



## SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainability Bond Framework

State of Berlin  
15 December 2022

### VERIFICATION PARAMETERS

|                                     |   |
|-------------------------------------|---|
| Type(s) of instruments contemplated | <ul style="list-style-type: none"><li>Green, social and/or sustainability bonds</li></ul>   |
| Relevant standards                  | <ul style="list-style-type: none"><li>Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG), updated as of June 2021, administered by the International Capital Market Association (ICMA)</li></ul> |
| Scope of verification               | <ul style="list-style-type: none"><li>Sustainability Bond Framework (as of December 14, 2022)</li><li>Eligibility criteria (as of December 14, 2022)</li></ul>  |
| Lifecycle                           | <ul style="list-style-type: none"><li>Pre-issuance verification</li></ul>   |
| Validity                            | <ul style="list-style-type: none"><li>As long as there is no material change to the framework</li></ul>   |

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## SCOPE OF WORK

State of Berlin (“the issuer” or “Berlin”) commissioned ISS Corporate Solutions (ICS) to assist with its green, social and/or sustainability bonds by assessing three core elements to determine the sustainability quality of the instruments:

1. The State of Berlin’s Sustainability Bond Framework (as of December 14, 2022) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP) 2021, Social Bond Principles (SBP) 2021 and Sustainability Bond Guidelines (SBG) 2021.
2. The eligibility criteria – whether the project categories contribute positively to the UN SDGs and how they perform against proprietary issuance-specific key performance indicators (KPIs) (see annex 1).
3. Green, social and/or sustainability bonds’ link to the State of Berlin’s sustainability strategy – drawing on the State of Berlin’s overall sustainability profile and issuance-specific Use of Proceeds’ categories.

## ASSESSMENT SUMMARY

| SPO SECTION   | SUMMARY   | EVALUATION <sup>1</sup>   |
|---|---|---|
| <b>Part 1:<br/>Alignment with<br/>GBP, SBP and<br/>SBG</b>  | The issuer has defined a formal concept for its green, social and/or sustainability bonds regarding Use of Proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA GBP, SBP and SBG.  | <b>Aligned</b>  |
| <b>Part 2:<br/>Sustainability<br/>Quality of the<br/>Eligibility<br/>Criteria</b>   | <p>The green, social and/or sustainability bonds will (re-)finance eligible asset categories which include: Renewable Energy, Energy Efficiency, Pollution Prevention Control, Ecologically Sustainable Management of Living Natural Resources and Land Use, Clean Transportation, Adaptation to Already Existing Climate Change, Green Buildings, Affordable basic infrastructure, Access to basic social services, Job creation and programs, Food security and sustainable food systems, Food security and sustainable food systems, Socio-economic development and empowerment.</p> <p>The product and services' Use of Proceeds categories have a significant contribution to SDGs 2 'Zero Hunger', 3 'Good Health and Well-being', 7 'Affordable and clean energy', 10 'Reduced Inequalities', 11 'Sustainable Cities and Communities', 13 'Climate action' and 15 'Life on Land'.</p> <p>They have a limited contribution to SDGs 1 'No Poverty', 4 'Quality Education', 5 'Gender Equality', 8 'Decent Work &amp; Economic Growth' and 12 'Responsible Consumption and Production'.</p> <p>The remaining Use of Proceeds categories improve the operational impacts of the State of Berlin's borrowers and mitigate potential negative externalities of its sector on SDGs 6 'Clean water and sanitation', 7 'Affordable and clean energy', 11 'Sustainable Cities and Communities' and 13 'Climate action'.</p> <p>The environmental and social risks associated with those use of proceeds categories are well managed.</p> | <b>Positive</b>   |
| <b>Part 3:<br/>Green, Social<br/>and<br/>Sustainability<br/>Bonds' Link to<br/>issuer's<br/>Sustainability<br/>Strategy</b> | The key sustainability objectives and the rationale for issuing green, social and/or sustainability bonds are clearly described by the issuer. All of the project categories financed are in line with the sustainability objectives of the issuer.   | <b>Consistent<br/>with issuer's<br/>sustainability<br/>strategy</b> |

<sup>1</sup> The evaluation is based on Berlin's Sustainability Bond Framework (as of December 14, 2022), and on the ISS ESG Country Rating of Germany applicable at the SPO delivery date (updated on September 21, 2022).

