

NEOEN REPORT OF FACTUAL FINDINGS (AGREED-UPON PROCEDURE)

By VIGEO EIRIS
For Neoen's 2019 first Climate Loan issuance
Pre-issuance verification based on Climate Bonds Standards version 2.1

SCOPE

Neoen is considering the issuance of its first 2019 Climate Loan (hereafter the "Loan") and intends to use the proceeds to finance a solar photovoltaic power plant in Mexico: El Llano Solar PV plant (the "Selected Project").

In this context, Vigeo Eiris (the "Verifier") has been commissioned, as an independent third-party provider approved by the Climate Bonds Standards Board, by Neoen (the "Borrower") to perform the Pre-Issuance Verification of the Loan. This verification has been conducted in accordance with the Climate Bonds Standard (CBS) version 2.1 requirements (i.e. Part A: General requirements to be applied for all Climate Bonds, Part B: Climate Bonds Initiative Solar Standard Version 2.0)

The work undertaken by Vigeo Eiris to form this verification statement included:

- Planning and management of the verification
- Desk review of the Loan and associated documentation provided by the Borrower
- Assessment of evidences provided by Neoen against the Climate Bonds Standards 2.1 and the sector standard and technical criteria.
- Internal quality control on the assurance report and conclusions
- Provision of Vigeo Eiris' report of factual findings

We have conducted our pre-issuance verification between February and March 2019. The methodology, criteria, findings and assurances addressed by this Agreed-Upon Procedure are in accordance with relevant general principles & professional standards of independent auditing, and in line with the International Standard on Related Services 4400 (ISRS 4400).

RESPONSIBILITIES OF THE BORROWER AND OF VIGEO EIRIS

This statement relies on the information provided by the Borrower to the Verifier: documentation and explanations presented during the assessment, based on the understanding that this information was provided to Vigeo Eiris in good faith. Vigeo Eiris has not performed any audit nor other test to check the accuracy of the information provided by the Borrower.

The Borrower is fully responsible for attesting the compliance with its commitments as defined in its policies, for their implementation and their monitoring, and for the information provided.

SUMMARY OF FACTUAL FINDINGS

The proceeds from the Loan will be allocated to one solar plant, for which environmental objectives have been set in the Green Loan Framework (February 2019). These resources will be used to finance and/or refinance, in full or in part, the Selected Project. This solar plant project falls in the 'Solar' classification under 'Energy' head of Climate Bonds Taxonomy and fill in two technical criteria from the sector-specific standards. The Borrower took the commitment to review the bond after one year to reaffirm conformance with the Climate Bonds Standard.

This Report of factual findings is valid as of the date of issuance limited to the El Llano Solar PV first Green Loan. It is provided by Vigeo Eiris to the Borrower and the Climate Bonds Initiative.

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Disclaimer

Transparency on the relation between Vigeo Eiris and the Borrower: Vigeo Eiris has executed 2 audit missions for the Borrower, in 2017 and 2018, until so far. No established relationship (financial or others) exists between Vigeo Eiris and the Borrower.

Liability: this Report of factual findings is a document prepared by the Verifier that conveys the Verifier's findings on the Loan alignment with the relevant requirements of the Climate Bonds Standard, but it does not provide Climate Bonds Certification itself. Providing these findings does not mean that Vigeo Eiris certifies the tangibility, the excellence or the irreversibility of the projects financed by the Green Bond. No assurance is provided by Vigeo Eiris regarding the financial performance of the Borrower nor of the Loan, nor the value of any investment in the Loan, nor of the environmental footprint of the Loan or the compliance with the commitments taken by the Borrower.

Vigeo Eiris cannot be liable for any loss suffered as a result of information or data provided by the Borrower. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or any kind of business transaction.

Restriction on Distribution and Use of this Factual Findings Report: at the discretion of the Borrower.

VERIFICATION CRITERIA & FINDINGS

The evidence, information and explanations supporting the Bond issuance provided by Neoen to Vigeo Eiris were both historical (for projects selection process and nominated projects) and hypothetical or projected (for the expected environmental benefits, the proposed financial accounting system, and the monitoring & reporting system associated to the loan, to be implemented over the term of the loan).

The Borrower showed a high responsiveness in providing information to the Verifier. We consider that the procedures we have performed and the evidence we have obtained are sufficient and appropriate to provide a basis for our findings.

