



Second-Party Opinion

MERLIN Properties Green Financing Framework

Evaluation Summary

Sustainalytics is of the opinion that the MERLIN Properties Green Financing Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Green Buildings, Renewable Energy, Energy Efficiency, Clean Transportation and Pollution Prevention and Control – are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories are expected to decarbonize MERLIN Properties Socimi S.A.’s real estate portfolio and advance the UN Sustainable Development Goals, specifically SDGs 7, 9, 11 and 15.



PROJECT EVALUATION / SELECTION MERLIN Properties Socimi S.A.’s will establish a Working Group, comprised of representatives from its Treasury, Financing, Corporate Social Responsibility, Investor Relations and technical departments, which will be responsible for evaluating and selecting eligible projects. The Audit & Control Committee will identify and manage potential environmental and social risks associated with eligible assets. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS MERLIN Properties Socimi S.A.’s Working Group will monitor and track the allocation of proceeds through an internal reporting system. MERLIN Properties Socimi S.A.’s intends to reach full allocation within two years of issuance. Pending allocation, proceeds will be held temporarily in line with its investment guidelines. This is in line with market practice.



REPORTING MERLIN Properties Socimi S.A. intends to report on the allocation of proceeds in a green financing report which will be published on its website on an annual basis until full allocation. Allocation reporting will include information such as the amount allocated by category, the percentage of unallocated proceeds and the percentage and amount of new financing and refinancing split by category. MERLIN Properties Socimi S.A. is also committed to reporting on relevant impact metrics. Sustainalytics views the allocation and impact reporting commitments as aligned with market practice.

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For inquiries, contact the Sustainable Finance Solutions project team:

Shreeya Garg (Amsterdam)
Project Manager
shreeya.garg@sustainalytics.com
(+31) 20 205 0067

Nilofur Thakkar (Mumbai)
Project Support

Lokesh Jain (Mumbai)
Project Support

Zoe Wittmann (Amsterdam)
Project Support

Enrico Tessadro (Amsterdam)
Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

Introduction

MERLIN Properties Socimi S.A. (“MERLIN” or the “Company”) is a real estate company headquartered in Madrid, Spain. The Company focuses on the acquisition and management of commercial assets in Spain and to a lesser extent in Portugal. As of February 2022, MERLIN had EUR 27.76 billion in assets under management and its portfolio comprises approximately 148 office buildings, 45 logistic warehouses, 18 shopping centres and 760 high street retail stores. MERLIN is listed on the Spanish Stock Exchange and Euronext Lisbon.

MERLIN has developed the MERLIN Properties Green Financing Framework (the “Framework”) under which it intends to issue green bonds (including requalification of existing bonds), loans and green derivatives.¹ The use of proceeds will finance or refinance existing or future eligible projects that are expected to contribute towards the decarbonization of the Company’s property portfolio, thereby supporting the achievement of the EU’s climate and energy targets. The Framework defines eligibility criteria in five green categories:

1. Green Buildings
2. Renewable Energy
3. Energy Efficiency
4. Clean Transportation
5. Pollution Prevention and Control

MERLIN engaged Sustainalytics to review the MERLIN Properties Green Financing Framework, dated April 2022, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)² and the Green Loan Principles 2021 (GLP).³ The Framework will be published in a separate document.⁴

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁵ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2021, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of MERLIN’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. MERLIN representatives have confirmed that: (1) they understand it is the sole responsibility of MERLIN to ensure that the information provided is complete, accurate or up to date; (2) they have provided Sustainalytics with all relevant information and (3) any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

¹ MERLIN has informed Sustainalytics that it may issue conventional swaps that serve to hedge the cash flow of a green financing instrument such as a green bond, loan or project in line with MERLIN’s interest rate exposure policy. Additionally, MERLIN has confirmed that the green derivatives will exclude costs associated with third parties that do not result in the development, construction / installation, and operation of eligible activities, such as brokerage / eviction costs and neighbourhood countermeasure costs for area where eligible green assets are located.

² The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

³ The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>.