## SPO ASSESSMENT

### PART I: ALIGNMENT WITH ICMA'S GBP, SBP AND SBG

This section evaluates the alignment of State of Berlin's Sustainability Bond Framework (as of December 14, 2022) with ICMA's GBP, SBP and SBG.

| ICMA'S GBP, SBP AND SBG                         | ALIGNMENT | OPINION  |
|---|-----------|--|
| 1. Use of Proceeds                              | ✓         | <p>The Use of Proceeds description provided by the State of Berlin's Sustainability Bond Framework is <b>aligned</b> with the ICMA GBP, SBP and SBG.</p> <p>The issuer's green and social categories align with the project categories as proposed by the ICMA GBP, SBP and SBG. The criteria are defined in a clear and transparent manner. Disclosure of the distribution of the proceeds by project category will be provided at pre-issuance in the investor presentation, in line with best market practice.</p> <p>Environmental and social benefits of the projects are described and quantified. The issuer provides explicit exclusion criteria for harmful projects.</p> <p>The State of Berlin defines a look-back period of three budget years and will provide the share of financing/refinancing pre-issuance for the projects, in line with best market practice.</p> |
| 2. Process for Project Evaluation and Selection | ✓         | <p>The process for project evaluation and selection description provided by the State of Berlin's Sustainability Bond Framework is <b>aligned</b> with the ICMA GBP, SBP and SBG.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified based on compliance with national legislation and international principles and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the issuer.</p> <p>The issuer clearly defines responsibilities in the process of project evaluation and selection, involving various stakeholders, in line with best market practice.</p>  |

|   |          |   |
|---|----------|---|
| <p><b>3. Management of Proceeds</b></p> | <p>✓</p> | <p>The management of proceeds proposed by the State of Berlin’s Sustainability Bond Framework is <b>aligned</b> with the ICMA GBP, SBP and SBG.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner through an internal accounting system and attested in a formal internal process. The net proceeds are managed per bond (bond-by-bond approach). Moreover, the issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>The issuer has defined an expected allocation period of 12 months, in line with best market practice.</p>  |
| <p><b>4. Reporting</b></p>              | <p>✓</p> | <p>The allocation and impact reporting proposed by the State of Berlin’s Sustainability Bond Framework is <b>aligned</b> with the ICMA GBP, SBP and SBG.</p> <p>The issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the website of the Senate Department of Finance. The State of Berlin explains the level of expected reporting and the type of information that will be reported. Moreover, the issuer commits to report annually, until the proceeds have been fully allocated.</p> <p>The issuer is transparent on the level of reporting and on the information reported in the impact report, and defines the reporting frequency, in line with best market practice.</p> |

## PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

### A. CONTRIBUTION OF THE GREEN, SOCIAL OR SUSTAINABILITY BONDS TO THE UN SDGs<sup>2</sup>

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. This section aims to assess the SDG impact of the UoP categories financed by the issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

#### 1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of the UoP categories for (re)financing specific products and services is displayed on a 5-point scale (see annex 1 for methodology):

|                                    |                                |                          |                                 |                                     |
|------------------------------------|--------------------------------|--------------------------|---------------------------------|-------------------------------------|
| <b>Significant<br/>Obstruction</b> | <b>Limited<br/>Obstruction</b> | <b>No<br/>Net Impact</b> | <b>Limited<br/>Contribution</b> | <b>Significant<br/>Contribution</b> |
|------------------------------------|--------------------------------|--------------------------|---------------------------------|-------------------------------------|

Berlin has provided us with a list of projects on a bilateral basis and the below review is limited to the examples of projects spelled out in this list.

Each of the green, social and/or sustainability bonds' Use of Proceeds' categories has been assessed for its contribution to, or obstruction of, the SDGs:

#### 1. Green Categories

| USE OF PROCEEDS (PRODUCTS/SERVICES)  | CONTRIBUTION<br>OR OBSTRUCTION      | SUSTAINABLE<br>DEVELOPMENT GOALS  |
|--|-------------------------------------|---|
| <p><b>Renewable Energy</b></p> <p><i>Promotion of the use of renewable energy in companies, private and public infrastructures, including:</i></p> <p>Solar energy</p> <p>Batteries for renewable energy storage</p> | <b>Significant<br/>Contribution</b> |   |

<sup>2</sup> The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the issuer's description in the framework.

