



ASSET MANAGEMENT IN A GLOBAL MARKET

ERMEWA GREEN FINANCING FRAMEWORK

August 2019

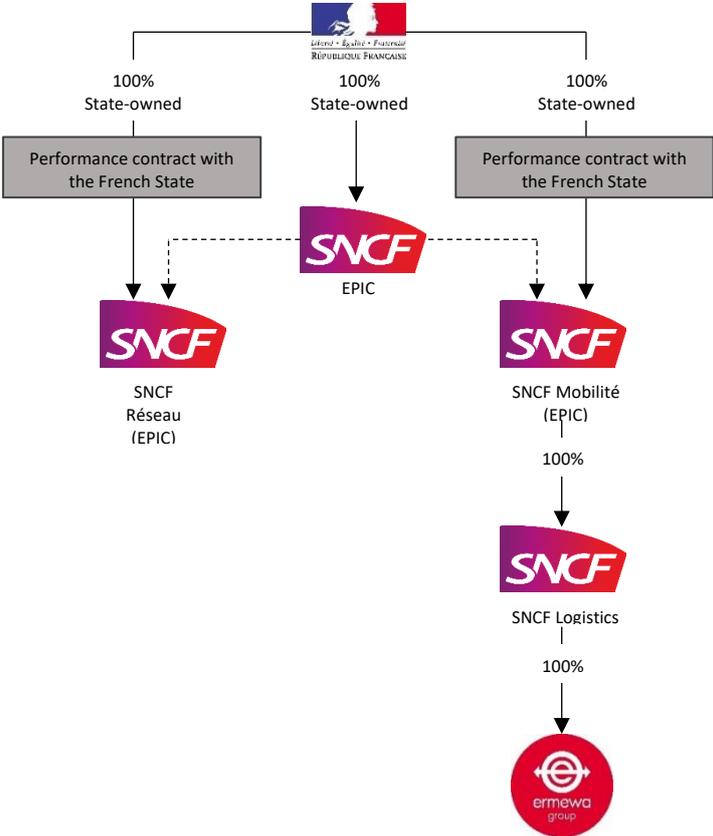
1. Introduction

Ermewa Group is one of the leading providers of railcar and tank container leasing across Europe (railcars) and globally (tank containers), whilst also offering assimilated railcar construction, refurbishment maintenance and repair services through a dedicated network of workshops in France.

The group focuses on three core pillars:

- **The railcars division:** with approximately 42,000 managed railcars (or “wagons”), it is the second largest railcar lessor in Europe with a market share of 17% and a strong presence across various sectors in major European countries. It also manages the second largest lessor fleet in Europe, with the largest fleet in France (48% market share) and a strong customer base of blue chip companies;
- **The tank containers division:** with approximately 57,000 managed tank containers, it is the joint global leader in the industry with a global market share of 20% (40% in special tank container and 30% gas tank container). It also has a global presence in more than 80 countries covering various segments;
- **The workshop division:** composed of 6 workshops strategically located around France which place the group as an undisputed leading position on the French market

The group is an independently managed, fully owned business lines of SNCF logistics, itself a wholly-owned division of French National Railways SNCF. SNCF is also the holding company of SNCF Réseau which issued an inaugural Green Bond of €900m in October 2016 and has become a repeat issuer in the Green Bond market.



1.1. Ermewa's vision and mission

The vision of the group is to contribute to rethinking the railway, placing safety and sustainable growth at the core of its business. Ermewa's mission is to guarantee the success of a rail-based supply chain. Pooling its resources and technologies and invest for its customers ensuring them optimal performance and safety.

These statements are further outlined in Ermewa's website in the group values presentation:

https://www.Ermewa-group.com/wp-content/uploads/v4.2_W_values_ERGW18.pdf

1.2. Ermewa's Ethical charter

Sustainability and ethic are at the heart of Ermewa's decision process given the company certainty that environmental, social and governance topics have an impact on the long-term growth of the company. Ermewa aims to ensure that values and ethical principles are respected at all levels within the company following the charter below:

ETHICAL CHARTER OF THE ERMEWA GROUP

For a responsible commitment combined with respect for our stakeholders

Responsibility towards civil society

- We comply with laws and regulations.
- We actively manage risks in accordance with sustainable development principles and act in favour of greater environmental responsibility by reducing the overall impact of the transport industry on the planet.
- We respect personal commitments provided they do not involve the Group. We do not tolerate corruption nor encourage illicit practice.