⁴ The MERLIN Properties Green Financing Framework is available on MERLIN’s website at: <https://www.merlinproperties.com/en/investors/debt/>

⁵ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and MERLIN.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of twenty-four (24) months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that MERLIN has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the MERLIN Properties Green Financing Framework

Sustainalytics is of the opinion that the MERLIN Properties Green Financing Framework is credible and impactful and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of MERLIN's Green Financing Framework:

- Use of Proceeds:
 - The eligible categories – Green Buildings, Renewable Energy, Energy Efficiency, Clean Transportation and Pollution Prevention and Control – are aligned with those recognized by the GBP and GLP. Sustainalytics considers that MERLIN's financing of eligible projects is expected to decarbonize the Company's real estate portfolio and improve the energy performance of buildings in Spain and Portugal.
 - MERLIN has informed Sustainalytics that refinancing will be limited to capital expenditures. Therefore, no look-back period has been established in the Framework, which Sustainalytics considers to be aligned with market practice.
 - Under the Green Buildings category, MERLIN may finance or refinance the acquisition, construction and renovation of commercial buildings including offices, logistics warehouses and shopping centres in accordance with the criteria provided below.
 - Acquisition of existing buildings is based on the following criteria:
 - Buildings that have achieved the following minimum green building certification levels: LEED Gold or BREEAM Excellent. Sustainalytics notes that the Framework allows for the financing of shopping centres that have achieved BREEAM Very Good or above. While Sustainalytics considers LEED⁶ and BREEAM⁷ to be credible green building certifications, Sustainalytics considers BREEAM Excellent to be aligned with market practice and encourages MERLIN to select BREEAM-certified shopping centres that meet the requirements for BREEAM Excellent in the Energy category, which Sustainalytics regards as the most important one. Additionally, Sustainalytics

⁶ More information about the USGBC LEED building certification scheme, at: <http://www.usgbc.org/LEED>

⁷ More information about the BREEAM building certification scheme, at: <https://www.breeam.com/>

notes that, based on a comparison made by MERLIN with comparable commercial centers in Spain, only 5.5% of such buildings have achieved BREEAM Excellent or above.⁸

- Buildings built before 31 December 2020 that have received an Energy Performance Certificate with energy class A.
- Buildings that belong in the top 15% of energy efficient buildings within the national jurisdiction based on primary energy demand
- Buildings with annual operational CO₂ emissions intensity⁹ below 3.8 kgCO₂/m² for offices, below or equal to 0 kgCO₂/m² for logistics centres and below 3.1 kgCO₂/m² for shopping centres. Sustainalytics has not been able to assess compliance with the top 15% buildings in the relevant jurisdiction based on emissions intensity or primary energy demand due to lack of a credible proxy for logistics and shopping centres. However, Sustainalytics notes that MERLIN has committed to relying on these emission intensity thresholds only when a local Climate Bond Initiative proxy is available for the relevant building type to facilitate benchmarking of emissions intensity performance, thereby allowing MERLIN to identify eligible buildings that belong in the top 15% of the local building stock. Additionally, MERLIN has informed Sustainalytics that it intends to achieve the reduction in emissions intensity through the implementation of energy efficient technologies as opposed the procurement of renewable energy.
 - These investments are in line with market practice.
- Refurbishment of existing buildings and construction of new buildings that are expected to achieve the aforementioned certification levels. In addition, MERLIN may finance the refurbishment of existing buildings that lead to a minimum of 30% improvement in energy performance based on absolute energy consumption, which Sustainalytics considers to be aligned with market practice.
 - Under the Renewable Energy category, MERLIN may finance the installation of solar photovoltaic systems, which is in line with market practice.
 - Under the Energy Efficiency category, MERLIN may finance or refinance energy efficiency measures to enable a reduction in energy consumption and improve the energy performance of buildings. This may include the installation of energy efficient heating, ventilation and air-conditioning systems, light sources (such as LED lighting), smart meters, building energy management systems and water loss management equipment (such as measurement devices and timed faucets). Sustainalytics notes that the Framework excludes the financing of energy-efficient equipment that is powered by fossil fuels, which is in line with market practice. Sustainalytics encourages the Company to report on estimated or achieved energy efficiency, where feasible.
 - Under the Clean Transportation category, MERLIN may finance low-carbon transportation and associated infrastructure, including electric scooters and charging stations. MERLIN has informed Sustainalytics that financing under the Framework will be limited to electric vehicles. These investments are aligned with market practice.
 - Under the Pollution & Prevention category, MERLIN may finance carbon sink projects aimed at reducing or sequestering CO₂ emissions through reforestation and the development of urban gardens. Additionally, for reforestation projects, the trees species planted will be well adapted to site conditions and a certified sustainable management plan will be in place, preferably Forestry Stewardship Council (FSC)¹⁰ or Programme for the Endorsement of Forest Certified (PEFC¹¹), which Sustainalytics considers to be aligned with market expectations.

