

## Ermewa Group

### PROGRAMMATIC PRE-ISSUANCE VERIFICATION LETTER

#### LOW CARBON LAND TRANSPORT CRITERIA OF THE CLIMATE BONDS STANDARD

**Type of engagement:** Assurance Engagement

**Period engagement was carried out:** August 9-16, 2019

**Approved verifier:** Sustainalytics

**Contact address for engagement:** 215 Spadina Ave, Suite 300, Toronto, ON M5T 2C7, Canada

**Pre-Issuance Engagement Leader:** Zach Margolis, [zach.margolis@sustainalytics.com](mailto:zach.margolis@sustainalytics.com), +1 647 695 4341

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#### Scope and Objectives

Ermewa Group (“Ermewa”) has engaged Sustainalytics to review and verify that Ermewa’s Green Financing meets the requirements under the Low Carbon Transport criteria of the Climate Bonds Standard.

Ermewa is a provider of industrial railcars and tank containers leasing services in Europe. The company is an independently managed division of Société Nationale des Chemins de Fer Français (SNCF), France’s national railway company. Ermewa’s main business activities include railcar and tank container leasing and wagon construction, refurbishment, maintenance and repair services. The company holds 17% of the European market share, with the second largest fleet of freight rolling stock in Europe and the largest in France.

Ermewa intends to issue Green Financing to finance/refinance eligible assets, namely railcars.

#### Climate Bonds Standards Criteria

Pre-issuance requirements under Climate Bond Standards Version 2.1<sup>1</sup>:

- Low Carbon Transport<sup>2</sup>
  - Criterion 4: Emissions threshold for dedicated freight railway lines
  - Criterion 5: Dedicated freight railway lines – fossil fuel exclusion

#### Issuing Entity’s Responsibility

Ermewa Group was responsible for providing information and documents relating to:

- The details concerning the selection process for railcars and tankers
- The details of eligibility and exclusionary criteria for the railcars and tankers
- The management systems for internal processes and controls for the railcars and wagons, including: tracking of proceeds, managing unallocated proceeds and Earmarking funds to Nominated 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 Ermewa’s Green Financing, issued to finance and refinance eligible rollingstock for rail freight, and provided an independent opinion informing Ermewa Group as to the conformance of the green financing with the Pre-Issuance requirement and Low Carbon Transport criteria of the Climate Bonds Standard.

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<sup>1</sup> Pre- Issuance Requirements under the Climate Bond Standards:

[https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2.1%20-%20January\\_2017.pdf](https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2.1%20-%20January_2017.pdf)

<sup>2</sup> Low Carbon Transport technical criteria:

<https://www.climatebonds.net/files/files/Low%20Carbon%20Transport%20Background%20Paper%20Feb%202017.pdf>

Sustainalytics has relied on the information and the facts presented by Ermewa Group. Sustainalytics is not responsible for 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 Ermewa Group 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 Ermewa employees and review of relevant documentation to confirm Ermewa's green financing conformance with the Climate Bonds Certification Pre-Issuance Requirements, which include:

- Conformance of Ermewa's green financing with the Climate Bonds Standard Version 2.1
- Conformance with the Technical Criteria on Low Carbon Transport criteria
- Conformance with the Internal Processes & Controls requirements
- Conformance with Reporting Prior to Issuance requirements

### **Basis of the Opinion**

Sustainalytics conducted the verification in accordance with the Climate Bond Standard Version 2.1 and with 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 limited assurance that Ermewa's green financing meets the requirements of the Climate Bond Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that Ermewa will ensure compliance with Climate Bond Standard requirements.

### **Conclusion**

Ermewa's Green Financing will finance and refinance the acquisition of rail wagons, including tankers and railcars. Based on the limited assurance procedures conducted nothing has come to Sustainalytics' attention that causes us to believe that Ermewa's inaugural bond is not in conformance with the Low Carbon Criteria of the Climate Bond Standard Pre-Issuance Requirements.

## Schedule 1A: Summary of Ermewa’s screening process for eligible railcars

Ermewa has developed a procedure by which it will exclude railcars which transport fossil fuels (defined as oil, coal, and natural gas) and petrochemicals, or which are leased to clients which are determined by Ermewa to be involved in these non-green industries. This screening process involves the division of Ermewa’s railcar fleet into subcategories, followed by a detailed review. The detailed review takes into account (1) the physical characteristics of the car, (2) the company to which the car is leased (if any), and the products the car transports (if known).

