to be robust.

Through the application of climate coefficients, the European Commission is incentivising projects that follow the technical screening criteria of the EU taxonomy, while giving flexibility to Member States to finance projects with environmental benefits. Intervention fields related to green eligible investments have been assigned a climate coefficient:

- Measures that are likely to have a positive environmental impact, although not following the strictest thresholds, which receive a 40% climate coefficient
- Measures that follow the technical screening criteria of the EU taxonomy or best available standards, which receive a 100% climate coefficient.

While the climate coefficient mechanism is considered appropriate and a good practice to promote projects with higher environmental impacts, the overall expected impact of the Framework is considered robust, as V.E has no visibility on the proportion of the green eligible investments financed by the Bonds that will receive 100% climate coefficients versus 40%.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Research and innovation activities supporting the green transition	ADVANCED	To meet the priorities of the EU's 2021-2024 action plan ²⁰ as well as the European Green Deal, ²¹ the Commission has a key role in financing research and innovation activities that will support a green transition, especially on non-profitable topics. The nature of the projects is clear, and the objective is to reduce and potentially avoid the negative impact of economic activities.
Digital technologies supporting the green transition	ADVANCED	Investing and promoting in the necessary digital technologies and tools are essential enablers of a green transition and part of the European Green Deal action plan. The category aims to finance interventions related to improvements in ICT solutions and infrastructure, digitising SMEs or large enterprises, among others, which will bring lead to energy efficiency and reduced GHG emissions. The category follows the highest standards available in the market to contribute to the claimed objective in the context of the category.
Energy efficiency	ROBUST	Energy efficiency is a relevant lever to reduce CO2 emissions, responding to the key issue of climate change mitigation. Additionally, the role of the EU is essential in supporting Member States' energy efficiency initiatives which will result in a positive impact on relative energy consumption and the reduction of absolute GHG emissions. The interventions within the Eligible Green Expenditures include energy efficiency renovation and/or construction of energy efficient buildings, Smart Energy Systems, among others. Some of the interventions within the category follow technical thresholds in line with best market practices. However, other interventions only require demonstrating an environmental improvement without following specific energy efficiency thresholds compared to a baseline, limiting V.E's visibility on the potential environmental benefits and the degree of contribution of this category to sustainability.
Clean energy and network	ROBUST	According to the International Energy Agency (IEA) ²² , fossil fuels account for 72% of the EU's energy mix. The EU must continue the efforts to decarbonise its electricity production in order to achieve the target to increase the share of renewables to 32% of its overall energy mix by 2030. The interventions to be financed include projects related to solar, wind, marine, geothermal and biomass energy. The eligible projects positively impact stakeholders at a local and global level. The majority of the interventions in this category are zero emissions and/or require following standards that limit emissions in line with best market practices. However, other interventions only require demonstrating an environmental improvement without following specific international thresholds, limiting V.E's visibility on the potential environmental benefits and the degree of contribution of this category to sustainability.

²⁰ https://europa.eu/european-union/about-eu/priorities_en

²¹ https://ec.europa.eu/clima/policies/eu-climate-action_en

²² https://iea.blob.core.windows.net/assets/ec7cc7e5-f638-431b-ab6e-86f62aa5752b/European_Union_2020_Energy_Policy_Review.pdf