|   |  |   |
|---|--|---|
| <p><b>Renewable Energy</b></p> <p><i>Generation and promotion of renewable energy systems, including:</i></p> <p>Wind power</p>         | <p><b>Significant Contribution</b></p> |       |
| <p><b>Renewable Energy</b></p> <p>Photovoltaic solar power, including services</p>  | <p><b>Significant Contribution</b></p> |       |
| <p><b>Renewable Energy</b></p> <p>Biomass energy from biogenic waste (e.g. green pellets from leaves)</p>                               | <p><b>Limited Contribution</b></p>     |       |
| <p><b>Renewable Energy</b></p> <p>Connection of renewable energies to the existing grid</p>   | <p><b>Significant Contribution</b></p> |     |
| <p><b>Renewable Energy</b></p> <p>Related research, consulting and development activities</p>   | <p><b>Significant Contribution</b></p> |   |
| <p><b>Energy Efficiency</b></p> <p>Related research, consulting and development activities</p>  | <p><b>Limited Contribution</b></p>     |   |
| <p><b>Pollution prevention control</b></p> <p>Greenhouse gas control (e.g. protection and renaturation of Berlin's moorlands)</p>       | <p><b>Significant Contribution</b></p> |    |
| <p><b>Pollution prevention control</b></p> <p>Soil treatment</p>  | <p><b>Limited Contribution</b></p>     |    |
| <p><b>Pollution prevention control</b></p> <p>Waste prevention and reduction (e.g. initiative Re-Use Berlin)</p>                        | <p><b>Limited Contribution</b></p>     |    |
| <p><b>Pollution prevention control</b></p> <p>Expansion and promotion of the sharing economy (e.g. lending schemes for cargo bikes)</p> | <p><b>Limited Contribution</b></p>     |   |



electricity grid connection upgrades, hydrogen fuelling stations or electric road systems (ERS);

(b) the infrastructure and installations are dedicated to urban and suburban public passenger transport, including associated signalling systems for metro, tram and rail systems.

2. The infrastructure is not dedicated to the transport or storage of fossil fuels.

**Clean Transportation**

Infrastructure for personal mobility, cycle logistics

The infrastructure that is constructed and operated is dedicated to personal mobility or cycle logistics: pavements, bike lanes and pedestrian zones, electrical charging and hydrogen refuelling installations for personal mobility devices.

Limited Contribution



**Clean Transportation**

Associated research, consulting and development activities

Significant Contribution



Limited Contribution



Limited Contribution



**Clean Transportation**

Ramp-up phase of e-mobility bus fleet

Urban and suburban transport, road passenger transport

The activity complies with the following criteria:

The activity provides urban or suburban passenger transport and its direct (tailpipe) CO2 emissions are zero.

Significant Contribution



Limited Contribution



**Green Buildings**

New construction of public buildings (e.g. administrative buildings, universities) to at least KfW Efficiency House 40 standard<sup>5</sup>

Limited Contribution



<sup>5</sup> Energy standards for public buildings are regulated in Article 10 of Berlin Climate Protection and Energy Transition Act – EWG BIm, [https://gesetze.berlin.de/perma?i=EWendG\\_BE\\_!\\_10](https://gesetze.berlin.de/perma?i=EWendG_BE_!_10)

**Green Buildings**

Related research, consulting and development activities

**Limited Contribution**



**2. Social Categories**

| USE OF PROCEEDS (PRODUCTS/SERVICES)  | CONTRIBUTION OR OBSTRUCTION     | SUSTAINABLE DEVELOPMENT GOALS |
|--|---------------------------------|-------------------------------|
| <p><b>Affordable basic infrastructure</b></p> <p>Access to public transport</p> <p><i>Target group: people with limited mobility, people living below the poverty line</i></p>   | <b>Significant Contribution</b> |                               |
| <p><b>Affordable basic infrastructure</b></p> <p>Access to public transport</p> <p><i>Target group: students, pupils</i></p>   | <b>Limited Contribution</b>     |                               |
| <p><b>Access to basic social services</b></p> <p>Access to quality education (e.g. school digitalization, day-care and playground renovation)</p> <p><i>Target group: pupils</i></p>   | <b>Limited Contribution</b>     |                               |
| <p><b>Access to basic social services</b></p> <p>Preventive health measures (e.g. COVID-19 vaccination and protective equipment)</p> <p><i>Target group: all citizens of Berlin</i></p>  | <b>Significant Contribution</b> |                               |
| <p><b>Job creation and programs to prevent and/or mitigate unemployment caused by socioeconomic crises</b></p> <p>Measures to reduce long-term unemployment (e.g. solidarity-based basic income program)</p> <p><i>Target group: unemployed and long-term unemployed</i></p> | <b>Limited Contribution</b>     |                               |

