

AC Energy

PRE-ISSUANCE VERIFICATION LETTER

WIND ENERGY CRITERIA OF THE CLIMATE BONDS STANDARD

SOLAR ENERGY CRITERIA OF THE CLIMATE BOND STANDARD

GEOTHERMAL ENERGY CRITERIA OF THE CLIMATE BOND STANDARD

Type of engagement: Assurance Engagement

Period engagement was carried out: January 2019

Approved verifier: Sustainalytics

Contact address for engagement: De Entree, 35-37 – 1101BH, P.O. Box 22703 – 1100 DE, Amsterdam, The Netherlands

Pre-Issuance Engagement Leader: Lili Hocke, lili.hocke@sustainalytics.com, (+31) 202050040; Begum Gursoy, begum.gursoy@sustainalytics.com, (+31) 20 888 72 92

Scope and Objectives

AC Energy, Inc. ("AC Energy" or "the company"), has engaged Sustainalytics to review and verify that AC Energy's green bond meets the requirements under the Wind Energy Criteria, Solar Energy Criteria and the Geothermal Energy criteria of the Climate Bonds Standard.

AC Energy, a subsidiary of Ayala Corporation, develops and operates power generation facilities that generate power using solar, wind, and mini-hydro energy. AC Energy is headquartered in Makati City and operates in the Philippines.

AC Energy is committed towards efficient use of energy and water, protection of biodiversity, energy conservation and reducing GHG emissions in its products, services, operations and facilities through monitoring the company's environmental output under the Ayala Corporation's environmental policies.¹ AC Energy's goals are to generate at least 50% of energy from renewables and develop 5 GW renewables capacity by 2025,² demonstrating its commitment to renewable energy generation. The company also reports on its environmental progress, disclosing that in 2017 its renewable energy (thermal, solar) generation assets produced 410.3 GWh, which was 20% higher than 2016, and reduced GHG emissions by 22% in 2017 compared to 2016.¹

To demonstrate its support for environmentally impactful investments, AC Energy's green bond issuance intends to finance or refinance, in whole or in part, 'Eligible Green Projects' related to the eligibility category for the use of proceeds below:

- Renewable Energy (onshore wind, solar and geothermal energy)

Climate Bonds Standards Criteria

Pre-issuance requirements under Climate Bond Standards Version 2.1:

- Wind Energy³
 - Onshore wind energy generation facilities
 - Dedicated transmission infrastructure and support facilities (e.g. transformers, backbone, transmission terminus, grid connections, dedicated facilities for support vessels and vehicles, equipment storage, onshore assembly)

¹ Ayala Environmental Policies; accessed December 2018; <http://www.ayala.com.ph/business-conduct-and-ethics>

² AC Energy Corporate Website; accessed December 2018; <https://www.AC.Energyenergy.com.ph/about/>

³ Wind Energy Criteria available at: <https://www.climatebonds.net/files/files/Sector%20Criteria%20-%20Wind.pdf>

- Dedicated operational production, manufacturing or distribution facilities for key components, such as wind turbines, platforms etc.
- Solar Energy⁴
 - Onshore solar electricity generation facilities
 - Wholly dedicated transmission infrastructure and other supporting infrastructure for onshore solar electricity generation facilities including inverters, transformers, energy storage systems and control systems.
- Geothermal Energy⁵
 - Facilities with direct emissions of less than 100gCO₂/kWh

Issuing Entity's Responsibility

AC Energy was responsible for providing information and documents relating to:

- The details concerning the selection process for the Eligible Green Projects
- The details of the Eligible Green Projects
- The management systems for internal processes and controls for Eligible Green Projects, including: tracking of proceeds, managing unallocated proceeds and Earmarking funds to Eligible Green Projects
- The details of commitments for reporting prior to issuance, including: investment areas, management of unallocated proceeds and frequency of periodic Assurance Engagements

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of AC Energy's green bond, issued to finance Nominated Projects, and provided an independent opinion informing AC Energy as to the conformance of the green bond with the Pre-Issuance requirement and Wind Energy Criteria, the Solar Energy Criteria and the Geothermal Energy Criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by AC Energy. Sustainalytics is not responsible if any aspect of the Nominated Projects referred to in this opinion including estimates, findings, opinions, or conclusions are incorrect. Thus, Sustainalytics shall not be held liable if any of the information or data provided by AC Energy management and used as a basis for this assessment were not correct or complete.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

Verifier's Responsibility

The work undertaken as part of this engagement included conversations with relevant AC Energy employees and review of relevant documentation to confirm the green bond's conformance with the Climate Bonds Certification Pre-Issuance Requirements, which include:

- Conformance of AC Energy's green bond with the Climate Bonds Standard Version 2.1;
- Conformance with the Technical Criteria on Wind Energy Criteria, Solar Energy Criteria and Geothermal Energy Criteria
- Conformance with the Internal Processes & Controls requirements
- Conformance with Reporting Prior to Issuance requirements

⁴ Solar Energy Criteria available at: https://www.climatebonds.net/files/files/Sector%20Criteria%20-%20Solar%20v2_1.pdf

⁵ Geothermal Energy Criteria available at: <https://www.climatebonds.net/files/files/Geothermal%20Energy%20and%20the%20Climate%20Bond%20Standard%20online%20final%281%29.pdf>

Basis of the Opinion

Sustainalytics conducted the verification in accordance with the Climate Bond Standard Version 2.1 and with the International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information.

Sustainalytics planned and performed the verification by obtaining evidence and other information and explanations that Sustainalytics considers necessary to give reasonable assurance that the AC Energy Green Bond Framework meets the requirements of the Climate Bond Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that AC Energy will ensure compliance with Climate Bond Standard requirements.

