



Report of Factual Findings

Based on Pre-Issuance Requirements of
the Climate Bonds Standard

Hero Wind Energy Private Limited

January 2016

KPMG.com/in



Table of contents

1.	Introduction	3
2.	Scope	3
3.	Approach	3
4.	Exclusions	4
5.	Summary of factual findings	4
6.	Appendix A	5
7.	Appendix B	10

Introduction

Hero Wind Energy Private Limited (HWEPL) is proposing to issue green bonds for INR 300 crores in three tranches between January and March 2016 in India.

KPMG has been appointed to assess the readiness of HWEPL and their proposed bond's conformance with the requirements set out in the Pre-Issuance Requirements section of the Climate Bonds Standard. This report summarizes the findings of our assessment.

Scope

The scope of our assessment included data and information on material aspects of the proposed green bond based on the requirements set out in the Pre-Issuance Requirements section of the Climate Bonds Standard Version 2.0 as listed below:

- Selection of Nominated Projects & Assets
- Internal Processes & Controls
- Reporting Prior to Issuance

Approach

We planned and performed our work to obtain all the evidence, information and explanations that we considered necessary to obtain a meaningful conclusion in relation to the above scope. The procedures we performed, which are set out in more detail below, were based on our professional judgment and included, as appropriate, inquiries, observation of processes performed, inspection of documents, analytical procedures and agreement or reconciliation with underlying records. We believe that the procedures we have performed and the evidence we have obtained are sufficient and appropriate to provide a basis for our findings.

To reach our conclusion we:

- Conducted interviews with management and key staff responsible for the green bond to obtain an understanding of the organization and purpose of use of bond proceeds;
- Checked documentation which supports objectives of the organization issuing the bonds and their Special Purpose Vehicles (SPVs) that will utilize the bond proceeds;
- Read limited sections of the bond offer documentation that support the environmental objectives of the bond, investment areas for bond proceeds and intended types of temporary investment instruments for the management of unallocated proceeds;
- Checked the list of nominated projects which are proposed to be associated with the bond and their conformance with eligibility requirements specified in Part B of the Climate Bonds Standard; and
- Compared the total volume of bond proceeds with the fair market value of nominated projects proposed to be funded through bond proceeds.

Exclusions

The scope of our assessment did not include the following:

- Determine which, if any, recommendations should be implemented
- Provide assessment on data and information outside the defined reporting boundary and period
- Verify the HWEPL's financial statements & economic performance
- Verify the HWEPL's statements that describe expression of opinion, belief, aspiration, expectation, aim or future intention and national or global socio-economic and environmental aspects provided by the HWEPL

Summary of factual findings

HWEPL is an organization engaged in the business of generation, transmission and sale of electricity generated using wind power. The organization is proposing to set up wind power projects and their associated transmission infrastructure through various Special Purpose Vehicles (SPVs) in India. In order to raise funds for the development and operation of these projects, it is issuing green bonds for INR 300 crores that are in the nature of Non Convertible Debentures (NCDs).

The objective of the bond is to primarily use proceeds for the development and construction of wind farms and associated transmission infrastructure. Pending such allocation of proceeds, they shall be held in temporary investment instruments (i) that are cash, or cash equivalent instruments, within a Treasury function; or (ii) that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy.

The nominated projects and assets that are proposed to be associated with the bond are wind power projects in the states of Madhya Pradesh, Telangana and Andhra Pradesh in India that have a cumulative installed capacity of 521.5 MW.

Being its first issuance of green bonds, HWEPL has confirmed through an undertaking that they would create the internal processes and controls, as required under Clause 2 of the Climate Bonds Standard, within a period of six months from the date of issuance of the bonds and these would be available for verification during the post-issuance assurance.

A detailed list of our factual findings are provided in Appendix A along with the list of documents reviewed in Appendix B.

Appendix A

Assessment of HWEPL and their proposed green bonds against Pre-Issuance Requirements of Climate Bonds Standard

Pre-Issuance Requirement of Climate Bonds Standard	KPMG Assessment	Supporting documentation
1. Selection of Nominated Projects & Assets		
1.1. The Issuer shall establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects & Assets. This includes, without limitation:		
1.1.1. a statement on the environmental objectives of the bond	The objective of the bond is to primarily use proceeds for the development and construction of wind farms and associated transmission infrastructure.	Private placement offer letter for subscription of debentures to be issued and allotted by HWEPL dated 15 January 2016
1.1.2. a process to determine whether the Nominated Projects & Assets meet the eligibility requirements specified in Part B of the Climate Bonds Standard	The bond offer letter and undertaking from HWEPL management confirm that proceeds of the bond will primarily be used for the development and construction of wind farms and associated transmission infrastructure. Thus, these nominated projects and assets conform to the eligibility requirements specified in Part B of the Climate Bonds Standard. Additionally, HWEPL 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 Climate Bonds Standard.	<ul style="list-style-type: none"> Private placement offer letter for subscription of debentures to be issued and allotted by HWEPL dated 15 January 2016 Undertaking from management of HWEPL regarding Climate Bonds Standard dated 15 January 2016
1.2. The Issuer shall assess that all proposed Nominated Projects & Assets to be associated with the bond meet the bond's documented objectives as stated	The nominated projects and assets to be associated with the bond are wind power projects and meet the	Climate Bonds Standard Version 2.0