Responsibility to our commercial partners

- We are representatives of the commitment and values of the Group. We believe in free competition and respect our competitors.
- We do not accept gifts and advantages that would create a situation of obligation.
- We act properly and in an appropriate manner with our customers providing quality, fairness and confidentiality where appropriate.
- We confer importance to our partners sharing our ethical principles.

Responsibility towards our group and our shareholders

- We contribute to the enhancement of the Group's image by sharing the same environmental, social and governance values.
- We develop our business activities responsibly and we stand by our undertakings.
- We communicate reliable, complete and appropriate information concerning our business activity and results. We protect confidential documents and data.
- We respect and protect property made available to us.
- We avoid conflicts of interest or situations that may be perceived as such. We fulfil our employment contract conscientiously.

Responsibility towards our staff

- We respect obligations arising from the law, statutes and contracts. We respect diversity and condemn all discrimination
- We promote mutual respect and do not tolerate harassment.
- We maintain a healthy, secure and harmonious working environment.
- We encourage our staff to consider the environmental consequences of their actions and seek to minimize the impact where its reasonably practicable
- We respect the individual and his/her private life.
- We are committed to a policy of development and improvement of resources and competencies. We value expertise and support and encourage entrepreneurial spirit.

1.3. Ermewa's management of Environmental and Social risks to operate its railcars:

Ermewa must follow European directives that apply to the railcar's suppliers and their maintenance. First, during the homologation process of the railcar, the manufacturer must comply to the EU TSI's (Technical Specification of Interoperability Wagon and Noise) and be approved by the National Safety Authority. The railcar can be placed in service with the insurance that there is no risk regarding its design, conception or construction.

Moreover, during the life of the railcar, Ermewa who is the Entity in Charge of Maintenance (ECM) must make sure that its assets comply with their cycle of maintenance and are maintained by certified ECM entities (workshops). This allows Ermewa to ensure that no risk is taken regarding the client's using the railcars, the people working with the railcars and the environment.

Finally, regarding specific railcars transporting hazardous goods, Ermewa is following a directive called RID (Regulation concerning the International carriage of Dangerous goods). Thanks to this,

Ermewa aims to avoid any potential risks for the environment or the people regarding the product transported.

1.4. Rationale for an Ermewa Green Financing issuance for its railcar division:

Growth in international trade has been characterized by globalization and the associated geographical fragmentation on international production processes. Supply chains have become longer as logistics network link economic centres across all continents. The long-term impact of global trade on carbon dioxide and more generally greenhouse gas emissions have been largely ignored until recently.

As global freight transport relies heavily on fossil fuel propulsion whether by air, land or sea, rail appears to be the alternative to decarbonize the freight transport sector.

EU27 Greenhouse gas (“GHG”) emissions target are presented as follow:

- 2030 transport GHG emissions target should be the emission of 2008 reduced by 20%;
- 2050 transport GHG emissions target should be the emission of 2008 reduced by 70%

Also, the European commission made clear in “Roadmap to a Single European Transport Area (2011)”¹ that the EU’s transport system is not sustainable, and that change is essential if the GHG reduction targets the roadmap outlined for 2030 and 2050 are to be met. For freight, 30% of road freight over 300km should shift to other modes such as rail by 2030, and more than 50% by 2050.

In this context, Ermewa, as one of the leaders of rail freight transport, has the responsibility to push forward for cleaner investment strategy on the assets.

The current Green Financing Framework is aiming to support this strategy and the transition to a low carbon economy.

2. A framework complying with Green Bond and Green Loan Principles

2.1. Use of proceeds

The proceeds of Ermewa’s Green Financing will solely be used to finance and / or refinance investments in acquisition of railcars contributing to one or several of the following environmental and sustainability objectives and meeting eligibility criteria, as described below.

Environmental and Sustainability objectives

Energy transition and climate-change mitigation objectives

- Enhance modal shift to rail;

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0144&from=EN>

- Carbon emission reduction/avoidance

Sustainability objectives

- Transport-related noise reduction and / or control;
- Risk reduction for transportation of goods;
- Safety for clients and employees

Eligibility and Exclusionary Criteria

Eligibility criteria

- Eligible Green Assets will be selected among Ermewa's railcars fleet categories that have not been excluded according to exclusionary criteria

Exclusionary Criteria

- Eligible Green Assets will exclude all railcars which transport fossil fuels (oil, coal and natural gas) and petrochemicals products, or which are leased to clients which Ermewa evaluate to be non-green (i.e. fossil fuels and petrochemical companies)

Ermewa's railcar fleet has been divided into sub-categories that have been reviewed in detail depending on the products transported by each railcar.