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Climate change adaptation	ADVANCED	The EU plays a key role in supporting the challenges of Member States related to the impacts of climate change, including extreme temperatures, flooding and coastal change, and increasing climate hazards creating risks to socio-economic and environmental sectors. As such, climate adaptation interventions that aims to increase resilience and adaptive capacity are highly relevant, and have a positive impact on all relevant stakeholders, with little to no anticipated negative impacts.
Water supply & Waste management	ROBUST	Investing in projects that will support the protection of water resources by improving water use efficiency and reducing water leakage is a key environmental issue that addresses water deficit and risks of shortages in public water supplies. Similarly, investing in waste management has positive impacts on the environment and supports the transition to a circular economy. This category will also finance the rehabilitation of industrial sites and contaminated land. Some of the interventions within the category follow energy efficiency criteria in line with best market practices. However, other interventions only require demonstrating an environmental improvement without following specific international thresholds or comparison with a baseline, limiting V.E's visibility on the potential environmental benefits and the degree of contribution of this category to sustainability.
Clean transport & Infrastructure	ROBUST	Reducing CO ₂ emissions and pollution by financing alternative modes of transport and relevant infrastructure is key to help achieve the EU's carbon neutrality target by 2050. This is particularly important as the transport sector remains one of the most energy intensive and polluting sectors, with an impact on local and global stakeholders. The expenditures under this category include financing digitalisation of transport, clean urban transport infrastructure and rolling stock, maritime transport, port infrastructure, electric vehicle infrastructure, alternative fuel infrastructure, cycling infrastructure, amongst others. Some of the interventions in this category are zero emissions and/or require following standards that limit carbon emissions in line with best market practices. However, other interventions only require demonstrating an environmental improvement without following specific international thresholds or comparison with a baseline, limiting V. E's visibility on the potential environmental benefits and the degree of contribution of this category to sustainability.
Nature protection, rehabilitation and biodiversity	ADVANCED	Investing in measures to protect and restore biodiversity and ecosystems will help support the European Green Deal action plan, as well as address an environmental issue where private funds are rare or limited. The category includes expenditures with a long-term benefit approach that seek to contribute to the protection, conservation, restoration, and sustainable use of terrestrial and aquatic biodiversity (e.g. Natura 2000 sites). The category also includes financing green infrastructure and nature and biodiversity protection. In addition, energy efficiency standards are required for expenditures related to rehabilitation of industrial sites and contaminated land, in line with best market practices.
Other	ROBUST	Eligible Expenditures aim to have positive impacts on the environment and support the green transition and circular economy through the financing of enterprises that provide services contributing to the transition to a low carbon economy, resilience to climate change, environmentally friendly production processes and resource efficiency in both SME's and large enterprises, air quality and noise reduction, as well as contributing to green skills and jobs in the green economy. These interventions are mainly enabling interventions serving the other eligible categories and environmental objectives, thus making their own objectives and benefits more indirect, limiting V.E's visibility on the potential environmental benefits and the degree of contribution of this category to sustainability.
OVERALL ASSESSMENT	ROBUST	

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 advanced.

V.E considers that, in light of the competences of the EU, the processes implemented by the European Commission to adequately identify, manage, monitor and control ESG risks related to the investments are advanced, which include the integration of the DNSH principle and specific due diligence mechanisms to promote the prevention and assessment of the potential ESG risks related to investments. ESG risk management for the Eligible Green Investments are shared across different levels of competence: at the level of the European Commission, with the due diligence mechanisms in place in the analysis of the Recovery and Resilience Plans; and at the level of Member States, that are implementing the projects, and where European and national laws and control mechanisms apply. Response mechanisms are ensured through the judicial systems, at the Member State and European level, through notably the European Court of Justice, responsible for the observation and application of EU laws across all Member States.

Integration of Environmental factors the assessment of the RRP

Environmental and risk management is integrated by design into the RRP, through the integration of DNSH analysis as a mandatory element, as detailed in the RRF Regulation²³. Indeed, Member States must give evidence that their RRP ensure that “no measure for the implementation of reforms and investments included in the recovery and resilience plan does significant harm to environmental objectives within the meaning of Article 17 of Regulation (EU) 2020/852 (the principle of ‘DNSH’)” (Article 18, paragraph d). As part of the assessment of the RRP²⁴, the European Commission will assess whether the plan follows the principle of “do no significant harm” for each measure included in the RRP. DNSH covers the following six environmental objectives: ‘Climate change mitigation’, ‘Climate change adaptation’, ‘Sustainable use and protection of water and marine resources’, ‘Circular economy’ (including waste prevention and recycling), ‘Pollution prevention and control’ (to air, water or land), and the ‘Protection and restoration of biodiversity and ecosystems.

The Commission has provided technical guidance²⁵ to Member States on how to apply the DNSH principle in their RRP, which is publicly available. In this guidance, Member States are invited to first complete a checklist, as a screening to distinguish for which objectives a substantive DNSH assessment is required, and for which a simplified assessment is sufficient, with sufficient justification. This assessment must be made for every measure included in the RRP. As a second step, Member States must provide a substantive DNSH assessment for the environmental objectives that require it. The Commission has included an indicative list of supporting elements of evidence to support the DNSH assessments.

The Commission can refuse an RRP if a Member State does not provide sufficient arguments and evidence that the DNSH principle is followed for each measure to be financed by the plan. As such, we consider that the identification, prevention and management of environmental risks related to the six environmental objectives are covered by design in the RRF.

In addition, this process has high transparency: the RRP are published on the EU’s website²⁶. The Commission will publish its assessment of the RRP, in which compliance with the DNSH principle must be proven by Member States. Upon the recommendation of the Commission, the Council of the European Union must pass the implementing act, indicating its agreement to the Commission assessment. This implementing act is also public. Finally, all information in the RRP, including the DNSH, is auditable.