|  |   |   |
|--|---|---|
| <p><b>Food security and sustainable food systems</b></p> <p>Access to free school lunches</p> <p><i>Target group: all students in grades 1-6</i></p>   | <p><b>Significant Contribution</b></p>                                    |    |
| <p><b>Food security and sustainable food systems</b></p> <p>Access to regional and sustainably produced food; avoidance of food waste (e.g., Berlin Food Strategy)<sup>6</sup></p> <p><i>Target group: all citizens of Berlin, customers of community kitchens</i></p> | <p><b>Significant Contribution</b></p> <p><b>Limited Contribution</b></p> |    |
| <p><b>Socio-economic development and empowerment</b></p> <p>Measures to promote neighborly coexistence and self-help (e.g. infrastructure support program, Berlin home visits)</p> <p><i>Target group: senior citizens</i></p>   | <p><b>Significant Contribution</b></p>                                    |   |
| <p><b>Socio-economic development and empowerment</b></p> <p>Measures for educational and family support (e.g. baby guides, city district mothers)</p> <p><i>Target group: socially disadvantaged families, children, migrants &amp; refugees</i></p>                   | <p><b>Limited Contribution</b></p>  |  |
| <p><b>Socio-economic development and empowerment</b></p> <p>Promotion of women in research and teaching</p> <p><i>Target group: women</i></p>  | <p><b>Limited Contribution</b></p>  |  |
| <p><b>Socio-economic development and empowerment</b></p> <p>Expenditures related to the construction, operation, and maintenance of refugee accommodations</p> <p><i>Target group: migrants, refugees</i></p>  | <p><b>Limited Contribution</b></p>  |  |

<sup>6</sup> The assessment of this category goes beyond our traditional assessment of food security programs. This is because the programs financed by this category aim is to promote the efficient (i.e., waste-free) consumption of organic products – if possible, from the region and with a high proportion of seasonal and fresh ingredients – by cooking professionals (e.g., canteen staff) but also end-consumers.

|  |                                 |   |
|--|---------------------------------|---|
| <p><b>Socio-economic development and empowerment</b></p> <p>Sustainable major sports events (e.g. Special Olympics Berlin)</p> <p><i>Target group: people with disabilities</i></p>  | <p>Limited Contribution</p>     |   |
| <p><b>Socio-economic development and empowerment</b></p> <p>Integrated Social Program (ISP)</p> <p><i>Target group: elderly people, homeless people, former prisoners to be integrated, overindebted persons, migrants and refugees, poor people, unemployed persons</i></p> | <p>Significant Contribution</p> |    |

**2. Improvements of operational performance (processes)**

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance of the projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the issuer.

The State of Berlin finances operations/processes in a variety of third-party sectors. For clarity, ISS ESG does not display the exposure to negative externalities linked to the sectors of the operations/processes financed.

The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

| USE OF PROCEEDS (PROCESSES) <sup>7</sup>  | OPERATIONAL IMPACT IMPROVEMENT <sup>8</sup> | SUSTAINABLE DEVELOPMENT GOALS   |
|---|---|---|
| <p><b>Energy Efficiency</b></p> <p>Installation of energy-efficient technologies and products and increasing energy efficiency in companies and public infrastructures; final energy consumption savings at least 5%; primary energy savings at least 20%<sup>9</sup></p> | <p>✓</p>                                    |   |

<sup>7</sup> The review is limited to the examples of projects spelled out in the framework.

<sup>8</sup> Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

<sup>9</sup> Prior to application, review by an energy expert approved for federal funding programs; <https://www.berlin.de/sen/uvk/umwelt/foerderprogramme/berliner-programm-fuer-nachhaltige-entwicklung/foederschwerpunkte/energieeffizienz-und-erneuerbare-energien-in-unternehmen/>

**Energy Efficiency**

Grants for retrofitting to climate-friendly heating systems with CO<sub>2</sub> savings of at least 25%



**Energy Efficiency**

New construction, renovation or modernization of technical infrastructures, facilities

(e.g. Building Monument Tempelhof - Technical Infrastructure 2030: reduction of energy consumption of the monument by at least 40% among other things by heat recovery from waste-water and air-water heat transfer and installation of photovoltaic systems)



**Energy Efficiency**

Conversion of lighting systems in public spaces from gas lighting to modern LED lighting



**Green Buildings**

Major renovations of public buildings (e.g. administrative buildings, universities) in compliance with KfW Efficiency House 55 standard, insofar as this does not conflict with public-law regulations



**Pollution prevention control**

Conversion of public vehicle fleet to CO<sub>2</sub>-free motors (electric vehicles)



**Ecologically sustainable management of living natural resources and land use**

Sustainable redesign of public sealed open spaces and parks (e.g. public rainwater management infrastructure)



**Ecologically sustainable management of living natural resources and land use**

Neighborhood-related recreation areas, or enhancing these ecologically through redevelopment<sup>10</sup>



<sup>10</sup> This project is DGNB certified.

(e.g. unsealing; climate-resilient redevelopment; grazing of green spaces; incorporation of plant compost for CO<sub>2</sub> storage)

**Adaptation to already existing climate change**



Measures to promote green roofs and facades<sup>11</sup>



<sup>11</sup> According to the issuer, green roof areas have about 1.2 ha on 22 roofs leading to ca. 4,6 t/a CO<sub>2</sub> emission reduction 89 kg/a filtering of nitrogen and sulphur oxides.

