

# THE STATE OF SAXONY-ANHALT

## Social Bond Framework – May 2023

The State of Saxony-Anhalt plans to issue social bonds to (re)finance projects in the areas of affordable basic infrastructure, employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, socioeconomic advancement and empowerment as well as access to essential services and has commissioned imug rating

to provide a Second Party Opinion. The following findings are based on our assessment of the Issuer and of the Issuer's Social Bond Framework (May 2023) in accordance with the voluntary guidelines of the Social Bond Principles (SBP) published by the International Capital Market Association (June 2021).



imug rating confirms that the Social Bond Framework of the State of Saxony-Anhalt is in line with the Social Bond Principles (SBP) 2021.

### FRAMEWORK



- ✓ Use of Proceeds
- ✓ Process for Project Evaluation and Selection
- ✓ Management of Proceeds
- ✓ Reporting

### ISSUER



- ✓ Sustainability Performance/Strategy
- ✓ Controversy Check
- ✓ Controversial Activities Research

### OPINION



The Social Bond Framework of Saxony-Anhalt is fully in line with the Social Bond Principles 2021. The (re)financed projects in the areas of affordable basic infrastructure, employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, socioeconomic advancement and empowerment as well as access to essential services contribute to the mitigation of COVID-19-related social issues and bringing about positive social outcomes, thus making a positive sustainability contribution to five United Nations Sustainable Development Goals (UN SDGs): Goal 3, Goal 4, Goal 8, Goal 9 and Goal 10.

The Issuer is a German federal state with 2.17 million inhabitants. The issuance of the social bonds is in line with the Issuer's strategic sustainability goals. The Issuer is involved in one controversial activity (gambling) and practise (lignite).

imug rating  
Hanover, 26 May 2023

[www.imug-rating.de/en](http://www.imug-rating.de/en)

## 1. BACKGROUND

imug rating has been commissioned to provide an independent Second Party Opinion on the Social Bond Framework and the planned social bond issuances of the State of Saxony-Anhalt (hereinafter referred to as “the Issuer” or “the State”). The assessment was conducted taking into consideration the International Capital Market Association’s Social Bond Principles (GBP) 2021.

### *The State of Saxony-Anhalt*

The State of Saxony-Anhalt plans to issue social bonds in the second quarter of 2023 to (re)finance eligible projects in the areas of affordable basic infrastructure, employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, socioeconomic advancement and empowerment as well as access to essential services.

Saxony-Anhalt, part of the federal system of the Federal Republic of Germany as a federal state since 3 October 1990, covers an area of 20,452 square kilometres and had a population of 2.169 million on 31 December 2021.

After the political turnaround in 1989/90, the restructuring and privatisation of the economy of the former German Democratic Republic caused a large number of obsolete state-owned enterprises to close leading to high job losses without the sufficient creation of new jobs. This led to a significant migration to the West German federal states. Although this trend has flattened considerably since 2017 – positive net migration was recorded again for the first time. In 2021 – challenges remain.

Among the goals mentioned in the State’s sustainability strategy, the areas of health, digitalisation, education and science as well as strengthening and deepening the labour market are of central importance for the Issuer. Focus of the State’s measures and activities are particularly vulnerable groups. In view of the experience and impact of the COVID-19 pandemic, a significant part of the expenditure in the Social Bond Framework comes from the Corona Special Fund (“Sondervermögen Corona”). Furthermore, the State has committed itself to acting in a future-oriented manner. The aim is to be better prepared for future crises and to prevent negative consequences by increasing resilience and strengthening various fields of action.

As part of the issuance of the social bonds, the State of Saxony-Anhalt undertakes to use the proceeds exclusively to (re)finance the project categories in the areas of affordable basic infrastructure, employment generation and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, socioeconomic advancement and empowerment as well as access to essential services.

imug rating conducted the assessment from mid-April to mid-May 2023. The State of Saxony-Anhalt provided all relevant documents. In addition, imug rating was in direct contact with the relevant employees of the State. The information we received has allowed us to provide a reasonable opinion on the Framework’s compliance with the abovementioned guidelines.



## 2. FRAMEWORK

### 2.1. Use of Proceeds

imug rating confirms that the project categories are clearly defined and the use of proceeds is fully in line with the Social Bond Principles (SBP) 2021.

The (re)financed projects in the areas of affordable basic infrastructure, employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, socioeconomic advancement and empowerment as well as access to essential services demonstrate a clear social benefit that is quantified by the Issuer. The projects are expected to make a positive contribution to five United Nations Sustainable Development Goals (UN SDGs): Goal 3 “Good health and well-being”, Goal 4 “Quality education”, Goal 8 “Decent work and economic growth”, Goal 9 “Industry, innovation and infrastructure” and Goal 10 “Reduced inequalities”.

#### PROJECT FINANCING

- No refinancing
- Refinancing
  - 36 months
  - 24 months
  - 12 months

The Issuer does not disclose the financing/refinancing ratio in its Framework.

- Financing

The net proceeds of the social bonds will be used to (re)finance projects in the following areas<sup>1</sup>:

PROJECT CATEGORIES	PROJECT TYPE	TARGET GROUP
Affordable basic infrastructure	<b>Digital infrastructure</b> <ul style="list-style-type: none"> <li>▶ High-speed internet and 5G mobile data</li> <li>▶ Expansion of digital infrastructures</li> <li>▶ Publicly usable and free WLAN offers</li> <li>▶ Internet of Things (IoT) access control systems (analysis of visitor flows to public facilities)</li> <li>▶ Technical equipment of educational institutions</li> </ul>	▶ Citizens of Saxony-Anhalt affected by the pandemic

<sup>1</sup> A significant part of the expenditures originates from the Corona Special Fund (“Sondervermögen Corona”) of 15 December 2021, which was established by legislative resolution. Part of the expenditure was made in the budget years 2020 to 2022 due to the emergency situation determined by the State Parliament in accordance with Section 18 (5) of the State Budget Law in the individual sectoral plans (emergency-related expenditures).

Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises	<b>Public transport</b> <ul style="list-style-type: none"> <li>▶ Compensation for COVID-19-related financial disadvantages in local public and local rail transport</li> </ul>	<ul style="list-style-type: none"> <li>▶ Local public transport workers affected by the pandemic</li> <li>▶ Unemployed people affected by the pandemic</li> </ul>
	<b>Cultural sector</b> <ul style="list-style-type: none"> <li>▶ Support for freelance and solo self-employed artists in the cultural sector</li> </ul>	<ul style="list-style-type: none"> <li>▶ Freelance artists affected by the pandemic</li> <li>▶ Solo self-employed artists affected by the pandemic</li> </ul>
	<b>Financing of small and medium-sized enterprises (SMEs)</b> <ul style="list-style-type: none"> <li>▶ Co-financing of state measures to improve the regional economic structure by the State (joint task “Improvement of the Regional Economic Structures / GRW Measures”)<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▶ Employees in SMEs affected by the pandemic</li> <li>▶ Unemployed people affected by the pandemic</li> </ul>
Socioeconomic advancement and empowerment	<b>Equal participation in society</b> <ul style="list-style-type: none"> <li>▶ Provision of air filtration in youth work and youth social work facilities</li> <li>▶ Grants for sports clubs and sports associations to cope with the consequences of the pandemic</li> </ul>	<ul style="list-style-type: none"> <li>▶ Citizens of Saxony-Anhalt affected by the pandemic, in particular:</li> <li>▶ Young adults, teenagers</li> </ul>
	<b>Equal access to services</b> <ul style="list-style-type: none"> <li>▶ Digitalisation of social institutions and counselling centres</li> <li>▶ Measures to overcome learning deficits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Citizens of Saxony-Anhalt affected by the pandemic, in particular:</li> <li>▶ Pupils and students</li> <li>▶ Those in need of counselling</li> <li>▶ Senior citizens</li> <li>▶ Young adults, teenagers</li> <li>▶ People living in social housing</li> </ul>
Access to essential services	<b>Access to education</b> <ul style="list-style-type: none"> <li>▶ Compensation payments to non-university research institutions</li> <li>▶ Compensation payments to universities for pandemic-related additional expenditure</li> <li>▶ Mobile air filters for universities</li> <li>▶ Installation and renewal of stationary ventilation and air conditioning systems</li> <li>▶ Construction measures at the Martin Luther University Halle-Wittenberg (“Julius-Kühn-Haus”)</li> <li>▶ Construction measures at Otto von Guericke University Magdeburg</li> <li>▶ Digitalisation measures at non-university research institutions</li> <li>▶ Digitalisation measures at universities</li> <li>▶ Digitalisation measures at schools (e.g. in the form of digital assistants)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Citizens of Saxony-Anhalt affected by the pandemic, in particular:</li> <li>▶ Pupils and students</li> <li>▶ Families</li> <li>▶ Migrants and/or displaced persons</li> </ul>

<sup>2</sup> GRW measures are activities to improve the regional economic structure: <https://www.invest-in-saxony-anhalt.com/incentives-available>

	<ul style="list-style-type: none"> <li>▶ Reimbursement of kindergarten parental contributions to the municipalities</li> </ul>	
	<p><b>Access to health care:</b></p> <ul style="list-style-type: none"> <li>▶ Procurement of COVID-19 rapid tests and protective equipment</li> <li>▶ Establishment of vaccination centres and a vaccination strategy for the State</li> <li>▶ Replacement and supplementary procurement for major equipment in hospitals</li> <li>▶ Investments in social infrastructure to ensure hygiene protection standards</li> <li>▶ Investments in hospitals according to the Hospital Future Act (“Krankenhauszukunftsgesetz”)</li> <li>▶ Investments in hospitals including large medical equipment and structural adaptations</li> <li>▶ Measures to combat the COVID-19 pandemic in Central Contact Point for Asylum Seekers (ZAS) Halberstadt and field offices</li> <li>▶ Pandemic research projects</li> <li>▶ Grants for university hospitals</li> <li>▶ Cross-sectoral care structures (creation of outpatient-inpatient health centres affiliated to the respective university hospital)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Citizens of Saxony-Anhalt affected by the pandemic, in particular:</li> <li>▶ Pupils and students</li> <li>▶ Families</li> <li>▶ Migrants and/or displaced persons</li> <li>▶ Other vulnerable groups, for example, due to natural disasters</li> </ul>
	<p><b>Access to public services</b></p> <ul style="list-style-type: none"> <li>▶ Digitalisation in the state administration</li> </ul>	<ul style="list-style-type: none"> <li>▶ Citizens of Saxony-Anhalt as those affected by the pandemic</li> </ul>

**Affordable basic infrastructure**

**Goals and benefits**

- Mitigating COVID-19-related social issues and bringing about positive social outcomes in the field of action “Resilience through Digitalisation”<sup>3</sup>
- ▶ Ensuring high-quality nationwide fixed and mobile network coverage through the promotion of digital infrastructure projects

**Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises**

**Goals and benefits**

- Mitigating COVID-19-related social issues and bringing about positive social outcomes in the field of action “Economy, Work and Society”

<sup>3</sup> The Issuer has identified four social fields of action based on its sustainability strategy: Resilience through Digitalisation, Economy, Work and Society, Education and Science as well as Strengthening the Health System. In each of the fields of action, measures and activities have been bundled that are (re)financed by the social bonds.