⁸ This is based on comparison made with shopping centers/commercial centers in Spain that have obtained BREEAM Excellent or above and excludes other retail buildings (i.e., oil stations, supermarkets, car dealerships, or single retail units/premises) that are not directly comparable. Please refer to the BREEAM website for a complete list of retail buildings including oil stations, supermarkets, car dealerships, or single retail units/premises in Spain: <https://tools.breeam.com/projects/explore/buildings.jsp?sectionid=0&projectType=Retail&rating=&certNo=&buildingName=&client=&developer=&certBody=&assessor=&location=&countryID=22&partid=10023&Submit=Search>

⁹ Following its own pathway to net zero, MERLIN has set the following targets to reduce its carbon footprint by 2028 from a 2018 baseline in relation to scope 1 and 2 emissions from assets under MERLIN's operational control.

¹⁰ More information about the FSC forestry certification scheme, at: <https://fsc.org/en>

¹¹ More information about the PEFC forestry certification scheme, at: <https://www.pefc.org/>

- **Project Evaluation and Selection:**
 - MERLIN will establish a Working Group (the “Group”) which comprises representatives from its Treasury, Financing, Corporate Social Responsibility, Investor Relations and technical departments, and will be responsible for identifying and evaluating projects in line with the eligibility criteria under the Framework.
 - The Company’s Audit and Control Committee, which is responsible for ESG risk management, will identify and manage potential environmental and social risks associated with all eligible assets with oversight from the Company’s board of directors. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. For additional detail, see Section 2.
 - Based on the presence of cross-functional oversight for project selection and the presence of risk management systems, Sustainalytics considers this process to be in line with market practice.
- **Management of Proceeds:**
 - The Working Group will be responsible for the management and allocation of proceeds to eligible projects and will track the proceeds on a portfolio basis through an internal report system.
 - MERLIN intends to reach full allocation within two years of issuance. Pending allocation, proceeds will be held temporarily in line with MERLIN’s investment guidelines and may be invested in money market funds¹² in accordance with the Company’s responsible investment policy.
 - Based on the use of an internal tracking system and disclosure of temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
 - MERLIN intends to report on the allocation of proceeds and corresponding impact in a green financing report which will be published on its website on an annual basis until full allocation.
 - Allocation reporting will include information on the total amount outstanding per instrument type, the amount allocated by category, the percentage of unallocated proceeds and the percentage and amount of new financing and refinancing split by category.
 - The Company will, where feasible, report on relevant indicators, including external certification breakdown by type of asset, average energy intensity of buildings included in the portfolio, installed renewable energy capacity, expected energy savings (MWh) and avoided emissions(tCO₂e) amongst others. For a full list of impact metrics, please refer to Appendix 2: Green Bond Programme External Review Form.
 - Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2021 and Green Loan Principles 2021

Sustainalytics has determined that the MERLIN Properties Green Financing Framework aligns with the four core components of the GBP and GLP. For detailed information, please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Strategy of MERLIN

Contribution of Framework to MERLIN’s sustainability strategy

Sustainalytics is of the opinion that MERLIN demonstrates a commitment to sustainability by integrating environmental, social and governance considerations into its investment decisions. The Company’s strategy focuses on sustainability in four key areas: (i) assets, (ii) construction, (iii) mobility and (iv) certification.¹³

MERLIN is committed to reducing the carbon emissions and energy consumption of its real estate portfolio. The Company has set a target to achieve net zero emissions across its portfolio by 2030 in line with the Paris Agreement goal to limit global warming to below 1.5°C. In 2022, MERLIN intends to publish its Net Zero Carbon Pathway which is underpinned by four pillars: (i) reducing scope 1 and 2 emissions, (ii) reducing embodied

¹² MERLIN has confirmed to Sustainalytics that temporary investment in money market funds will be limited to cash and cash equivalents, such as short-term deposits.