Additional environmental factors

In addition to the DNSH principle embedded in the RRF, there are several EU environmental acquis that ensure environmental risk management of the financed investments, among others: Directive 2008/98/EC on waste, the Water Framework Directive, Decision 98/685/EC - Transboundary effects of industrial accidents, EIA Directive.

Regarding Environmental Impact Assessments (EIA) and Environmental Management Systems (EMAS): they are regulated under EU law and mandatory for certain projects. In addition, EIAs and EMAS can be used to support DNSH compliance in the RRP. Regarding waste management, eco-design and life cycle analyses: the DNSH assessment of the RRP measures cover the whole life cycle of the measures.

²³ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R0241>

²⁴ detailed in article 19 of the RRF Regulation

²⁵ [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC0218\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC0218(01))

²⁶ https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en

Social Risks

Minimum social safeguards are covered by the EU Charter of Fundamental Rights, and article 2 of the Treaty of the European Union, which states: “The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities”²⁷. The application of these laws is ensured by the jurisdictions of Member States, the European Court of Justice, and the European Ombudsman. In addition, the European Court of Human Rights can review cases of potential infringement at the level of Member States.

Occupational health and safety is covered by the European Framework Directive on Safety and Health at Work (Directive 89/391 EEC - OSH Framework Directive), which sets mandatory minimum safety and health standards for workers throughout the EU Member States.

Maintaining dialogue with local stakeholders and communities is ensured by Member States. Since the measures in the RRFs are public investments, they must follow the usual public consultation process, which may vary for each Member State, according to their national jurisdictions.

Governance Risks

Prevention of fraud and financial irregularities are integrated in the EU’s financial regulation, and the RRF has additional measures to prevent and respond to governance risks. As per the RRF regulation, Member States are required to put in place control mechanisms for the RRF that will be used to prevent fraud, corruption or conflict of interest. All information in RRFs can be audited by the Commission and funding can be reclaimed if irregularities are found. Where necessary, such a control mechanism can be a milestone in an RRF. Expenditures are auditable and must comply with financial regulations and other EU law.

Tender procedures that will be used to find implementing partners for investments under the RRF will have to follow Member States’ rules aimed at providing fair competition. The national rules are to a certain degree harmonised by the following directives: Directive 2014/24/EU on public procurement; Directive 2014/25/EU on procurement by entities operating in the water, energy, transport and postal services sectors; Directive 2014/23/EU on the award of concession contracts.

Control and compliance are ensured through several stakeholders. Incurred climate expenditure under the RRF will be reported to the Commission. In addition, the European Court of Auditors (ECA), an independent institution, has announced that it intends to audit the RRF. The European Parliament and ECA will scrutinise the RRF in the context of the annual discharge. Any irregularities can be reported to the European anti-fraud office (OLAF), which investigates fraud against the EU budget, corruption, and serious misconduct within European institutions, and the European Public Prosecutor’s Office (EPPO), which began operations in June 2021.

²⁷ https://eur-lex.europa.eu/eli/treaty/teu_2012/art_2/oj

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.

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 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 2021 ("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 Bond 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 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;²⁸
- 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.

ESG risk management of eligible activities

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.

V.E'S ASSESSMENT SCALES

Scale of assessment of Bonds' Contribution to sustainability		Scale of assessment of financial instrument's alignment with the Green Bond Principles	
Advanced	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 Bond Principles by adopting recommended and best practices.
Robust	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 Bond Principles.
Limited	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.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green Bond Principles, but not all of them.
Weak	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 Bond Principles.

²⁸ 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.

Statement on V.E' s independence and conflict-of-interest policy

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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. Restriction on distribution and use of this opinion: The deliverables remain the property of V.E. The draft version of the Second Party Opinion by V.E is for information purpose only and shall not be disclosed by the client. V.E grants the Issuer all rights to use the final version of the Second Party Opinion delivered for external use via any media that the Issuer shall determine in a worldwide perimeter. The Issuer has the right to communicate to the outside only the Second Party Opinion complete and without any modification, that is to say without making selection, withdrawal or addition, without altering it in any way, either in substance or in the form and shall only be used in the frame of the contemplated concerned bond issuance. The Issuer acknowledges and agrees that V.E reserves the right to publish the final version of the Second Party Opinion on V.E's website and on V.E's internal and external communication supporting documents.

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