- ▶ Preservation and stabilisation of the cultural scene in Saxony-Anhalt after the COVID-19 pandemic through support for freelance and solo self-employed artists
- ▶ Ensuring the maintenance of public transport services, especially in times of crisis, through the promotion of local road and rail transport companies.
- ▶ Improving the regional economic structure by supporting SMEs affected by the COVID-19 pandemic

### Socioeconomic advancement and empowerment

#### Goals and benefits

- Mitigating COVID-19-related social issues and bringing about positive social outcomes in the fields of action “Economy, Work and Society”, “Resilience through Digitalisation” and “Education and Science”
- ▶ Compensating sports clubs for pandemic-related damage and promoting physical activity or (re)acquiring members through lump sum payments
- ▶ Enabling equal access to services (social institutions and counselling centres) by promoting digital infrastructure projects
- ▶ Overcoming learning deficits through catch-up measures

### Access to essential services

#### Goals and benefits

- Mitigating COVID-19-related social issues and bringing about positive social outcomes in the fields of action “Education and Science”, “Resilience through Digitalisation” and “Strengthening the Health System”
- ▶ Improving access to education and research at universities, schools and non-university research institutions by supporting digital infrastructure projects and equipping universities with mobile air filters
- ▶ Compensating the municipalities for pandemic-related damages through the reimbursement of parental contributions to day care centres
- ▶ Improving access to healthcare by investing in upgrading the structural infrastructure, modern emergency capacities, digitalisation and IT security, technical equipment, large-scale equipment, mobile air purification equipment in hospitals as well as subsidies to university hospitals
- ▶ Strengthening the public health system, especially in the fight against pandemics, by promoting pandemic research projects
- ▶ Improving access to healthcare through the procurement of COVID-19 rapid tests
- ▶ Improving access to public services by promoting digital infrastructure projects in the state administration

The projects (re)financed by the social bonds represent a positive contribution to sustainability by helping to mitigate COVID-19-related social issues and bringing about positive social outcomes. The Issuer is able to quantify the social benefits.

## PROJECT DESCRIPTION

*Basis of the  
(re)financed  
projects*

### Corona Special Fund (“Sondervermögen Corona”) of the State of Saxony-Anhalt

The Issuer adopted a catalogue of measures for the Corona Special Fund Act (“Corona-Sondervermögensgesetz”) in December 2021. The catalogue comprises a total of 60 measures with a cumulative funding requirement of just under two billion euros.

The 60 individual projects contained therein, divided into individual years, trigger payment flows within five years until 2027. The establishment of the special fund was linked to the goals of financing sustainable and long-term projects. An essential criterion was the relation of the measure to consequences in connection with the COVID-19 pandemic. For this reason, the Issuer chose four social fields of action in which identified disadvantages are to be compensated and defined topics are to be advanced.

A statement from the International Capital Market Association (ICMA) reads:<sup>4</sup>

“All types of issuers in the debt capital markets can issue a Social Bond related to COVID-19, as long as all the Core Components of the SBP are addressed, and that the use of proceeds of the bond go exclusively towards eligible Social Projects that address or mitigate social issues wholly or partially emanating from the coronavirus outbreak. There is no requirement to have previously issued a Social Bond.”

And further:

“What types of proceeds are eligible for a COVID-19 focused social bond?”

Social Bonds finance projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes. The global Coronavirus outbreak threatens the well-being of the world’s population, especially the elderly and those with underlying health problems. In addition, millions of people around the world are suffering or will be suffering from the economic downturn and social isolation brought on by the pandemic. Relevant projects could be undertaken by various industries and sectors where the aim of the project(s) is to mitigate COVID-19 related social issues and bring about positive social outcomes, especially for target populations, which may also include the general population affected by the crisis.

Illustrative examples for eligible social projects can include, for example, COVID-19 related expenditures to increase capacity and efficiency in provisioning healthcare services and equipment, medical research, SME loans that support employment generation in affected small businesses, and projects specifically designed to prevent and/or alleviate unemployment stemming from the pandemic. The general population is likely to be affected by the pandemic, including by any resultant socioeconomic crisis, and Social Bonds, while seeking to achieve positive social outcomes for target populations, may also serve to address the needs of the general population.

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<sup>4</sup> Guidance Handbook of the ICMA. Source: <https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/The-GBP-Guidance-Handbook-January-2022.pdf>

The projects (re)financed by the social bonds in the areas of affordable basic infrastructure, employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, socioeconomic advancement and empowerment as well as access to essential services are expected to contribute to five United Nations Sustainable Development Goals (UN SDGs): Goal 3 “Good health and well-being”, Goal 4 “Quality education”, Goal 8 “Decent work and economic growth”, Goal 9 “Industry, innovation and infrastructure” and Goal 10 “Reduced inequalities”

*Contribution to the Sustainable Development Goals (SDGs)*

### UN SDG 3: Good health and well-being



UN SDG 3 aims to ensure healthy lives and promote well-being for all at all ages. The goals to be achieved by 2030 include:

- ▶ Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all

The State of Saxony-Anhalt is expected to contribute to UN SDG 3 by using the proceeds from the social bonds to (re)finance projects in the area of access to essential services.

### UN SDG 4: Quality education

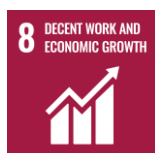


UN SDG 4 aims to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. The goals to be achieved by 2030 include:

- ▶ Eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations
- ▶ Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, nonviolent, inclusive and effective learning environments for all.

The State of Saxony-Anhalt is expected to contribute to UN SDG 4 by using the proceeds from the social bonds to (re)finance projects in the areas of socioeconomic advancement and empowerment as well as access to essential services.

### UN SDG 8: Decent work and economic growth



UN SDG 8 aims to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. The goals to be achieved by 2030 include:

- ▶ 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.

The State of Saxony-Anhalt is expected to contribute to UN SDG 8 by using the proceeds from the social bonds to (re)finance projects in the area of



employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises.

### UN SDG 9: Industry, innovation and infrastructure



UN SDG 9 aims to build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. Targets to be achieved by 2030 include:

- ▶ Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
- ▶ Significantly increase access to information and communications technology

The State of Saxony-Anhalt is expected to contribute to UN SDG 9 by using the proceeds from the social bonds to (re)finance projects in the areas of affordable basic infrastructure and access to essential services.

### UN SDG 10: Reduced inequalities



UN SDG 10 aims to reduce inequality within and among countries. The goals to be achieved by 2030 include:

- ▶ Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

The State of Saxony-Anhalt is expected to contribute to UN SDG 10 by using the proceeds from the social bonds to (re)finance projects in the field of socioeconomic advancement and empowerment.