## B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

Eligible categories include Biodiversity, Circular Economy/Waste Management, Labour, Health and Safety, Dialogue with Local Communities, Users' Safety from Products, Inclusion, Quality Management, Ethics, Water, Public Transport Vehicles, Sustainable Forestry and the exclusion of sectors and activities that have a detrimental impact on environment or society.

The table below presents the findings of an ISS ESG assessment of the eligibility criteria against ISS ESG KPIs.

### ASSESSMENT AGAINST ISS ESG KPI

#### Environmental and social risks relevant for all green project categories

##### Biodiversity

- ✓ The Federal Nature Conservation Act ensures the protection of German nature and biodiversity, including nature reserves, wild animals, plant species, their habitats and biotopes. It is specified by federal regulations on species' protection such as the Federal Species Protection Ordinance (BartSchV).
- ✓ These regulations are supplemented by the Berlin Nature Conservation Act, which implements the Federal Nature Conservation Act to ensure nature conservation in Berlin. This includes reed beds which are also part of the financed Spreepark redevelopment project.
- ✓ Environmental assessment in urban land use planning in Berlin is based on several regulations such as the EU Environmental Impact Assessment (EIA) Directive and the Strategic Environmental Assessment (SEA) Directive, the Natura 2000 Impact Assessment and the Berlin Environmental Impact Assessment law.

##### Circular Economy/Waste Management

- ✓ The EU Waste Framework Directive seeks to increase the volume of waste that is collected separately, recycled and recovered and is transposed in Germany by the so-called Closed Substance Cycle Waste Management Act.
- ✓ Product waste regulation can also be found in the Packaging Act (VerpackG), the End-of-Life Vehicle Ordinance (AltfahrzeugV) and the Battery Act (BattG).
- ✓ The End-of-Life Vehicle Ordinance stipulates environmental-friendly disposal of vehicles in Germany. The Waste from Electrical and Electronic Equipment (WEEE) Directive and the Restriction of Hazardous Substances (RoHS) Directive seek to tackle the issue of growing amount of waste of electronic products and reduce the use of hazardous substances of these.
- ✓ According to the WEEE Directive, for example, producers of solar photovoltaic (PV) panels have become responsible for the treatment, disposal and recycling of modules.
- ✓ The Building Code of the State of Berlin (BauO Bln) requires that building material needs to be recycled to the extent possible after the demolition of a building.

The National Emissions Ceilings (NEC) Directive sets national emission reduction obligations for air pollutants such as sulfur dioxide, nitrogen oxides, ammonia and fine particulate matter. At state level, the Federal Immission Control Act (BImSchG) specifies air pollution limits on the environment among others.

### Labour, Health & Safety

- ✓ For any type of eligible expenditure, health and safety for employees, contractors and operators are ensured according to national legislation and standards.
- ✓ All expenditures are disbursed in Germany, a country where high standards regarding labor rights are in place (e.g. ILO Core Conventions).

### Dialogue with Local Communities

- ✓ In the event that ESG controversies arise, eligible expenditure in regard to future green, social or sustainable financing under this framework can be amended. The German Sustainability Strategy describes how the UN Sustainable Development Goals shall be implemented in Germany. According to basic law, the State of Berlin is required to uphold natural resources and animals for future generations.

Berlin's District Administration Act (BezVerwG) lays out the legal context for the participation of local communities in matters like development plans and provides opportunities for dialogue with these. Additionally, Guidelines for Citizen Participation in Spatial Urban Development Projects and Processes (LLBB) exist.

### Users' Safety – Products

- ✓ The German product safety law (ProdSG) specifies that products may only be provided if they do not endanger the safety and health of persons among others when used as intended or in a foreseeable manner.
  - ✓ The Federal Building Code regulates urban land-use planning and is supplemented by the Building Code of the State of Berlin (BauO Bln) containing provisions on fire protection, and heat, sound and vibration protection.
- The Ordinance on the Registration of Road Vehicles (StVZO) specifies that vehicles need to be constructed and equipped in a way that their operation does not harm anybody.

### Inclusion

- ✓ The issuer provides access for socially disadvantaged groups for many of its financed social categories (e.g. women, disabled, poor, senior citizens, socially disadvantaged families, refugees and unemployed people).
- The state of Berlin says that some of the projects significantly lower the price of the service to the target group while other projects are completely free of charge (e.g. Corona vaccination, school ticket for public transport and school lunch). Daycare centers are free of charge in Berlin.