Sub-category 1: Cereals and sugar railcars

- This category includes all types of railcars transporting cereals and sugar only

Sub-category 2: Flat railcars

- This category embraces a lot of different types of railcars from wood transportation dedicated railcars to container carrier. All railcars that could transport coal or its derivatives and can carry containers have been excluded

Sub-category 3: Powder railcars

- These railcars can contain flour, lime or cement but also coal powder. Coal carriers are excluded from the selection

Sub-category 4: Hopper railcars

- This type of railcar is dedicated to the transportation of quarry products, sand, cereals and coal. Coal carriers are excluded.

Sub-category 5: Gas railcars

- All railcars transporting hydrocarbons and fossil gas have been excluded from this category.

Sub-category 6: Chemicals railcars

- In this category an in-depth analysis of both the clients and products transported has been necessary to select only the railcars transporting chemicals that are not from the petrochemical industry.

Sub-category 7: Oil and fuels railcars

- These railcars are excluded.

Eligible Green Assets may include:

Category	Product transported	
Sub-category 4 Hopper railcar	Grains	
Sub-category 3 Powder railcar	Powder	
Sub-category 2 Flat railcar	Packed cement	

2.2. Project evaluation and selection process

Eligible Green Assets should meet the environmental and sustainability objectives of the Eligibility Criteria stated above. In order to follow and monitor the evolution of the Eligible Green Assets portfolio, Ermewa is aiming to implement an internal tracking system, with a specific “Green” flagging of railcars and products transported.

The finance department, the railcars business unit as well as the technical department will compose a dedicated Green Financing Committee. The Green Financing Committee is responsible for the initial allocation of Green Financing proceeds and will ensure it respects the selection criteria stated in previous sections, including application of exclusionary criteria.

The list of the Eligible Green Assets will be validated by Ermewa’s Executive Committee.

The Green Financing Committee will annually review the composition of the Eligible Green Assets portfolio to provide an annual reporting.

2.3. Management of proceeds

Pending the allocation to Eligible Green Assets, unallocated proceeds will be invested in accordance to Ermewa’s liquidity guidelines, in cash, deposits or money market instruments. A segregated account will temporarily hold the unallocated proceeds and an Excel file will be used to track amount disbursed to Eligible Green Assets.

Ermewa will strive to maintain a level of allocation for the Eligible Green Assets which, after adjustments for intervening circumstances including, but not limited to, divestments, the valuation matches or exceeds the balance of net proceeds from its outstanding Green Financing. Additional Eligible Green Assets will be added to the extent required to, to ensure that an amount equal to the net proceeds from outstanding Green Financing will be allocated to Eligible Green Assets until the maturity of the Green Financing.

2.4. Reporting

Each year, Ermewa Group commits to provide to its investors / lenders:

- An allocation report on the assets financed/refinanced
- An impact reporting on the environmental outcomes and metrics

Examples of relevant KPIs could include:

- Railcar age per type of railcar
- Average age of the fleet
- Share by railcar type
- Average utilization rate of the fleet
- Total tons-km (per year)
- Latest valuation of the Eligible Green Assets

Examples of relevant Impact metrics could include:

- Effective GHG emissions (gCO₂ eq. per ton-km)
- Avoided GHG emissions (gCO₂ eq. per ton-km)

3. External Review

3.1. Second-Party Opinion

Sustainalytics has been selected to assess the sustainability, transparency and governance of Ermewa's Green Financing Framework and its alignment with the Green Bond and Green Loan Principles. The results will be documented in Sustainalytics Second-Party Opinion which will be available on Ermewa's website.

3.2. External verification

Auditors appointed by Ermewa will verify on an annual basis and until the full allocation of an amount equal to the net proceeds, the allocated proceeds to Eligible Green Assets and the remaining balance of unallocated proceeds, within the annual report review.

3.3. Climate Bond Initiative

Ermewa has engaged the dialogue with Sustainalytics as an approved verifier in order to assess the potentiality of getting the Climate Bond Standard certification under the Low Carbon Transport criteria.