## 2.2. Process for Project Evaluation and Selection

imug rating confirms that the process for project evaluation and selection is fully in line with the Social Bond Principles (SBP) 2021.

Issuing the social bonds helps the State of Saxony-Anhalt to achieve its strategic goals. The Issuer has implemented structured processes that allow it to identify suitable projects with clear social benefits. Furthermore, the underlying process is transparent, structured and spread across several levels of authority. The Issuer also has a process in place to identify and manage any significant risks that may be associated with the projects.

### EVALUATION AND SELECTION

To ensure a structured process for project evaluation and selection, the State of Saxony-Anhalt has formed the “Social Financing” coordination group for the issuance of the social bonds with the following representatives:

- ▶ The Commissioner for the Corona Special Fund
  - ▶ The commissioner for the general budgeting department
  - ▶ The individuals in charge of sustainable financing in the operations unit for money and capital market business
  - ▶ A member of the Sustainable Finance Advisory Committee of the German Federal Ministry of Finance
  - ▶ If necessary, further expert staff from other departments
- The process is clearly defined and documented / appropriately structured.
  - The selection and evaluation of projects is based on clearly-defined responsibilities.
  - There is a team responsible for the process.
  - Audit and traceability of the projects are ensured.

In the first step, the Issuer defined four social fields of action to identify measures for a special COVID-19 fund and for the social projects to be financed. Each ministry was then asked to submit suitable project proposals that could be assigned to these areas. These were examined in accordance with the legal and political requirements in terms of feasibility, relevance of measures as well as objectives and included in the catalogue of measures for the special fund. Finally, the eligibility of the selected projects was discussed by the members of parliament and determined by means of a legislative resolution in the State Parliament.

To determine eligible social projects, a budget officer, together with the technically responsible contact person from the relevant mirror units of the budgeting department and a member of the Sustainable Finance Advisory Committee of the German Federal Ministry of Finance, recorded the projects in structured project sheets. These were then submitted to the operations unit for money and capital market business for coordination. All project sheets were consolidated into a central list of potentially suitable social projects. This list is available to imug rating and accessible to the public online.

The eligibility check and final selection of social projects was carried out by the “Social Financing” coordination group. Based on the established eligibility criteria for the use of funds and on

the central list of potentially suitable social projects, the coordination group made a project selection.

The “Social Financing” coordination group will meet regularly and on an ad hoc basis to carry out its tasks.

## ELIGIBILITY CRITERIA

The Issuer has defined eligibility criteria for the selection and evaluation of projects:

PROJECT CATEGORY	CRITERIA
Affordable basic infrastructure	<p><i>Social criteria</i></p> <ul style="list-style-type: none"> <li>▶ The expenditure must be attributable to the project categories defined in the Issuer's Framework.</li> <li>▶ Projects are only selected if the sustainability impact can be qualitatively described and quantified according to the ICMA project categories.</li> </ul>
Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises	<ul style="list-style-type: none"> <li>▶ The projects must correspond to a social focus from the areas of digitalisation, demography and/or health as well as the sustainability strategy of the State of Saxony-Anhalt.</li> </ul> <p><i>Budget criteria</i></p> <ul style="list-style-type: none"> <li>▶ Capital expenditures, public subsidies and current expenditures that result in new assets, expand, improve or increase the life of existing assets are eligible.</li> <li>▶ The cash outflow can be quantified and clearly allocated to the respective projects by means of an actual presentation within the framework of the respective budget statement.</li> <li>▶ Only the net expenditure of the State of Saxony-Anhalt is considered. Any third-party funds used for (partial) financing, e.g. allocations from the federal government, EU funding or complementary financing by development banks, are deducted from the total expenditure.</li> </ul>
Socioeconomic advancement and empowerment	<p><i>Eligibility criteria</i></p> <ul style="list-style-type: none"> <li>▶ The expenditure must originate from the Corona Special Fund of 15 December 2021 of the State of Saxony-Anhalt, established by the legislative resolution.</li> </ul>
Access to essential services	<p><i>or</i></p> <ul style="list-style-type: none"> <li>▶ The expenditures were made in the budget years 2020 to 2022 due to the emergency situation determined by the State Parliament in accordance with Section 18 (5) of the State Budget Law in the budget plans of the ministries (emergency-related expenditures).</li> </ul>

The Issuer states in its Framework that for a large portion of the projects own funding guidelines have been developed and published. imug rating considers the classification of the project categories or subcategories in relation to the designation of the underlying funding guidelines as best market practice.

## EXCLUSION CRITERIA

The Issuer excludes personnel expenses included in the state budget from HGr. (Haushalt-grundsatz) 4. Expenditures made under federal statutory provisions or EU regulations are also excluded.

## ESG RISK MANAGEMENT

imug rating is of the opinion that the State of Saxony-Anhalt has appropriate policies and processes in place to manage the material ESG risks associated with the projects. The Issuer has implemented a very good risk management system to identify and manage potentially material ESG criteria.

In addition to positive social impacts, the projects (re)financed through the proceeds of the social bond issues have certain ESG (environmental, social and governance) risks. The material risks include occupational health and safety, ESG aspects with contractors, suppliers and sub-contractors, stakeholder management as well as compliance risks such as corruption.