## Quality Management

Legal obligations to establish quality standards exist in for example the health care sector, for food (LFGB) and for child day care (KitaFöG) and schools (SchulG).



Federal administrative regulation on principles for the implementation of official monitoring of compliance with food law regulations and animal feed law regulations among others (AVV RÜb) states that the responsible authorities set up quality management systems, which follow DIN EN ISO/IEC 17020 und DIN EN ISO 9001. These systems comprise among others the implementation of official audits for operations.

A quality development agreement (QVTAG) in Berlin's day care centers implements the mandate of the child day care law regarding binding quality assurance and quality development standards on the basis of a state educational program.

The public authorities will carry out random checks regarding the compliance with the terms of the procurement contract (BerlAVG).

## Ethics



German federal law is regulating the general prohibition of the acceptance of rewards, gifts or other advantages for state civil servants. Similar regulation exists for employees according to the collective agreement for the public service of the federal states.

## Water



The Water Framework Directive seeks to protect inland surface waters, transitional waters, coastal waters and groundwater of EU member states.

The Federal Water Act (WHG) regulates wastewater management and seeks to ensure a minimum of pollution of wastewater in Germany. It is supplemented by EU law concerning urban wastewater treatment and its municipal counterpart for Berlin (KomAbwVO Bln).

## Environmental and social risks relevant for specific green project categories

### Public Transport Vehicles



According to the Berlin Tendering and Award Act (BerlAVG), public procurement bodies are generally obliged to take the full life-cycle costs in the evaluation of the economic efficiency of the bids into account, including for road vehicles.

### Sustainable Forestry



The Law on the Conservation of Forests and the Promotion of Forest Management (Federal Forest Law) seeks to maintain and, if required, increase forests and promote forestry among others, as it recognizes the utility function of forests and its significance for the environment.

The Federal Soil Protection Act (BBodSchG) seeks to safeguard or restore soil functions sustainably. Provisions relevant to soil protection are contained in the Industrial Emissions Directive (IED).

The Fertilizer Application Ordinance (DüV) specifies the requirements for good fertilization practice, including the application of fertilizers and soil additives on agricultural land and the reduction of material risks through the application of fertilizers.

Animals are protected by Article 20a of the German Basic Law and regulated in the Animal Welfare Act (TierSchG).

Agricultural waste is regulated among others in the Biowaste Ordinance (BioAbfV) legislating the utilization of biowaste on agricultural, forestry and horticultural land. The Eco Labelling Act details the introduction and use of a label for products of organic agriculture (ÖkoKennzG).

### **Procurement and tender processes**

#### **Ethics (e.g. prohibition of corruption, conflict of interests)**

The avoidance of conflicts of interests when awarding public supply and service contracts is regulated by federal procedural rules (UVgO). Berlin's Public Procurement Act (BerlAVG) states that if a bid price appears to be unusually low when awarding a contract, the public authority shall request clarification on the price from the bidder before rejecting this bid.

- ✓ German federal law is regulating the general prohibition of the acceptance of rewards, gifts or other advantages for state civil servants. Similar regulation exists for employees according to the collective agreement for the public service of the federal states.

Additionally, a Central Office for Combating Corruption for Berlin exists which tasks are among others to receive tips about cases of corruption and give recommendations on organizational measures to prevent corruption.

#### **Environmental considerations (e.g. procuring material certified to relevant environmental standards, EMS, environmental labels, EIA for infrastructure)**

The State of Berlin has the option to require supplemental environmental obligations to the contracted parties, according to the Berlin Public Procurement Act (BerlAVG).

The German public authority is obliged to take ecological criteria into account when awarding procurement contracts. When defining performance requirements, environmentally friendly and energy-efficient products, materials and processes shall be given preference.

- ✓ The Administrative Regulation Procurement and Environment (VwVBU) regulates how ecological criteria are applied in procurement.

The VwVBU specifies mandatory environmental requirements (e.g. Blauer Engel) for tables, shelving systems and cabinets among others.

Apart from certain exceptions, the procurement act applies to all public construction contracts from an estimated contract value of EUR50,000 and to all public contracts for suppliers and services with an estimated contract value of more than EUR10,000.

#### **Social considerations (e.g. avoidance of child/forced labour, fair wages)**

- ✓ According to the Berlin Public Procurement Act (BerlAVG), the ILO Core Conventions need to be followed when authorities award contracts for construction, supply or services, including regarding forced labour and child labour. The Act also stipulates that contractors need to ensure that employees are paid wages, including minimum wages, in line with the respective regulations.

#### **Exclusion of sectors and activities that have a detrimental impact on the environment or society**

According to the issuer, eligible expenditures will exclude the following sectors: fossil fuel and energy generation from fossil fuels; energy generation from nuclear power, manufacturing or trade of products which are considered illegal by international conventions and agreements or are part of international prohibitions, such as the manufacturing of war weapons.