¹³MERLIN, “Corporate Social Responsibility Report 2020”, (2021), at: <https://www.MERLINproperties.com/wp-content/uploads/2021/04/CSR-2020-EN.pdf>

carbon in offices and logistics developments, (iii) reducing scope 3 emissions, and (iv) offsetting unavoidable emissions.¹⁴ The Company has also established an interim target to reduce emissions by 88% by 2028, compared to a 2018 baseline.¹⁵ To achieve these goals, MERLIN is focusing its efforts on (i) reducing emissions that are directly attributable to the Company, and (ii) promoting the reduction of emissions by its tenants. As of 2020, all the assets in MERLIN's portfolio procure 100% renewable electricity.¹⁶

In 2020, MERLIN launched Project Sun, under which it has installed 264,000 m² of photovoltaic panels on 24 assets with a total installed capacity of 37.1 MWp (megawatt peak).¹⁷ The Company integrates electricity generated solely from renewable sources in all assets under its operational control and aims to certify new and existing properties under recognized green building certification schemes such as LEED and BREEAM and energy management systems such as ISO 14001 and ISO 50001. As of 2021, 91% of the Company's assets were certified under LEED and BREEAM.¹⁸

To promote sustainable transport to and from their buildings, MERLIN has installed 649 EV charging points as part of the Company's ongoing effort to develop an extensive electric vehicle charging network across the portfolio.¹⁸

Sustainalytics is of the opinion that the MERLIN Properties Green Financing Framework is aligned with the Company's overall sustainability strategy and initiatives and will further MERLIN's action on its key environmental priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the net proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact. However, Sustainalytics is aware that such eligible activities could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include land use and biodiversity issues associated with large-scale real estate development, effluents and waste generated in construction, occupational health and safety (OHS) and business ethics.

Sustainalytics is of the opinion that MERLIN is able to manage or mitigate potential risks in the contexts in which the Company operates and through implementation of the following:

- MERLIN evaluates all new land and real estate investments to assess and address potential negative impacts on the environment, including ensuring compliance with local regulations and sanctions, such as Law 42/2007 of Natural Heritage and Biodiversity in Spain, which sets out the regulatory requirements for the conservation, sustainable use, improvement and restoration of natural heritage and biodiversity.^{19,20} In addition, all public and private projects in Spain are legally required to undergo environmental impact assessments and seek environmental permits prior to commencement.²¹
- To minimize and manage the waste generated from its property portfolio, MERLIN has implemented an Environmental Management System certified under ISO 14001²² which aims to provide organizations with a long-term environmental management framework, integrating social and economic needs. The Company carries out source segregation of waste into hazardous and non-hazardous, aiming to maximize waste sent for recovery and recycling with the ambition of achieving zero waste to landfill.²³
- MERLIN has implemented a reporting system to manage OHS risks at sites for refurbishment and development projects. The Company uses a system to monitor and record workplace accidents, the type of accident, causes and corrective measures to be adopted as a consequence.²⁴ Additionally,

¹⁴ MERLIN, "FY21 Results Presentation", (2022), at: <https://www.merlinproperties.com/wp-content/uploads/2022/02/Results-Presentation-FY21-1.pdf>

¹⁵ MERLIN shared its 'Pathway to Net Zero' strategy with Sustainalytics for assessment under confidentiality.

¹⁶ MERLIN Properties Green Financing Framework 2022

¹⁷ MERLIN, "Corporate Social Responsibility Report 2020", (2021), at: <https://www.MERLINproperties.com/wp-content/uploads/2021/04/CSR-2020-EN.pdf>

¹⁸ Ibid.