The State of Saxony-Anhalt has taken various measures to manage ESG risks as they arise:

- ▶ **Climate measures:** In the 2021 coalition agreement, the State Government set targets for Saxony-Anhalt and committed itself to working towards reducing greenhouse gas emissions (GHG emissions) by 5.65 million tonnes of CO<sub>2</sub>-eq. by 2026. The sustainability strategy of Saxony-Anhalt (2022) presented by the Ministry of the Environment also follows this development path and contains quantitative targets for the year 2030. According to the Issuer, the decided phaseout of coal-fired power generation has an impact on the value chains of the regional economy and will lead to structural change in central Germany. The phaseout of lignite as an energy source is expected to make a significant contribution to reducing greenhouse gases. Emissions from coal-fired power generation have also fallen in recent years. In addition, a total of 2,842 wind turbines with a total installed capacity of almost 5,295 megawatts were in operation in Saxony-Anhalt at the end of 2021.
- ▶ **Environmental management:** The Ministry of Science, Energy, Climate Protection and the Environment is subordinate to the State of Saxony-Anhalt. As the highest state authority, it supervises the higher and lower state authorities, which provide technical advice and executive support to the Ministry. To promote environmentally sound economic development, the Saxony-Anhalt Environmental Alliance was founded in 1999 as a voluntary agreement between the State Government and the business community. Since 2003, the State Government has granted an environmental bonus for the promotion of investment in individual companies. Companies, chambers, associations and other economic institutions based in Saxony-Anhalt can participate in the Environmental Alliance. The main criterion for inclusion is the provision of several environmental services, which can be demonstrated by participation in the EU's Eco-Management and Audit Scheme (EMAS) or successful certification according to DIN EN ISO 14001, so that various environmental areas benefit from the measures.
- ▶ **Circular economy:** In 2010, the State of Saxony-Anhalt decided to enact its own waste law. Its core objectives are to promote a low-waste circular economy and to ensure environmentally sound waste disposal. This includes, in particular, waste avoidance, pollutant reduction, waste recovery, waste treatment and waste disposal. To strengthen and expand resource efficiency, the State has decided to promote projects within the framework of research funding (e.g. on the use of substitute building materials), but at the same time to participate in the federal programmes "Municipal Climate Protection" and "Transnational Cooperation" with a focus on waste management projects and regional approaches to circular economy.
- ▶ **Protection of biodiversity:** The State Government has committed to updating the existing biodiversity strategy and the associated action plan in the current legislative period (2021-2026). The goals of the European and national biodiversity strategy are to be included. In 2010, Saxony-Anhalt adopted a biodiversity strategy. A Biodiversity Action Plan

adopted by the cabinet in 2013 supplemented this biodiversity strategy and names measures for around 60 priority fields of action, most of which are financed through EU funds. According to the Issuer, 1,560 animal and plant species are acutely threatened with extinction in Saxony-Anhalt alone, which corresponds to 7.3 percent of all species recorded in Saxony-Anhalt. The Ministry of the Environment, therefore, provides substantial funding for projects to preserve and improve habitats through the Species Protection Fund, which has been in existence since 2019.

- ▶ **Human and labour rights standards:** As a federal state in the federal system of Germany, the State of Saxony-Anhalt is bound by numerous international and European human rights treaties that the Federal Republic of Germany has ratified. The individual rights and obligations of the State arising from these human rights treaties are applicable law in Germany. Together with the fundamental rights guaranteed in the German Basic Law (“Grundgesetz”), they form the basis of human rights protection in Germany. In addition, the constitution of the State of Saxony-Anhalt contains its own fundamental rights section. Unlike in the Basic Law, not only is the “right to life and physical integrity” guaranteed, but protection has also been extended to mental integrity. Data protection was also anchored as a fundamental right in the constitution with the guarantee to protect personal data.

The legal framework for setting labour standards is also derived from the signed human rights treaties. In addition, forced labour and the employment of children are prohibited. The Occupational Health and Safety Act and the Occupational Safety Act cover corresponding topics.

If the State of Saxony-Anhalt acts as an employer, the regulations of the collective agreement for the public service of the *Länder* applies to the employees of the State, while the Civil Service Act of the State of Saxony-Anhalt as well as the Civil Service Status Act apply to the civil servants. In addition, the State of Saxony-Anhalt has adopted further regulations in the Tariff Compliance and Award Act of Saxony-Anhalt for the companies to be contracted by the State to ensure tariff compliance, social standards and competition in the award of public contracts. Among other things, compliance with the ILO core labour standards was included in § 13 when awarding contracts.

- ▶ **Occupational health and safety regulations:** The State Office for Consumer Protection of Saxony-Anhalt has the task of ensuring consumer, health and occupational safety. With its regionally oriented occupational health and safety departments “Labour Inspectorate”, it ensures the protection of workers, consumers and third parties from health hazards on the basis of a range of European and national legislation. The occupational health and safety administration of Saxony-Anhalt has wide-ranging powers and responsibilities in ensuring the protection of workers and patients.
- ▶ **Product safety:** The implementation of European directives into national law, such as the CE marking regulations, is carried out by the Product Safety Act (ProdSG). In Saxony-Anhalt, the State Office for Consumer Protection is responsible for this. Within the framework of market surveillance, this office is not only reactive (event-related) but also active (its own actions) and regularly publishes the results of these inspections freely accessible on the internet.
- ▶ **ESG aspects with contractors, suppliers and subcontractors:** With regard to the requirements for companies that want to accept public contracts from the state, the special conditions according to the Tariff Compliance and Award Act (TVergG LSA) apply. This law regulates social criteria such as tariff compliance, minimum hourly wage and equal pay. Furthermore, § 5 of this law prescribes the consideration of social, ecological and innovative criteria in the award procedure.
- ▶ **Dialogue with local stakeholders:** The dialogue with associations and other actors of civil society is based on the interministerial coordination and cooperation of the State of Saxony-Anhalt. An interministerial working group of all ministries has been established to coordinate all measures of the sustainability strategy and necessary adjustments. In the

case of measures that directly affect the interests of the municipalities, the State Government is obliged to consult the municipal umbrella organisations beforehand. In addition, all citizens, social groups or legal entities under private law have the opportunity to enter into dialogue with the State Government via petitions. This also includes petitions on legislation. Furthermore, according to the Law on Environmental Impact Assessment in the State of Saxony-Anhalt (UVPG LSA), an environmental impact assessment is required for many projects in the state.

- ▶ **Compliance:** To combat corruption, the Central Office for Measures to Combat Corruption in the State Administration was established in the Ministry of the Interior and Sport (MI). Essential regulations and instructions are summarised in the Administrative Regulation (VV) on Avoiding and Combating Corruption. Section 54 of the Civil Service Act of Saxony-Anhalt also deals with the prohibition of accepting rewards, gifts and other benefits. The guidelines for investment management (circular decree of the Ministry of Finance) also contain regulations on the prevention of corruption in companies in which the State holds an interest. In addition, a central complaints office for corruption prevention and information security has been set up to receive complaints, tips and information.