## PART III: GREEN, SOCIAL AND/OR SUSTAINABILITY BONDS LINK TO THE STATE OF BERLIN'S SUSTAINABILITY STRATEGY

### A. ISSUER COUNTRY'S EXPOSURE TO ESG RISKS

This section aims to provide macro-country level ESG risks and offers additional context to the issuance assessed in the present report. It leverages ISS ESG Country Rating methodology as well as relevant external sources such as United Nations Development Programme, Transparency International and Institute for Economics & Peace.

#### *Issuer country's overview*

Germany is located in Central Europe. The issuer is a federal republic, classified as a high-income country by the World Bank. The issuer has an estimated population of 80.1 million inhabitants as of 2020, with 77.4% of its population living in urban areas, and a level of greenhouse gas emissions per capita of 9.0 as of 2020, which have decreased in recent years.

Additional information relating to the issuer, based on international indices:

| INDEX                                     | RANK, AS OF DATE |
|---|------------------|
| Human Development Index <sup>12</sup>     | 6, in 2020       |
| Corruption Perception Index <sup>13</sup> | 9, in 2021       |
| Global Peace Index <sup>14</sup>          | 16, in 2022      |

#### *ESG risks associated with the issuer's country*

Leveraging ISS ESG's Country Rating methodology, key challenges faced by sovereign issuers have been identified in terms of sustainability management as displayed in the table below. Please note, this is not an issuer-specific assessment.

| ESG KEY ISSUES FOR SOVEREIGN ISSUERS  |                           |
|---------------------------------------|---------------------------|
| Political system and governance       | Natural resources         |
| Human Rights and fundamental freedoms | Climate change and energy |
| Social conditions                     | Product and consumption   |

Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part III.B of the report.

<sup>12</sup> Source: <https://hdr.undp.org/en/countries/profiles/FRA>

<sup>13</sup> Source: <https://www.transparency.org/en/cpi/2021/index/fra>

<sup>14</sup> Source: <https://www.visionofhumanity.org/maps/#/>

### *Exposure of the issuer's country to controversial areas*

At the date of publication, ISS ESG has not identified controversial areas in which the country of the issuer would be involved.

## **B. CONSISTENCY OF GREEN, SOCIAL AND/OR SUSTAINABILITY BONDS WITH THE STATE OF BERLIN'S SUSTAINABILITY STRATEGY**

### *Key sustainability objectives and priorities defined by the issuer*

The Sustainable Development Goals of the United Nations (Agenda 2030) have been anchored in Berlin's political and economic actions: already in 2016, the State of Berlin developed a sustainability profile.<sup>15</sup> The profile creates a focus on the topic of sustainability parallel to the existing urban strategies and the Berlin Strategy 3.0.

This is also clear from the inventory "The 17 sustainability goals in Berlin: examples of implementation at the state level"<sup>16</sup>, which was presented in November 2021 by the Senate Department for the Environment, Mobility, Consumer and Climate Protection. It complements the "Indicator Report 2021 - Sustainable Development in Berlin"<sup>17</sup> published in September 2021 together with the Office for Statistics Berlin-Brandenburg, which makes the implementation of the UN Sustainable Development Goals by the State of Berlin quantifiable.

In the current legislative period (2021-2026), a Berlin Sustainability Strategy 2030 will be developed on this basis in a broad-based participatory process. A continuous and close dovetailing of the Berlin Sustainability Strategy 2030 and the Berlin Sustainable Finance Strategy will be sought.

The measures to implement Berlin's Sustainable Finance Strategy rely on:

- (1) Berlin will increasingly align their activities in the financial market with sustainability. To finance the state budget, they are planning to issue sustainability bonds; and social and ecological aspects will be given greater consideration when granting guarantees, applying the 17 SDGs and the framework conditions of the taxonomy.
- (2) IBB Unternehmensverwaltung AöR with its main subsidiary Investitionsbank Berlin AöR will drive the transformation of Berlin's economy through various measures and establish itself as a central provider of ESG-compliant development programs.
- (3) State-owned utilities are continuing to expand their sustainability reporting in line with the German Sustainability Code

### *Rationale for issuance*

At the European level, the EU Commission published its first Sustainable Finance Action Plan in 2018, revised on July 6, 2021, as part of the 2019 EU Green Deal. The action plan aims to ensure the financial sector's contribution to achieving the EU's climate targets by 2030 and 2050, respectively. The core element here is the delegated regulation on the taxonomy.