Conclusion

AC Energy's green bond will finance or refinance, in whole or in part, Eligible Green Projects related to Renewable Energy (onshore wind, solar and geothermal energy).

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics' attention that causes us to believe that, in all material aspects, AC Energy's green bond is not in conformance with the Wind Energy Criteria, Solar Energy Criteria and Geothermal Energy Criteria of the Climate Bond Standard Pre-Issuance Requirements.

Schedule 1: Detailed Overview of Nominated Projects and Assets

Details of the Nominated Projects to be financed are provided below:

Wind Energy:

Location	Expected Gross Capacity in MW	New / Existing project
Australia	1,000	New
Philippines	200	New
Vietnam	800	New
Indonesia	200	New
Indonesia-Salak	75	Existing

Solar Energy:

Location	Expected Gross Capacity in MW	New / Existing project
Australia	700	New
Vietnam	400	New
Philippines	600	New

Geothermal:

Location	Name	Expected Gross Capacity in MW	New/ Existing project	CO2 emissions
Darajat	Darajat 3	121	Existing	30.14 gCO ₂ equ/kWh as per PDD for CDM accreditation

Schedule 2A: Pre-Issuance General Requirements

Selection of Nominated Projects and Assets:	<p>1.1 Statement on the environmental objectives of the bond</p> <p>1.2 Confirmation that Nominated Projects and Assets meet the Climate Bonds criteria</p> <p>1.3 Document a list of Nominated Projects and Assets</p> <p>1.4 Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds</p> <p>1.5 Confirmation that Net Proceeds of the Green Bond shall not be greater than the value of the Nominated Projects and Assets</p>
Internal Processes and Controls	<p>2.1.1 Tracking of proceeds</p> <p>2.1.2 Managing of unallocated proceeds</p> <p>2.1.3 Earmarking funds to Nominated Projects and Assets</p>
Reporting Prior to Issuance	<p>3.1.1 Investment area of Nominated Projects and Assets</p> <p>3.1.2 Intended types of temporary investments for the management of unallocated proceeds</p> <p>3.1.3 Approach of Verifier</p> <p>3.1.4 Whether periodic Assurance Engagement will be undertaken, and the expected frequency of any periodic Assurance Engagements</p>

Schedule 2B: Conformance to the Pre-Issuance Requirements

Procedure Performed	Factual Findings	Error or Exceptions Identified
Verification of requirements specified under Selection of Nominated Projects and Assets	<p>1.1 The objective of the bond is to primarily use proceeds to finance or refinance Eligible Green Projects related to Renewable Energy (onshore wind, onshore solar and geothermal energy)</p> <p>1.2 The Nominated Projects and Assets meet the Wind Energy Criteria, the Solar Energy Criteria and the Geothermal Energy Criteria of the Climate Bond Standard.</p> <p>1.3 The Nominated Projects and Assets include Eligible Green Projects related to:</p> <ul style="list-style-type: none"> • Renewable Energy (onshore wind, onshore solar and geothermal energy) <p>1.4 AC Energy's management confirms that the projects shall not be nominated to other Climate Bonds.</p> <p>1.5 AC Energy's management confirms that the net proceeds of the bond shall not be greater than the value of the projects.</p>	None
Verification of requirements specified under Internal Processes and Controls	<p>2.1.1 AC Energy's management confirms that proceeds will be segregated and tracked in a systematic manner and will be exclusively used to finance Nominated Projects.</p> <p>2.1.2 AC Energy's management confirms that unallocated proceeds shall be invested in cash or cash equivalents or used to repay existing credit obligations of the AC Energy Group according to AC Energy's own internal liquidity management policies</p> <p>2.1.3 AC Energy's management has confirmed that the proceeds from the bond will be registered separately and tracked internally through AC Energy's information systems.</p>	None
Verification of requirements specified under Reporting Prior to Issuance	<p>3.1.1 AC Energy's management confirms that the proceeds of the transaction will primarily be used to finance, or refinance Eligible Green Assets related to Renewable Energy (onshore wind, solar and geothermal energy)</p> <p>3.1.2 AC Energy's management confirms that the unallocated proceeds shall be invested in cash or cash equivalents or used to repay existing credit obligations of the AC Energy Group according to AC Energy's own internal liquidity management policies</p> <p>3.1.3 The bond's offer letter confirms that an approved third-party verifier has been appointed to confirm the bond's conformance with pre-issuance requirements of the Wind Energy Criteria, the Solar Energy Criteria and the Geothermal Energy Criteria of the Climate Bonds Standard.</p>	None

3.1.4 The bond's offer letter confirms that an approved third-party verifier will conduct post-issuance assurance exercise within a year's time to reaffirm conformance of the bond with the Wind Energy Criteria, the Solar Energy Criteria and the Geothermal Energy Criteria of the Climate Bonds Standard.

Disclaimer

© Sustainalytics 2019. All rights reserved.

The intellectual property rights to this Second-Party Opinion (the "Opinion") are vested exclusively in Sustainalytics. Unless otherwise expressly agreed in writing by Sustainalytics, no part of this Opinion may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings, nor publicly released without the "Green Bond Framework" in conjunction with which this Opinion has been developed.

The Opinion was drawn up with the aim to provide objective information on why the analyzed bond is considered sustainable and responsible, and is intended for investors in general, and not for a specific investor in particular. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, the information is provided "as is" and, therefore Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date, nor assumes any responsibility for errors or omissions. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, nothing contained in this Opinion shall be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds' use of proceeds.

The client is fully responsible for certifying and ensuring its commitments' compliance, implementation and monitoring.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com