## 2.3. Management of Proceeds

imug rating confirms that the rules put in place for managing the proceeds are fully in line with the Social Bond Principles (SBP) 2021.

The State of Saxony-Anhalt has established internal rules that facilitate a transparent allocation process.

### TRACKING THE PROCEEDS

- Sub-account
- Sub-portfolio
- Adequately tracked by other means

The State of Saxony-Anhalt will manage the proceeds from the social bonds according to a portfolio approach via the “Social Financing” coordination group. Insofar as the State of Saxony-Anhalt passes on the proceeds to commissioned companies, it undertakes to ensure that these funds are used exclusively for suitable social projects in accordance with the Framework.

- The Issuer has an internal process in place to ensure that proceeds are used exclusively for the selected projects in the areas of affordable basic infrastructure, employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, socioeconomic advancement and empowerment as well as access to essential services.

The tracking of the proceeds is carried out by means of an internal accounting system, which should allow for a clear and traceable tracking of all uses of funds in the respective expenditures. Should the appropriate social projects to which the proceeds have been allocated no longer meet the selection criteria for any reason or should a controversial use of funds be identified, the State undertakes to reallocate the proceeds allocated to these expenditures to other appropriate suitable social projects until the maturity of the respective bond.

- The Issuer will periodically allocate the balance of the net proceeds to the projects as long as the social bonds are outstanding.

The cumulative net proceeds of all outstanding social bonds shall not exceed the cumulative value of the appropriate social projects.

- The Issuer will disclose the planned (temporary) placement to the investors.

Unallocated proceeds from social bonds are managed within the framework of the general liquidity management of the Ministry of Finance until the funds are fully utilised. The State undertakes to disclose this in the annual reporting.

- The Issuer will allocate the proceeds to the projects in a defined period.

The Issuer plans the full allocation of the issuance proceeds at the time of their reception, but no later than 12 months after.

- Internal audit



Confirmation of the regularity of allocated expenditure is generally based on the annual budget statement to be prepared by the Ministry of Finance in accordance with §§ 80 ff. LHO. Pursuant to § 114 LHO (State Budget Law), the budget account is submitted to the State Parliament, which can grant discharge to the State Government on the basis of the independent audit by the State Audit Office (“Landesrechnungshof”). On the basis of the budgetary accounts, it is possible to verify all actual expenditure set out in the allocation report. The budgetary accounts are published annually on the website of the Ministry of Finance. In addition, in accordance with § 5 of the Corona Special Fund Act (“Corona-SVG”), the State Parliament is informed every six months about the current implementation status of all measures.

External verification



## 2.4. Reporting

imug rating confirms that the reporting process is fully in line with the Social Bond Principles (SBP) 2021.

The Issuer undertakes to report on the allocation of funds as well as the social benefits of the projects. The underlying process of data collection and consolidation is clearly defined.

imug rating assesses the Issuer's commitment to future regular reporting on the use of proceeds and the social benefit of the social bonds as meaningful and resilient.

### LEVEL OF REPORTING

- Project portfolio basis
- Project level

### REPORTING INDICATORS

#### Allocation of funds

- Amount of the total proceeds of the issuance
- Amount allocated
- Share of refinancing
- Information on any unallocated proceeds of the issuance
- Project description

#### Sustainability information

- Demonstration of the sustainability benefits (quantitative)
- Demonstration of the sustainability benefits (qualitative)

#### Further information

- Reporting on material changes  
The Issuer states that possible changes to the selected projects and the underlying causes are listed and explained.
- Reporting on risk management
- External verification of reporting (impact reporting)
- External verification of reporting (allocation reporting)

The State of Saxony-Anhalt undertakes to report on the amount of proceeds collected, the projects financed, their sustainability benefits and corresponding sustainability indicators as well as ESG risks.

### REPORTING TAKES PLACE VIA

- Website
- Annual Report / Sustainability Report
- Internal channels, exclusively to investors

### FREQUENCY

- Annually
- The Issuer discloses that the report on the use of proceeds will be published annually.
- Semi-annually
  - Other

### REPORTING PERIOD

- Until the proceeds are fully allocated
- The Issuer states in its Framework that the report will be provided at the latest from the year following the issuance until the proceeds of the issuance have been fully allocated. The Issuer will report in the event of material changes.
- As long as the social bonds are outstanding

### DATA COLLECTION AND CONSOLIDATION PROCESS

- The underlying process of data collection and consolidation is clearly structured.
- The responsibility for reporting lies with the operations unit for money and capital market business in the Ministry of Finance of the State of Saxony-Anhalt. The entire process of project evaluation and selection and reporting has been illustrated and described in the Issuer’s Framework.
- Subject to external control

### SOCIAL REPORTING INDICATORS

The selected social reporting indicators are considered relevant and significant by imug rating. The Issuer has included an exemplary list of these in its Framework. A more comprehensive presentation of planned reporting indicators can be found in a supplementary project list. This will be made publicly available. The Issuer will demonstrate the expected positive impact of the financing activity using quantitative output indicators:

PROJECT CATEGORY	OUTPUT INDICATORS	IMPACT INDICATORS
Affordable basic infrastructure	▶ Number of digital infrastructure projects funded	▶ N/A
Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises	▶ Number of supported enterprises in local road and rail transport ▶ Number of supported artists and awarded scholarships in the cultural sector	▶ N/A

<p>Socioeconomic advancement and empowerment</p>	<ul style="list-style-type: none"> <li>▶ Number of facilities supported for improved equipment (including indoor air filtration)</li> <li>▶ Number of beneficiary sports clubs and associations</li> <li>▶ Number of supported association members</li> <li>▶ Number of measures implemented to catch up on learning deficits</li> </ul>	<p>▶ N/A</p>
<p>Access to essential services</p>	<ul style="list-style-type: none"> <li>▶ Number of research projects in the area of pandemics</li> <li>▶ Number of digital assistants deployed</li> <li>▶ Number of air purifiers and CO<sub>2</sub> monitors procured</li> <li>▶ Number of benefitting school boards</li> <li>▶ Number of equipped classrooms</li> <li>▶ Number of patients cared for</li> <li>▶ Number of COVID-19 rapid tests procured</li> </ul>	<p>▶ N/A</p>

In its Framework, the State commits to identifying at least one indicator for each sub-category during the course of the project and to publishing suitable indicators as part of the report.