Summary criteria for assertions of compliance with the pre-issuance requirements of Climate Bonds Standards version 2.1

Vigeo Eiris has assessed Neoen’s 2019 first Green Loan and the nominated projects and assets against criteria and requirements detailed within the Climate Bonds Standard version 2.1:

- Part A: General requirements to be applied for all Climate Bonds
 1. Selection of Nominated Projects & Assets
 2. Internal Processes & Controls
 3. Reporting Prior to Issuance
- Part B: Climate Bonds Initiative Solar Standard (Version 2.0)

Assessment of Neoen’s 2019 first Green Loan against Pre-Issuance Requirements of Climate Bonds Standard

CBI requirements	Vigeo Eiris' factual findings	Gap analysis
Part A: General Requirements		
1. Selection of Nominated Projects & Assets		
Clause 1.1 Check for proof of existence of documented decision-making process which is used to determine the eligibility of Nominated Projects and Assets	<p>The Credit Agreement and the Green Loan Framework indicate that the proceeds will be allocated to the payment of expenses related to the El Llano Solar PV, a a 300 MWac solar photovoltaic power generation plant located in Aguascalientes, Mexico.</p> <p>A decision-making process is detailed within the Green Loan Framework, which includes an environmental and social due diligence of the project to ensure compliance with Mexican laws and specific social and environmental regulations. The process also includes an independent third-party due diligence to ensure the project’s compliance with the Equators Principles and adherence to the Performance Standards of the International Finance Corporation (IFC).</p>	None.

CBI requirements		Vigeo Eiris' factual findings	Gap analysis
Part A: General Requirements			
1. Selection of Nominated Projects & Assets			
	<p>This includes, without limitation:</p> <p>1.1.1. a statement on the environmental objectives of the bond</p>	<p>Neoen's Green Loan Framework includes the objectives of the Selected Project, which are:</p> <ul style="list-style-type: none"> - The construction of a solar photovoltaic power generation plant, with a total installed capacity of 300MWac, and an expected annual electricity generation of 859.9 GWh. - The avoidance of 0.33 MtCO_{2e} per year for the project and 0.17 MtCO_{2e} per year. <p>The calculation of avoided emissions is based on the Mexican Secretary of Energy emissions factor for PV systems (0.53 tCO_{2e}/MWh)¹.</p>	None
	<p>1.1.2. a process to determine whether the Nominated Projects & Assets meet the eligibility requirements specified in Part B (Eligibility) of the Climate Bonds Standard</p>	<p>The Green Loan Framework defines within the "Renewable Energy" category (Use of Proceeds section) the Eligible Projects, which include solar photovoltaic facilities.</p> <p>These projects meet the eligibility requirements of the Climate Bonds Standard as they fall in the 'Solar' classification under 'Energy' head of Climate Bonds Taxonomy (see Part B).</p>	None
Clause 1.2			
	<p>The Borrower shall assess that all proposed Nominated Projects & Assets to be associated with the loan meet the loan's documented objectives as stated under Clause 1.1 and are compliant under Part B of the Climate Bonds Standard.</p>	<p>The Green Loan Framework states that an independent third party has been appointed to perform an environmental and social due diligence on El Llano Photovoltaic plant.</p>	None

¹ https://www.jcm.go.jp/mx-jp/methodologies/62/attached_document1

CBI requirements	Vigeo Eiris' factual findings	Gap analysis
Part A: General Requirements		
1. Selection of Nominated Projects & Assets		
<p>Clause 1.3</p> <p>The Borrower 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 Borrower shall establish a list of Nominated Projects & Assets which can be kept up-to-date during the term of the bond.</p>	<p>The Green Loan Framework specifies that only the El Llano Solar PV in Mexico is eligible for financing under the Loan Agreement, which is extensively described in these documents.</p>	<p>None</p>
<p>Clause 1.4</p> <p>Nominated Projects & Assets shall not be nominated to other Climate Bonds unless it is demonstrated by the Borrower 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 Borrower confirms that the Selected Project has not been nominated to another Climate Loan or Bond. This can be confirmed through the absence of the Project within the Climate Bonds Initiative's database.</p>	<p>None</p>
<p>Clause 1.5</p> <p>The expected Net Proceeds of the bond shall be no greater than the Borrower's debt obligation to the proposed Nominated Projects & Assets, or the Fair Market Value of the proposed Nominated Projects & Assets.</p>	<p>As indicated in the Credit Agreement presented to Vigeo Eiris, the expected net proceeds represent 52% of the estimated total amounts of financial resources needed for the Selected Project, which satisfies Clause 1.5 by confirming that the net proceeds are not greater than the Borrower's debt obligation to the Nominated Projects.</p> <p>Remaining resources will be financed by Neoen's own capital.</p>	<p>None</p>

