



ANNUAL REVIEW OF THE SECOND PARTY OPINION¹ ON THE SUSTAINABILITY OF THE FRENCH REPUBLIC'S GREEN OAT

April 2019

In January 2017, the French Republic issued the first French sovereign green bond (green OAT² 1.75% 25 June 2039) (hereafter referred to as the "Green OAT"), dedicated to finance expenditures in line with the commitments that France made for the implementation of the Paris Climate Agreement under the terms of the Energy Transition and Green Growth Act. Agence France Trésor (AFT), tasked with managing the government debt and cash positions, had mandated Vigeo Eiris as an independent expert to deliver a Second Party Opinion on the Green OAT³.

Since then, to maintain the liquidity of this Green OAT through tap issues after the initial issuance, as for conventional benchmark OATs, AFT has proceeded to five reissuances, first €1.6 billion in June 2017, 1.06 billion in December 2017, 1.09 billion in April 2018, 4 billion in May 2018 and 1.7 billion in February 2019, bringing the total outstanding Green OAT debt standing at €16.530 billion as at February 07th, 2019.

During the same period, AFT kept its commitment to set up the Green OAT Evaluation Council, which met for the first time on December 11th, 2017. The AFT plans to publish three types reports (allocation, performance and impact) in 2019.

SCOPE

Vigeo Eiris, an independent third-party expert, was commissioned by AFT to update its Second Party opinion on the sustainability credentials and sustainable goals in the design and management of the Green OAT issued by the French Republic (the "Issuer" or "France") in January 2017.

Our opinion is prepared in accordance with our exclusive social responsibility performance and risk assessment methodology (Environmental, Social and Governance Factors - ESG) of sovereign issuers, and in line with the Green Bond Principles (the "GBP") edited in June 2018. This review involves updating our initial opinion on the following two components:

- **Issuer:** evaluation of the issuer's sustainability performance as regards its contribution to the sustainable development goals.
 - ▶ Comparative analysis, as of November 2018 (date of the last rating cycle), of the level at which the issuer commits to integrate into its legislative and regulatory framework and into its public policies the sustainable development principles and goals as they are broadly defined by international public law conventions, as well as by the guidelines and recommendations formulated by public international organisations.
 - ▶ Review of sustainability-related stakeholder feedbacks on France's sustainability commitments and practices from public information in order to take account of their views and opinions for the year 2018.
- **Green Expenditures 2019:** verification of the green credentials of the Green Expenditures that would be financed by future tap issues over the year 2019.
 - ▶ Use of proceeds: document-based review of the correspondence of these Green Expenditures 2019 with the six eligible Green Sectors defined in the "Framework for the Green OAT".
 - ▶ Process for Projects Evaluation and selection : review of the transparency and implementation of AFT's commitments regarding the evaluation and selection of Green Expenditures and the application of the eligibility criteria initially defined by AFT.

Vigeo Eiris' sources of information are gathered from our sovereign issuers rating database, public information, issuer and data published by its stakeholders. We were able to access all solicited documents. Vigeo Eiris has carried out its due diligence in February 2019.

¹ This opinion is to be considered as the "Second Party Opinion" described by the International Capital Market Association (www.icmagroup.org).

² OAT: « Obligations Assimilables au Trésor » : government bonds, issued by the French Treasury

³ http://www.aft.gouv.fr/articles/l-oat-verte_12845_lng1.html

VIGEO EIRIS' OPINION

- **Issuer** (see Part I.):
 - ▶ France's overall sustainability performance as a sovereign bond issuer is advanced and stable : France continues to demonstrate an advanced⁴ performance (best level on our rating scale), among the best organization of its sector under review at the European and global scale, with an advanced level of performance in the environmental domain.
 - ▶ Since our initial opinion and until the end of the period under review (2018), France has faced isolated occasional allegations, mainly related to its institutional responsibility. We have positively rated France's behaviour regarding controversies it faced by considering the Issuer as "remediative": the French issuer communicates in a transparent way on its cooperation with impacted parties and the corrective actions implemented consequently.
- **Green Expenditures 2019:** we have a reasonable level of assurance (best assurance level) on the green credentials of the Green Expenditures identified by the interministerial working group for 2019 (see Part II.).
 - ▶ The proceeds will be used to finance and refinance Green Eligible Expenditures corresponding to six Green Sectors initially targeted. We express a reasonable level of assurance on the Issuer's capacity to use the OAT proceeds for projects contributing to climate change mitigation and adaptation, protection of natural resources and reduction of ecosystems degradation, in line with seven among the 17 United Nations' Sustainable Development Goals (UN SDGs).
 - ▶ We consider that the overall level of implementation of the issuer's commitments is good in terms of evaluation and selection process of the projects, application of eligibility criteria and allocation of proceeds from the OAT.