### 3. ISSUER

#### SUSTAINABILITY PERFORMANCE/STRATEGY

Saxony-Anhalt is a German federal state with an area of 20,452 square kilometres and a population of 2.169 million as of 31 December 2021. According to the Basic Law of the Federal Republic of Germany, a federal state retains state-specific legislative competence for essential areas such as education, transport, basic infrastructure and services as well as socio-economic development. The issuance of the social bonds is in line with the Social Bond Principles (SBP) and contributes to the Issuer's strategy to develop appropriate measures to be better prepared for future state-specific crises, while taking advantage of new opportunities as they arise.

#### *Sustainable targets of the State of Saxony-Anhalt*

The State of Saxony-Anhalt published a sustainability report for the first time in 2011 and presented the State's first comprehensive sustainability strategy with an indicator report in 2018. In July 2022, the State adapted the strategy to the United Nations 2030 Agenda, mapped its measures to the 17 UN Sustainable Development Goals (UN SDGs) and underpinned selected sustainability indicators with a target for the year 2030.

The sustainability strategy 2022 of the State<sup>5</sup> reflects its ongoing structural change with a special focus on social coexistence. In view of the COVID-19 pandemic, the goal of Saxony-Anhalt is to develop appropriate strategies to be better prepared for future crises and at the same time to take advantage of new opportunities that may arise. To this end, the State Government has identified demographic change, climate protection, the expansion of renewable energies, structural change in the regions of the State affected by the coal phaseout, the strengthening of rural areas and the continuation of digitalisation as central pillars.

The Issuer ascribes great importance to strengthening mobility and digital infrastructure in the sense of a resilient healthcare industry, taking into account the high proportion of the population in rural areas.

Furthermore, in its coalition agreement, the current State Government has set itself the goal of presenting the first sustainability budget in Germany and Europe. The aim is to allocate expenditure to the different UN SDGs.

The strategy of the State of Saxony-Anhalt is in line with the issuance of the social bonds.

<sup>5</sup>[Sustainability \(sachsen-anhalt.de\)](https://www.sachsen-anhalt.de) (available in German language)

## CONTROVERSIAL ACTIVITIES AND CONTROVERSIES

### Controversial activities

imug rating has examined the State of Saxony-Anhalt for a total of 15 controversial activities<sup>6</sup>. The Issuer holds interests in three companies from the gambling industry<sup>7</sup>. Furthermore, according to the Gambling Act of the State of Saxony-Anhalt (“Glücksspielgesetz – GlüG LSA”)<sup>8</sup> as well as the nationwide State Treaty on Gambling (2021), the organisation, implementation and brokerage of public gambling in the State of Saxony-Anhalt are permitted and regulated.

The Issuer is not involved in any other controversial activities.

### Controversies

In the state of Saxony-Anhalt, two mining companies, MIBRAG mbH and ROMONTA GmbH, produce around six million tonnes of lignite annually for power generation (conversion into electricity, district heating) and special products (lignite dust, wax)<sup>9</sup>. The companies are not owned by the State of Saxony-Anhalt.

The state of Saxony-Anhalt has decided to phase out coal-fired power generation by 2038<sup>10</sup>.

imug rating classifies this involvement as significant as the environmental damages associated with mining are long-term.

No further information on the involvement of the State of Saxony-Anhalt in controversies is available as of 12 May 2023.<sup>11</sup>

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<sup>6</sup> The controversial activities are defined in the methodology section (p. 24).

<sup>7</sup> <https://mf.sachsen-anhalt.de/finanzen/zentrales-beteiligungsmanagement/> (available in German)

<sup>8</sup> <https://www.landesrecht.sachsen-anhalt.de/bsst/document/jlr-GlSpielGST2012rahmen> (available in German)

<sup>9</sup> <https://lagb.sachsen-anhalt.de/bergbau/braunkohle> (available in German)

<sup>10</sup> <https://strukturwandel.sachsen-anhalt.de/perspektiven/strukturwandel> (available in German)

<sup>11</sup> The controversies are defined in the methodology section (p. 24).



## 4. OPINION

### *Framework*

imug rating has analysed and assessed the Social Bond Framework of the State of Saxony-Anhalt with regard to its alignment with the four core components of the current Social Bond Principles (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting). The Issuer is a German federal state with 2.17 million inhabitants. The state of Saxony-Anhalt plans to use the issuance of social bonds to (re)finance projects in the categories of affordable basic infrastructure, employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, socioeconomic advancement and empowerment as well as access to essential services.

**imug rating confirms that the Social Bond Framework of the State of Saxony-Anhalt is fully in line with the current Social Bond Principles (as of June 2021) of the International Capital Market Association (ICMA).**

### *Sustainability benefits and ESG risk management*

The (re)financed projects contribute to mitigating COVID-19-related social issues by bringing about positive social outcomes in the fields of action of “Resilience through Digitalisation”, “Economy, Work and Society”, “Education and Science” and “Strengthening the Health System”. The Issuer has defined relevant eligibility criteria and reporting indicators to ensure a positive social impact of the projects. To this end, the Issuer has implemented a very good risk management system to manage the material ESG risks associated with the projects. The projects (re)financed by the issuance proceeds make a positive sustainability contribution to five United Nations Sustainable Development Goals (UN SDGs): Goal 3 “Good health and well-being”, Goal 4 “Quality education”, Goal 8 “Decent work and economic growth”, Goal 9 “Industry, innovation and infrastructure” and Goal 10 “Reduced inequalities”

### *Sustainability strategy and performance*

The Issuer’s sustainability strategy aims to develop appropriate measures to be better prepared for future country-specific crises while taking advantage of new opportunities as they arise. The issuance of the social bonds makes a positive contribution to mitigating COVID-19-related social problems and bringing about positive social outcomes and is thus in line with the Issuer’s strategy. The Issuer is involved in one controversial activity (gambling) and practise (lignite).