CBI requirements	Vigeo Eiris' factual findings	Gap analysis
Part A: General Requirements		
2. Internal Processes & Controls		
Clause 2.1		
<p>2.1. The systems, policies and processes to be used for management of bond funds and investments made shall be documented by the Borrower and disclosed to the Verifier, and shall include arrangements for the following activities:</p>	<p>Neoen's Green Loan Framework formalizes the mechanisms for the management of net proceeds, which has been presented to Vigeo Eiris. The Credit Agreement precises the mechanism and rules for the request of drawdowns for the Lender, which has been presented to Vigeo Eiris.</p>	None
<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 Borrower in an appropriate manner and documented.</p>	<p>The Lender reports that the net proceeds will be held in segregated accounts with the sole purpose of financing the costs associated with the various stages of the project, which is in line with the mechanisms described in Neoen's Green Loan Framework.</p>	None
<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 Borrower's Green Loan Framework explicits that unallocated proceeds are to be held in temporary cash or cash equivalent instruments in line with Neoen's treasury management, satisfying clause 6.2.1.</p>	None
<p>6.2.1. Held in temporary investment instruments that are cash, or cash equivalent instruments, within a Treasury function; or</p>		
<p>6.2.2. Held in temporary investment instruments that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy; or</p>		
<p>6.2.3. Applied to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to Nominated Projects & Assets.</p>		

CBI requirements	Vigeo Eiris' factual findings	Gap analysis
Part A: General Requirements		
2. Internal Processes & Controls		
<p>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 Project and enables estimation of the share of the Net Proceeds being used for financing and refinancing.</p>	<p>Specific clauses in the Credit Agreement define that the funds made available are to be allocated to the Selected Project.</p> <p>The proceeds will be directly allocated to ENR AGS SA de CV, a company that is 100% controlled by Neoen, which is a single purpose entity, according to the Credit Agreement (Section 7.07), dedicated to activities relating or incidental to the ownership, leasing, licensing, acquisition, development, engineering, construction, start-up, testing, financing, operation and maintenance of the El Llano project.</p> <p>Default clauses are included in the agreement to ensure that the project is in possession of a government licence. In addition, default provisions include the violation of a “Maintenance of Existence” clause (Section 8.01, Article VIII of the Credit Agreement).</p>	None
3. Reporting to issuance		
Clause 3.1		
<p>3.1. The Borrower shall disclose in the Bond Disclosure Documentation:</p>	<p>The Credit Agreement terms indicate that the proceeds will be allocated solely allocated to Neoen’s El Llano Solar Power Plant.</p>	None
<p>3.1.1. The investment areas, as provided in Clause 9.1, into which the Selected Project fall.</p>	<p>The Selected Project, as a solar PV plant, falls in the ‘Solar’ classification under ‘Energy’ head of Climate Bonds Taxonomy.</p>	
<p>3.1.2. The intended types of temporary investment instruments for the management of unallocated proceeds in accordance with Clause 2.1.2.</p>	<p>The Borrower’s Green Loan Framework explicits that unallocated proceeds are to be held in cash or cash equivalent instruments. No information is provided on the expected period of allocation of proceeds. An annual report will provide the amount disbursed during the year for the Selected Project.</p>	None
<p>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).</p>	<p>The approach taken by the Verifier, i.e. a pre-issuance Agreed-Upon Procedure, conducted by Vigeo Eiris, is disclosed in the Green Loan Framework.</p>	None
<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.</p>	<p>According to the Green Loan Framework, Neoen commits to review the bond after one year, in conformance with the Climate Bonds Standard requirement.</p>	None

CBI requirements	Vigeo Eiris' factual findings	Gap analysis
Part B: Climate Bonds Taxonomy and Sector-Specific Standards		
Technical criteria for Eligible Projects & Assets: Solar energy		
<p>1. The Eligible Projects relating to solar energy generation shall be projects & assets that operate or are under construction to operate in one or more of the following activities:</p>	<p>As indicated in the external review report, the eligible project falls under two out of three of the technical criteria from the sector-specific standards of the Climate Bonds Taxonomy:</p> <ul style="list-style-type: none"> - The development, construction and operation of an onshore solar PV plant - Wholly dedicated transmission infrastructure for solar energy <p>Not applicable</p> <ul style="list-style-type: none"> - Onshore solar thermal facilities such as solar hot water systems 	None
<p>1.1. Onshore solar electricity generation facilities</p>		
<p>1.2. Wholly dedicated transmission infrastructure and other supporting infrastructure for onshore solar electricity generation facilities including inverters, transformers, energy storage systems and control systems.</p>		
<p>1.3. Onshore solar thermal facilities such as solar hot water systems</p>		

List of supporting documents provided by Neoen:

- Neoen's Green Loan Framework (February 2019).
- Credit Agreement.
- Environmental and Social Due Diligence in Support of Lenders for Project financing – Neoen Project: El Llano.
- Email exchanges between the Lender and Vigeo Eiris.
- Answers to Vigeo Eiris questionnaire.



Vigeo Eiris is a global provider of environmental, social and governance (ESG) research to investors and public and private corporates. The agency evaluates the level of integration of sustainability factors into organisations' strategy and operations, and undertakes a risk assessment to assist investors and companies' decision-making.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organisations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Rabat, Santiago and Stockholm.

The Vigeo Eiris Global Network, comprising 7 exclusive research partners, is present in Australia, Brazil, Germany, Israel, Japan, Spain and Mexico.

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