Paris, April 4th, 2019



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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: since 2013, Vigeo Eiris has executed several audit mission for the French Republic (Second Party Opinion in 2017 and review of the Second Party Opinion in 2018). No established relationship (financial or other) exists between Vigeo Eiris and the French Republic.

The hereby review is an independent opinion delivered to Agence France Trésor at its demand and is aimed at investors and/or other stakeholders. Its aim is to explain to investors why the 2017 Green OAT and its top issues are considered as sustainable and responsible. It has been established based on the information that has been made available to Vigeo Eiris and that we have analysed based on our internal methodology and our internal quality control rules. Providing this opinion does not mean that Vigeo Eiris certifies the materiality, the excellence or the irreversibility of the impacts from projects financed by the Green OAT. The French Republic is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on financial performance of the Green OAT, nor on the effective allocation of funds' use of proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investment decisions or to make any kind of business transaction. The opinion delivered is not a conclusion on the creditworthiness of the French Republic or its financial obligations may under no circumstances be invoked or used in the context of a dispute or a mechanism for settling a commercial dispute.

Restriction on distribution and use of this Opinion: the opinion is provided by Vigeo Eiris to the Agence France Trésor and can only be used by the Issuer. The distribution and publication is at the discretion of the Issuer, submitted to Vigeo Eiris approval.

⁴ Vigeo Eiris rating scales:

Performance level : advanced, good, limited, weak.
Assurance level: reasonable, partial, weak.

DETAILED RESULTS

Part I. ISSUER

Level of the Issuer's sustainability performance⁵

As of November 2018 (date of the last rating cycle), France's overall level of integration of sustainable development objectives in its institutional systems and public policies is considered to be advanced (80/100), and has remained stable during the last six years. For the second consecutive year, France ranks 8th out of 178 countries worldwide and 7th out of the 28 European Union (EU) member states.

France's sustainability policy, in institutional, social and environmental terms, is considered advanced. France has ratified all international conventions and texts related to sustainability themes, apart from the Protocol against the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and Ammunition and the Convention on the Rights of Migrant Workers.

- France achieves an advanced performance in terms of Environmental responsibility with a score of 73/100, or a point below last year's score, ranking 13th out of 178 countries. This decrease can be explained by the reduction of the score of the indicator "Public budget of Research and Development (R&D) related to the environment, in percentage of R&D's total public expenditures" (2017's score was of 90/100 whilst the 2018's score was of 40/100).

Amongst France's strengths is to be noted the commitments taken regarding the reduction of atmospheric emissions and the effort in favour of biodiversity protection. France is among the leaders worldwide regarding the protection of terrestrial and marine areas. The country has also actively steered and ratified the Paris Agreement and jointly committed with EU member states to reduce EU GHG emissions by 40% by 2030 compared to 1990, while it is achieving advanced performance in terms of CO₂ emissions, being the 3rd low-carbon economy in the OECD (0,11 kg of CO₂ USD/GDP). Room for improvement still lies in the transition towards green growth, notably in terms of nuclear waste production per Gross Domestic Product.

- France obtains an advanced score in terms of Social responsibility and solidarity (78/100), or a progression of two points compared to last year, now ranking 10th out of 178 countries. This increase can be explained by the positive evolution of the score of the "Promotion of social protection" criteria, particularly on the "Poverty and inequalities reduction" and "Unemployment rate and services". The social strengths of France relate to education, social infrastructure management, gender equality, with top leading scores attained, namely on both primary school and secondary school education indicators, as well as on the Gender Inequality Index. Performance relating to social protection is uneven, with advanced score on poverty reduction but moderate score on employment. Development aid displays a stable score.
- France achieves an advanced performance in Institutional responsibility (88/100), ranking for the second consecutive year 11th out of 178 countries. France regularly reaffirms its commitments to democracy and human rights. France plays an active role in supporting and facilitating the advocacy efforts of human rights and anti-corruption associations within United Nations agencies and organizations.