<sup>15</sup> Berlin Sustainability profil, 2016, [Berliner Nachhaltigkeitsprofil](#)

<sup>16</sup> The 17 Sustainable Development Goals in Berlin, 2021, <https://www.berlin.de/sen/uvk/umwelt/nachhaltigkeit/nachhaltigkeitsziele-in-berlin>

<sup>17</sup> [Indikatorenbericht 2021 - Nachhaltige Entwicklung in Berlin](#)

On the part of the German government, the German Sustainable Finance Strategy<sup>18</sup> was launched in May 2021, which is intended to support and strengthen the change to a more sustainable economic order as an effective lever.

This will be flanked by regulatory momentum, as the European Union will introduce new disclosure standards for financial products in addition to the existing EU taxonomy in the years up to 2023. These framework conditions are leading to a growing consideration of sustainability criteria and triggering an accelerated shift of international capital investments into investments with an ecological and social focus.

The State of Berlin supports the development of sustainable finance in the refinancing activities of regional authorities. It intends to contribute to the expansion of the environmentally and socially sustainable bond segment in the capital market and therefore aims to issue sustainable bonds on a regular basis. These state treasury bonds rank pari passu with other liabilities in the respective asset class and can be issued as sustainability bonds or also in the form of green or social bonds.

All the project categories are in line with the sustainability objectives of Germany<sup>19</sup> and of the issuer<sup>20</sup> who is drawing up and implementing the national sustainable development strategy. It is noted that the non-governmental organisation “Berlin21” is its network partner for the implementation of the German Sustainable Development Strategy in Berlin and its main goal is to support the participation of civil society in the development of the capital city region.

**Opinion:** *The key sustainability objectives and the rationale for issuing green, social and/or sustainability bonds are clearly described by the issuer. All the project categories financed are in line with the sustainability objectives of the issuer.*

<sup>18</sup> German Sustainable Finance Strategy, the federal government, May 2021, [German Sustainable Finance Strategy \(bundesfinanzministerium.de\)](https://www.bundesfinanzministerium.de/Content/Default.aspx?nav=101344)

<sup>19</sup> Report on the implementation of the 2030 Agenda for sustainable development, German Voluntary national review to the HLPF 2021, [https://sustainabledevelopment.un.org/content/documents/279522021\\_VNR\\_Report\\_Germany.pdf](https://sustainabledevelopment.un.org/content/documents/279522021_VNR_Report_Germany.pdf)

<sup>20</sup> The 17 Sustainable Development Goals in Berlin, 2021, [Sustainable Development Goals in Berlin - Berlin.de](https://www.berlin.de/berlin21/Content/Default.aspx?nav=101344)

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## ANNEX 1: Methodology

### Green and Social KPIs

The Green and Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of State of Berlin’s green, social and/or sustainability bonds.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

### Environmental and social risks assessment methodology

The Environmental and social risks assessment evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green and Social Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available or that the information provided did not fulfil the requirements of the Green and Social Bond KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by the State of Berlin (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, the extent to which State of Berlin's green, social and/or sustainability bonds contributes to related SDGs has been identified.

## ANNEX 2: ISS ESG Country Rating Methodology

ISS ESG Country Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments.

For more information, please visit:

<https://www.issgovernance.com/file/publications/methodology/Country-Rating-Methodology.pdf>

## ANNEX 3: Quality management processes

### SCOPE

The State of Berlin commissioned ICS to compile a green, social and/or sustainability bonds SPO. The Second Party Opinion process includes verifying whether the Sustainability Bond Framework aligns with the ICMA GBP, SBP and SBG and to assess the sustainability credentials of its green, social and/or sustainability bonds, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines
- Key Performance Indicators relevant for Use of Proceeds categories selected by the issuer

### ISSUER'S RESPONSIBILITY

The State of Berlin's responsibility was to provide information and documentation on:

- Sustainability Bond Framework
- Eligibility criteria
- Documentation of ESG risks management at the framework level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the green, social and/or sustainability bonds to be issued by the State of Berlin has been conducted based on a proprietary methodology and in line with the ICMA GBP, SBP and SBG.

The engagement with the State of Berlin took place from October to December 2022.

### ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For more information on SPO services, please contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

For more information on this specific green, social and/or sustainability bonds SPO, please contact: [SPOOperations@iss-esg.com](mailto:SPOOperations@iss-esg.com)

### Project team

| Project lead                                | Project support                                | Project support                           | Project supervision  |
|---|--|---|--|
| Camille Roux<br>Associate<br>ESG Consultant | Elena Johansson<br>Associate<br>ESG Consultant | Louis Cottin<br>Analyst<br>ESG Consultant | Marie-Bénédicte Beaudoin<br>Associate Director<br>Head of ISS ESG SPO Operations |