¹⁹ European Environment Agency, "Nature protection and biodiversity - National Responses (Spain)", (2010), at:

<https://www.eea.europa.eu/soer/2010/countries/es/nature-protection-and-biodiversity-national>

²⁰ MERLIN, "Corporate Social Responsibility Report 2020", (2021), at: <https://www.MERLINproperties.com/wp-content/uploads/2021/04/CSR-2020-EN.pdf>

²¹ Thomson Reuters, "Environmental law and practice in Spain: overview", (2020), at: [https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&comp=pluk&bhcp=1](https://uk.practicallaw.thomsonreuters.com/0-521-6274?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1)

²² ISO, "ISO 14000 Family Environmental Management", at: <https://www.iso.org/iso-14001-environmental-management.html>

²³ MERLIN, "Corporate Social Responsibility Report 2020", (2021), at: <https://www.MERLINproperties.com/wp-content/uploads/2021/04/CSR-2020-EN.pdf>

²⁴ Ibid.

the Company requires its suppliers and contractors to comply with applicable regulations and its internal rules on health and safety.²⁵

- The Company's Code of Conduct outlines principles on acting with integrity, ethics in business and transparency, cultivating a company culture where employees take personal responsibility. MERLIN has also set up internal mechanisms for confidential reporting of any violation of the Code of Conduct. In addition, MERLIN includes clauses to require compliance with its Code of Conduct in contracts with suppliers and tenants.²⁶
- MERLIN has operations in Spain and Portugal, which are recognized as Designated Countries under the Equator Principles, indicating the presence of robust environmental and social governance systems, legislation and institutional capacity to mitigate common environmental and social risks associated with the projects financed under the Framework.²⁷

Based on these policies, standards and assessments, Sustainalytics is of the opinion that MERLIN has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All five use of proceeds categories are aligned with those recognized by the GBP and GLP. Sustainalytics focuses below on three categories whose impact is specifically relevant in the local context.

Importance of financing green building, renewable energy and energy efficiency projects in Spain and Portugal

The building sector is a key contributor of emissions and the largest consumer of energy in the EU. In 2020, buildings were responsible for 40% of the EU's energy consumption and 36% of CO₂ emissions.²⁸ This is because 75% of the EU's existing building stock is considered energy inefficient. Moreover, a large proportion of the energy consumed for construction, operation and renovation is generated from fossil fuels.²⁹ The EU is committed to reducing the carbon footprint of its building stock through the development of energy efficient structures and renovations as 85-90% of the buildings in the EU are expected to still be standing in 2050. The European Commission announced the Renovation Wave strategy in 2020 under which it aims to renovate 35 million buildings in Member States by 2030 with the ambition of boosting energy performance and economic growth.³⁰ Furthermore, the EU has committed to increase its share of renewable energy in its total energy consumption to 32% by 2030 and achieve a 55% reduction in emissions by 2030 compared to a 1990 baseline.^{31,32} Reaching these targets would require emissions from the building stock to decrease by an estimated 60%, final energy consumption by 14% and energy consumption for heating and cooling by 18% during this period.³⁰

Commercial buildings, including logistics centres, shopping malls and offices, have a sizeable environmental footprint driven by their extensive lighting, heating and cooling requirements. Utility bills for warehouses, for example, account for more than 10% of a company's operating expenses. More specifically, lighting accounts for up to 80% of the total expenditure on energy use.³³ Two solutions that contribute to the decarbonization of warehouses are (i) implementing energy-efficient technologies, such as LED lighting, and (ii) using renewable energy for heating and cooling. Additionally, the EU-funded project CommONEnergy, aimed at retrofitting shopping centres, highlights the crucial role played by commercial buildings in reaching the EU's sustainability goals. Under this project, the EU has set a target to upgrade more than 60% of the shopping centres by 2030, representing a unique trigger point to realize integrated sustainable energy solutions such as increasing the share of renewable energy from photovoltaic systems to supply EV charging stations.³⁴

Investments in green buildings' practices, renewable energy consumption and energy efficiency projects across the EU Member States are critical for the EU to achieve its climate and energy goals. Spain's strategy

²⁵ Ibid.

²⁶ Ibid.