Sub-category	Railcar Type	Screening
1	Cereal and sugar	All cars in this class transport eligible products, namely cereal and sugars
2	Flat	Cars in the class carry a range of eligible and ineligible products, including lumber and containers. Any car that could transport coal or coal derivatives is excluded.
3	Powder	Cars in this class carry a range of eligible and ineligible products, including flour, lime, and cement. Cars that are outfitted to transport coal are excluded.
4	Hopper	Cars in this class carry a range of eligible and ineligible products, including sand, cereals, and coal. Cars that are outfitted to transport coal are excluded.
5	Gas	Any cars transporting hydrocarbons and fossil gas are excluded.
6	Chemical	An in-depth analysis of leasing client has been conducted to determine if petrochemicals will be transported; these cars are then excluded.
7	Oil and Fuels	All cars in this class are excluded

## Schedule 1B: Overview of nominated projects

Information on the eligible portion of Ermewa’s railcar portfolio, as of July 2019, is provided below, indicating which portions of the Group’s overall fleet is eligible and excluded:

Screening Criteria	Number of Railcars	Share of Fleet
Eligible Category	4,344	10%
Eligible Customer	1,552	4%
Eligible Product	15,173	36%
Eligible Wagon Type	2,786	7%
Excluded Category	5,129	12%
Excluded Customer	6,099	15%
Excluded Product	4,657	11%
Excluded Wagon Type	1,916	5%
<b>Total Eligible</b>	<b>23,856</b>	<b>57%</b>
<b>Total Excluded</b>	<b>17,802</b>	<b>43%</b>

## Schedule 2A: Pre-Issuance General Requirements

<p>Selection of Nominated Projects and Assets:</p>	<p><b>1.1</b> Statement on the environmental objectives of the bond</p> <p><b>1.2</b> Confirmation that Nominated Projects and Assets meet the Climate Bonds criteria</p> <p><b>1.3</b> Document a list of Nominated Projects and Assets</p> <p><b>1.4</b> Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds</p> <p><b>1.5</b> Confirmation that Net Proceeds of the Green Bond shall not be greater than the value of the Nominated Projects and Assets</p>
<p>Internal Processes and Controls</p>	<p><b>2.1.1</b> Tracking of proceeds</p> <p><b>2.1.2</b> Managing of unallocated proceeds</p> <p><b>2.1.3</b> Earmarking funds to Nominated Projects and Assets</p>
<p>Reporting Prior to Issuance</p>	<p><b>3.1.1</b> Investment area of Nominated Projects and Assets</p> <p><b>3.1.2</b> Intended types of temporary investments for the management of unallocated proceeds</p> <p><b>3.1.3</b> Approach of Verifier</p> <p><b>3.1.4</b> 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><b>1.1</b> The objective of the bond is to primarily use proceeds to finance or refinance a portfolio of eligible railcar assets.</p> <p><b>1.2</b> The Nominated Projects and Assets meet the Low Carbon Transport criteria of the Climate Bond Standard.</p> <p><b>1.3</b> The Nominated Projects and Assets include:</p> <ul style="list-style-type: none"> <li>• The eligible portion of Ermewa’s fleet of railcars (see Schedule 1)</li> </ul> <p><b>1.4</b> Ermewa’s management confirms that the projects shall not be nominated to other Climate Bonds.</p> <p><b>1.5</b> Ermewa’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><b>2.1.1</b> Ermewa’s management confirms that a segregated account will hold all unallocated proceeds from the green financing issuance, and that an Excel file will be used to track disbursements to eligible assets.</p> <p><b>2.1.2</b> Ermewa’s management confirms that unallocated proceeds will be invested in accordance with its group liquidity guidelines in cash, deposits or money market instruments.</p> <p><b>2.1.3</b> Ermewa’s management has confirmed that disbursements of proceeds from the green financing issuance to green assets will be tracked in an excel file by the company.</p>	None
Verification of requirements specified under Reporting Prior to Issuance	<p><b>3.1.1</b> Ermewa’s management confirms that the proceeds of the transaction will primarily be used to finance or refinance the acquisition of rolling stock for rail freight, excluding all vehicles designed to transport fossil fuels and petrochemicals.</p> <p><b>3.1.2</b> Ermewa’s management confirms that unallocated proceeds shall be invested in accordance with its group liquidity guidelines in cash, deposits or money market instruments.</p> <p><b>3.1.3</b> The issuer has confirmed that an approved third-party verifier has been appointed to confirm the eligible portfolio’s conformance with pre-issuance requirements of the Low Carbon Transport criteria.</p> <p><b>3.1.4</b> 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 Low Carbon Transport criteria of the Climate Bonds Standard.</p>	None

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## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports 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. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider". The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

Or contact us [info@sustainalytics.com](mailto:info@sustainalytics.com)