Pre-Issuance Requirement of Climate Bonds Standard	KPMG Assessment	Supporting documentation
<p>under Clause 1.1 and are likely to conform with the relevant eligibility requirements under Part B of the Climate Bonds Standard.</p>	<p>bond's documented objectives specified in the Bond Offer Document.</p> <p>These nominated projects and assets also conform to the eligibility requirements set under Part B of the Climate Bonds Standard:</p> <ul style="list-style-type: none"> • Clause 9: Fall in 'Wind' classification under 'Energy' head of Climate Bonds Taxonomy • Clause 10: Criteria for wind energy under sector-specific standards discussed in detail towards the end of the table 	
<p>1.3. The Issuer shall document the Nominated Projects & Assets which are proposed to be associated with the bond and which have been assessed as likely to be Eligible Projects & Assets. The Issuer shall establish a list of Nominated Projects & Assets which can be kept up-to-date during the term of the bond.</p>	<p>The nominated projects and assets that are proposed to be associated with the bond are wind power projects in the states of Madhya Pradesh, Telangana and Andhra Pradesh in India that have a cumulative installed capacity of 521.5 MW post commissioning.</p>	<ul style="list-style-type: none"> • Undertaking from management of HWEPL regarding Climate Bonds Standard dated 15 January 2016 • Certified true copy of resolution passed by the Board of Directors of SPV dated 27 February 2015 • Certified true copy of resolution passed by the Board of Directors of SPV dated 31 March 2015 • Certified true copy of resolution passed by the Board of Directors of SPV dated 12 September 2014 • Contract, term sheet and key commercial and contract terms agreed between SPV and suppliers for wind power projects during 2015
<p>1.4. Nominated Projects & Assets shall not be nominated to other Climate Bonds unless it is demonstrated by the Issuer that distinct portions of the Nominated Projects & Assets are being funded by different Climate Bonds or that the existing Climate Bond is being refinanced via another Climate Bond.</p>	<p>The undertaking from HWEPL management confirms that the nominated projects & assets shall not be nominated to other Climate Bonds unless they demonstrate that distinct portions of the nominated projects & assets are being funded by different climate bonds or that the existing bond is being refinanced via another climate bond.</p>	<p>Undertaking from management of HWEPL regarding Climate Bonds Standard dated 15 January 2016</p>

Pre-Issuance Requirement of Climate Bonds Standard	KPMG Assessment	Supporting documentation
<p>1.5. The expected Net Proceeds of the bond shall be no greater than the Issuer's debt obligation to the proposed Nominated Projects & Assets, or the Fair Market Value of the proposed Nominated Projects & Assets.</p>	<p>The proposed nominated projects & assets include wind power projects across India with cumulative capacity of about 521.5 MW. The Central Electricity Regulatory Commission (CERC) has adopted a capital cost of INR 619.16 lakh/MW for the purposes of tariff determination of wind power projects for FY 2015-16. With this estimate, the proposed nominated projects & assets would have a cumulative project cost of approximately INR 3,229 crores which is much higher than the expected net proceeds of the bond i.e. INR 300 crores.</p>	<p>CERC Petition No. SM/004/2015 (Suo-Motu) and order dated 31 March 2015 (http://cercind.gov.in/2015/orders/SO4.pdf)</p>
<p>2. Internal Processes & Controls</p>		
<p>2.1. The systems, policies and processes to be used for management of bond funds and investments made shall be documented by the Issuer and disclosed to the Verifier, and shall include arrangements for the following activities:</p>		
<p>2.1.1. Tracking of proceeds: The Net Proceeds of the bond can be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the Issuer in an appropriate manner and documented.</p>	<p>HWEPL management has confirmed that the internal process for tracking of proceeds will be setup within six months from the date of issuance of the bonds and would be checked in the post-issuance assurance.</p>	<p>Undertaking from management of HWEPL regarding Climate Bonds Standard dated 15 January 2016</p>
<p>2.1.2. Managing unallocated proceeds: The balance of unallocated Net Proceeds can be managed as per the requirements in Clause 6.2</p>	<p>The bond offer letter confirms that pending the investment of proceeds, they shall be held in temporary investment instruments (i) that are cash, or cash equivalent instruments, within a Treasury function; or (ii) that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy. HWEPL management has also confirmed that the internal process for managing of unallocated</p>	<ul style="list-style-type: none"> • Private placement offer letter for subscription of debentures to be issued and allotted by HWEPL dated 15 January 2016 • Undertaking from management of HWEPL regarding Climate Bonds Standard dated 15 January 2016