²⁷ Equator Principles, "Designated Countries", (2020), at: <https://equator-principles.com/designated-countries/>

²⁸ European Climate Pact, Green Buildings, at: https://europa.eu/climate-pact/about/priority-topics/green-buildings_en

²⁹ European Commission, "In focus: Energy efficiency in buildings", at: https://ec.europa.eu/info/news/focus-energy-efficiency-buildings-2020-feb-17_en

³⁰ European Commission, "Renovation Wave", at: https://ec.europa.eu/commission/presscorner/detail/en/FS_20_1844

³¹ IEA, "European Union 2020 Energy Policy Review", at: https://iea.blob.core.windows.net/assets/ec7cc7e5-f638-431b-ab6e-86f62aa5752b/European_Union_2020_Energy_Policy_Review.pdf

³² European Commission, "A European Green Deal", at: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

³³ Environmental Finance, "Building green warehouses – a new frontier for Asia", at: <https://www.environmental-finance.com/content/market-insight/building-green-warehouses-a-new-frontier-for-asia.html>

³⁴ BPIE, "CommONEnergy – Shopping Centres: the renovation opportunity behind the EPBD revision", at: <https://www.bpie.eu/news/policy-paper-commonenergy-shopping-centres-the-renovation-opportunity-behind-the-epbd-revision/>

for energy renovation in the building sector (ERESEE), which focuses improving efficiency of heating and cooling systems and increasing the use of renewable energy, scores the highest among EU Members' strategies, which is reflective of Spain's leadership in this aspect.³⁵ The building sector accounts for 30% of Spain's final energy consumption, with non-residential buildings accounting for 12.5% in 2019,^{36,37} as approximately 84% of the Spanish building stock is estimated to be energy inefficient.³⁸ In 2021, Spain passed a Climate Change and Energy Transition Bill based on its National Energy and Climate Plan for the period 2021 to 2030. Under this bill, Spain has set a target to reduce energy consumption by 39.5% (compared to 2005), achieve renewable energy penetration of 42% and reduce GHG emissions by 23% by 2030 relative to a 1990 baseline. Additionally, the country aims to produce at least 74% of its electricity using renewable sources by 2030. The decarbonization of Spain's energy system is expected to fulfil a crucial role in achieving the emissions reduction goal as three of every four tonnes of Spain's GHG emissions originate in the energy system. In order to achieve these goals, Spain is focusing its efforts on promoting increased adoption of renewable energy sources particularly linked to photovoltaic, solar and wind in three specific uses of energy – transport, heating and cooling, and electricity.³⁹

In line with the targets set by the EU, Portugal has set 2030 targets to: (i) increase energy efficiency by 32.5% compared to a business-as-usual projection, (ii) increase the share of renewable energy use to 47%, and (iii) reduce GHG emissions by 45-55% compared to 2005 levels.^{40,41} In order to achieve these goals, Portugal has identified the decarbonization of buildings as crucial and is focused on improving the energy performance of the built environment, higher electrification and increasing the use of renewable energy. As part of these efforts, under Portugal's National Buildings Energy Performance Certification System, all residential and commercial buildings must be audited to receive an energy certificate when they are built or deeply renovated. Moreover, as of January 2021, all newly constructed or majorly renovated private buildings with an area greater than 1,000 m² must satisfy nearly zero-energy building requirements.⁴¹

In view of the above, Sustainalytics expects MERLIN's financing of green buildings, renewable energy and energy efficiency projects in Spain and Portugal to be impactful in reducing GHG emissions and energy consumption linked to the building sector. In this context, MERLIN's financing under the Framework is expected to contribute to the climate and energy targets of Portugal, Spain and the EU.

Contribution to SDGs

The Sustainable Development Goals (SDGs) were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The debt instruments issued under the MERLIN Properties Green Financing Framework are expected to advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green Buildings	9. Industry, Innovation, and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.

³⁵ Government of Spain, Ministry of Public Work and Transport, "ERESEE 2017", at: https://www.mitma.gob.es/recursos_mfom/paginabasica/recursos/es_building Renov_2017_en.pdf

³⁶ Government of Spain, Ministry of Public Work and Transport, "ERESEE 2020", at: https://cdn.mitma.gob.es/portal-web-drupal/planes_estategicos/en_ltserb.pdf

³⁷ Gangolells, M. et al. (2019), "Energy benchmarking of existing office stock in Spain: Trends and drivers", MDPI Sustainability Journal, at: <https://www.mdpi.com/2071-1050/11/22/6356>