## 5. METHODOLOGY

The present Second Party Opinion (SPO) was prepared by qualified imug rating analysts. Our sustainability research is carried out exclusively in accordance with recognised and methodically secured procedures. We have defined strict quality standards for all research activities and customer processes. As early as 2002 (updated 2022), imug rating adopted a Code of Conduct, which guarantees the independence, traceability and quality of sustainability assessments. To align its research and work processes even more closely with recognised standards, imug rating underwent an external audit in June 2019 and received certification in accordance with the quality management standard ISO 9001:2015. The initial certifications are reviewed in regular monitoring audits, the last of which took place in April 2022.

Following a detailed examination of the framework, imug rating confirms whether an issuance complies with the Green Bond Principles (GBP) 2021, Social Bond Principles (SBP) 2021, and the Sustainability Bond Guidelines (2021) as well as the Green Loan Principles (GLP) 2021 and Social Loan Principles (SLP) 2021.

For a positive assessment, the Issuer must transparently report on and comprehensibly implement the following points: (1) use of the proceeds, (2) process for project evaluation and selection, (3) management of the proceeds and (4) reporting. In addition to the Framework, discussions with relevant employees of the Issuer and publicly available information form the information basis for the present SPO. These sources were only used if the information was comprehensible and documented. imug rating bases its analysis on the mandatory and recommended criteria of the relevant standards. In addition, mandatory criteria defined by imug rating are included with consideration of further market standards. For the assessment of ESG risk management in the areas of environmental, social and governance issues, a questionnaire is sent to the Issuer. This is evaluated according to the internal analysis. In the SPO, the results of the assessment of the policies and processes (no, some or appropriate) as well as the quality of the risk management system (weak, moderate, good or very good) are presented. Furthermore, imug rating checks whether an issuance is in line with the Issuer's sustainability strategy or, in the absence of a strategy, whether suitable sustainability measures are already being implemented.

imug rating examines the Issuer's involvement in controversial activities and practises. Controversial activities include alcohol, tobacco, cannabis, gambling, pornography, hazardous chemicals, fossil fuel industry, coal, unconventional oil and gas production, mining, nuclear energy, military/armament, civilian firearms, green genetic engineering and animal testing/animal welfare. All controversial activities are listed regardless of a turnover threshold.

The controversial practises include, for example, violations of internationally recognised sustainability standards such as the UN Global Compact or the ILO core labour standards. The analysis covers the following areas: environmental damage, society and corporate governance. Only those controversies are listed that are verifiable through reliable and resilient public sources. imug rating categorises controversies according to their severity (insignificant, significant and critical). In addition to the severity of a controversy, the frequency of its occurrence is also taken into account.



#### Transparency & Disclaimer

Disclosure of the relation between imug rating and the Issuer: imug rating has not carried out any audit or consultancy service for the State of Saxony-Anhalt to date. This activity is not related to the present Second Party Opinion. There is no relationship, financial or otherwise, between imug rating and the Issuer.

imug rating has prepared this independent Second Party Opinion in accordance with imug rating's methodology and in strict compliance with its Code of Conduct to avoid conflicts of interest and to meet requirements of objectivity and transparency, independence, integrity and professional conduct.

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In providing the external review, imug rating adheres to the ethical and professional principles as well as to transparency standards and independence in line with ICMA's Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews.

In providing its research and rating services, imug rating acts with due skill, care and diligence and undertakes all reasonable efforts to ensure the accuracy of the information provided.

Based on data provided by the Issuer, imug rating prepares a Second Party Opinion on the sustainability credentials of the Bond(s). The information contained herein, therefore, is provided "as is", without warranty, either expressed or implied, of any kind, including as to the accuracy, completeness, timeliness, merchantability or fitness for any particular purpose.

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#### Validity of the Second Party Opinion (SPO)

This Second Party Opinion is valid for the term of the financing instrument after completion of the document if only one financing instrument with a maximum term of five years is issued. If the term of the financing instrument exceeds five years, an update of the SPO is required five years after the issuance of the first SPO.

If several issuances are planned with a time interval within the same framework, an update of the SPO is required two years after the issuance of the first SPO.

An update of the SPO is also required in the event of significant changes to the Issuer's Framework conditions and sustainability requirements that have an impact on the SPO as well as in the event of a change to the underlying standard.

## imug | rating

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imug rating is the leading German provider for strategy and implementation of ESG investments as well as for sustainability assessments. As a partner for the financial market, corporates and the public sector, we have stood for sustainable ESG strategies, data and reporting as well as for credible Second Party Opinions, Sustainability Ratings and expert opinions for over 25 years. imug rating is a data partner of Moody's ESG Solutions<sup>12</sup>, recognised auditor of green bonds and loans according to ICMA and LMA as well as Climate Bonds Approved Verifier. Our quality management is certified according to ISO 9001, which is unique in our industry. We are a signatory of the Principles for Responsible Investments (PRI), a member of the Forum Nachhaltige Geldanlagen (FNG), the Corporate Responsibility Interface Center (CRIC) and the association Kapitalmarkt KMU. imug rating is a wholly owned subsidiary of the European Ethifinance SAS.

imug rating GmbH  
Postkamp 14 a  
30159 Hanover, Germany  
Phone: +49 511 12196-50  
E-mail: [info@imug-rating.de](mailto:info@imug-rating.de)  
Web: [www.imug-rating.de/en](http://www.imug-rating.de/en)

#### Analysts

- ▶ Christina Tyca
- ▶ Gökhan Vatansever
- ▶ Daria Ezhkova

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<sup>12</sup> Moody's® is a registered trademark.