Pre-Issuance Requirement of Climate Bonds Standard	KPMG Assessment	Supporting documentation
	proceeds will be setup within six months from the date of issuance of the bonds and would be checked in the post-issuance assurance.	
2.1.3. Earmarking funds to Nominated Projects & Assets: An earmarking process that can be used to manage and account for funding to the Nominated Projects & Assets and enables estimation of the share of the Net Proceeds being used for financing and refinancing.	HWEPL management has confirmed that the bond proceeds will be earmarked till infused in the nominated projects & assets, so that they can be separately accounted. Further, a process for the same will be setup within six months from the date of issuance of the bonds and would be checked in the post-issuance assurance.	Undertaking from management of HWEPL regarding Climate Bonds Standard dated 15 January 2016
3. Reporting Prior to Issuance		
3.1. The Issuer shall disclose in the Bond Disclosure Documentation:		
3.1.1. The investment areas, as provided in Clause 9.1, into which the Nominated Projects & Assets fall.	The bond offer letter confirms that 'the investment of the proceeds of the Issue will primarily be in the development and construction of wind farms and associated transmission infrastructure for the same'. These fall in the 'Wind' classification under 'Energy' head of Climate Bonds Taxonomy.	Private placement offer letter for subscription of debentures to be issued and allotted by HWEPL dated 15 January 2016
3.1.2. The intended types of temporary investment instruments for the management of unallocated proceeds in accordance with Clause 2.1.2.	The bond offer letter confirms that unallocated proceeds shall be 'held in temporary investment instruments (i) that are cash, or cash equivalent instruments, within a Treasury function; or (ii) that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy'.	Private placement offer letter for subscription of debentures to be issued and allotted by HWEPL dated 15 January 2016
3.1.3. The approach the Verifier has taken to pre-issuance procedures (i.e., whether an Assurance Engagement or an Agreed-Upon Procedures Engagement was undertaken)	The bond offer letter confirms that an approved third party verifier, has been appointed to confirm the bond's conformance with pre-issuance requirements of the Climate Bonds Standard.	Private placement offer letter for subscription of debentures to be issued and allotted by HWEPL dated 15 January 2016

Pre-Issuance Requirement of Climate Bonds Standard	KPMG Assessment	Supporting documentation
<p>3.1.4. Whether periodic Assurance Engagements will be undertaken during the term of the bond to reaffirm conformance with the Climate Bonds Standard, and the expected frequency of any periodic Assurance Engagements</p>	<p>The bond 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 Climate Bonds Standard.</p>	<p>Private placement offer letter for subscription of debentures to be issued and allotted by HWEPL dated 15 January 2016</p>
<p>Sector-specific technical criteria: Wind energy</p>		
<p>For a bond to be certified as a Climate Bond, the funds raised under it must be used to finance or refinance: Wind Energy Generation– that is, activities to generate energy from wind, specifically:</p> <ul style="list-style-type: none"> • The development and construction of wind farms. • Operational production or manufacturing facilities wholly dedicated to wind energy development • Wholly dedicated transmission infrastructure for wind farms 	<p>The bond offer letter confirms that ‘the investment of the proceeds of the Issue will primarily be in the development and construction of wind farms and associated transmission infrastructure for the same’.</p>	<p>Private placement offer letter for subscription of debentures to be issued and allotted by HWEPL dated 15 January 2016</p>

Appendix B

List of documents reviewed

1. Private placement offer letter for subscription of debentures to be issued and allotted by HWEPL dated 15 January 2016
2. Certificate of Incorporation for HWEPL dated 19 May 2013
3. Memorandum of Association of HWEPL dated 22 March 2013
4. Articles of Association of HWEPL dated 22 March 2013
5. Shareholding pattern of SPVs as on 05 January 2016
6. Certified true copy of resolution passed by the Board of Directors of HWEPL dated 09 December 2015
7. Certified true copy of resolution passed by the Board of Directors of SPV dated 27 February 2015
8. Certified true copy of resolution passed by the Board of Directors of SPV dated 31 March 2015
9. Contract, term sheet and key commercial and contract terms agreed between SPV and suppliers for wind power projects during 2015
10. Undertaking from management of HWEPL regarding Climate Bonds Standard dated 15 January 2016



Contact us

Santhosh Jayaram
Director
Climate Change and Sustainability
T +91 98458 96600
E santhoshj@kpmg.com

Manpreet Singh
Associate Director
Climate Change and Sustainability
T +91 98182 87330
E manpreetsingh@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.