³⁸ Interreg Europe, "World Energy Efficiency Day: Challenges in Spain", at: <https://www.interregeurope.eu/enerselves/news/news-article/2758/world-energy-efficiency-day-challenges-in-spain/>

³⁹ European Commission, "Integrated National Energy and Climate Plan 2021-2030", at: https://ec.europa.eu/energy/sites/default/files/documents/es_final_necp_main_en.pdf

⁴⁰ European Commission, "NECP factsheet Portugal", at: https://ec.europa.eu/energy/sites/ener/files/documents/necp_factsheet_pt_final.pdf

⁴¹ IEA, "Portugal 2021 Energy Policy Review", at: <https://iea.blob.core.windows.net/assets/a58d6151-f75f-4cd7-891e-6b06540ce01f/Portugal2021EnergyPolicyReview.pdf>

Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency.
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible, and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
Pollution Prevention & Control	11. Sustainable Cities and Communities 15. Life on Land	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management. 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

Conclusion

MERLIN has developed the MERLIN Properties Green Financing Framework under which it may issue debt instruments and use the proceeds to finance or refinance projects related to the development of green buildings, installation of renewable energy generation systems and energy efficient technologies, amongst others. Sustainalytics considers that the projects funded by the green finance proceeds are expected to decarbonize the Company's real estate portfolio and improve the energy performance of buildings in Spain and Portugal.

The MERLIN Properties Green Financing Framework outlines a process for tracking, allocating and managing proceeds and makes commitments for MERLIN to report on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the MERLIN Properties Green Financing Framework is aligned with the overall sustainability strategy of the Company and that the green use of proceeds categories are expected to contribute to the advancement of the UN SDGs 7, 9, 11 and 15. Additionally, Sustainalytics is of the opinion that MERLIN has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that MERLIN is well positioned to issue debt instruments and that the MERLIN Properties Green Financing Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021 and Green Loan Principles 2021.

Appendices

Appendix 1: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	MERLIN Properties Socimi S.A.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	MERLIN Properties Green Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	April 14, 2022
Publication date of review publication: Original publication date <i>[please fill this out for updates]</i> :	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarize the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds – Green Buildings, Renewable Energy, Energy Efficiency, Clean Transportation and Pollution Prevention and Control – are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories are expected to decarbonize MERLIN Properties Socimi S.A.’s real estate portfolio and advance the UN Sustainable Development Goals, specifically SDGs 7, 9, 11 and 15.

Use of proceeds categories as per GBP:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other <i>(please specify)</i> : |

If applicable please specify the environmental taxonomy, if other than GBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

MERLIN Properties Socimi S.A.’s will establish a Working Group, comprised of representatives from Treasury, Financing, Corporate Social Responsibility, Investor Relations and technical departments, which will be responsible for evaluating and selecting eligible projects. The Audit & Control Committee will identify and manage potential environmental and social risks associated with eligible assets. Sustainalytics considers these risk management systems to be adequate and the project selection process to be in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer’s environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
|---|---|

- | | |
|--|---|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

MERLIN Properties Socimi S.A.'s Working Group will monitor and track the allocation of proceeds through an internal report system. MERLIN Properties Socimi S.A.'s intends to reach full allocation within two years of issuance. Pending allocation, proceeds will temporarily be held in line with its investment guidelines. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (*if applicable*):

MERLIN Properties Socimi S.A. intends to report on the allocation of proceeds in a green financing report which will be published on its website on an annual basis until full allocation. Allocation reporting will include information such as the amount allocated by category, the percentage of unallocated proceeds and the percentage and amount of new financing and refinancing split by category. MERLIN Properties Socimi S.A.'s also committed to reporting on relevant impact metrics. Sustainalytics views the allocation and impact reporting commitments as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|---|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input checked="" type="checkbox"/> Other (<i>please specify</i>): Total amount outstanding per instrument, allocated amount by category, percentage of unallocated proceeds and amount of new financing and refinancing split by category. |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators (please specify): External certification breakdown by type of asset, average energy intensity, avoided CO ₂ emissions, expected renewable energy generation, installed capacity, number of electric chargers and estimated CO ₂ emissions sequestered |

Frequency

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Means of Disclosure

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Green financing report will be published on MERLIN's website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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