Sustainability-related stakeholders' feedback

Since our initial opinion, France has faced "occasional" allegations, mainly related to its institutional responsibility, as observed for its peers, reflecting the effectivity of free exercise by citizens of the right of appeal to the European Court of Human Rights (ECHR). France's policy is considered as "remediative" as regards those allegations : the government communicates in a transparent way on its cooperation with impacted parties and the corrective actions implemented.

Domain	Comments	Frequency	Severity	Responsiveness
Environmental responsibility	Neither new controversy nor new event were identified.	N/A	N/A	N/A
Social responsibility and solidarity	Neither new controversy nor new event were identified.	N/A	N/A	N/A
Institutional responsibility	In 2018, 871 applications involving France were allocated to a juridical formation by the ECHR and France faced 8 adverse judgments finding at least one violation (which represents 0.92% of applications). These figures seem in line with legitimate practices in a society guaranteeing all citizens a right of appeal to the ECHR.	Persistent	Critical	France is overall remediative: it has enforced all the judgments.
		Frequent	High	
		Occasional	Significant	
		Isolated	Minor	

⁵ Since our last assessment, Vigeo Eiris has updated its methodology for research on country rating (see « Methodology » part). According the previous version of our methodology, France would have reached an overall score of 81/100, and scores of 71/100 in Environmental Responsibility, 80/100 in Social responsibility and solidarity and 93/100 in Institutional responsibility.

Nota Bene : In December 2018, four non governmental organisations (NGO) have expressed their intention to assign in justice the French Republic for “inaction facing climate changes”. On February 15th 2019, in response to this graceful recourse, the Ministry of Ecological and Solidarity Transition handed a “mémoire” presenting the actions of the State in favour of climate. On March 14th, the four NGOs have filed a recourse for “inaction facing climate changes” in front of the Administrative Court of Paris. Of note, similar actions have been and are still taken in other countries, to date, in Europe (Belgium, the Netherlands) and in the rest of the world (Colombia, United States, New-Zealand and Pakistan) as well as with the european jurisdictions (European Union’s Court of Justice and European Court of Human Rights).

Given its preliminary character, this controversy is not analysed at the date of this opinion.

Part II. ISSUANCE

We express a reasonable level of assurance on the green credentials on the Green Expenditures identified by the interministerial working group for 2019.

Use of proceeds

As of today, 45 expenditures were selected by the issuer as eligible in 2019, corresponding in its entirety to the six Green Sectors initially defined by the issuer in the « Framework for the green OAT », namely:

- Buildings
- Transport
- Energy
- Living resources and biodiversity
- Adaptation
- Pollution control and Eco-efficiency

Vigeo Eiris has a reasonable level of assurance on the issuer’s capacity to use the 2019 tap issues’ proceeds to fund projects with environmental benefits, in line with its initial commitments.

We consider that the Green Sectors targeted by the Green OAT are aligned with the following UN SDGs: 7. Affordable and clean energy, 9. Industry, innovation & infrastructure, 11. Sustainable cities & communities, 12. Sustainable consumption & production, 13. Climate action, 14. Life below water and 15. Life on land.



We have a reasonable level of assurance on the issuer’s capacity to use the Green OAT proceeds for projects contributing to climate change mitigation and adaptation, protection of natural resources and reduction of ecosystems degradation, in line with seven UN SDGs.

Process for Projects Evaluation and Selection

The process for projects evaluation and selection obeys to a structured and controlled process, presenting a potential for improvement to strengthen the prevention of opacity risks, but at this stage in line with France’s environmental policies.

- The selection and validation of Green Expenditures was ensured via an interministerial working group, put in place by the Prime Minister’s cabinet and involving the concerned ministries (Ministry of Ecological and Solidarity Transition, Ministry of Territorial Cohesion and Relations with Territorial Collectivities, Ministry of Agriculture and Food, Ministry of Economy and Finance, Ministry of Public Accounts Action, and Ministry of Higher Education, Research and Innovation).
- All Eligible Expenditures were publicly documented and record of decisions were established for interministerial working group meetings, enabling the traceability if selection decisions.
- Selection and exclusion criteria, notably based on the Energy and Ecological Transition for Climate label (TEEC label), appear to have been appropriately applied during the evaluation and selection of Green Expenditures.

Area for improvement includes clarifying the method for classifying and selecting expenditures in order to reinforce its reproducibility, to involve external experts and/or scientific committees in the process, and to define the update conditions.

- The integration of ESG factors in expenditures management remains partial: it includes an analysis of potential impacts of the envisaged measures in terms of economic, social and environmental implications on stakeholders, without a systematic approach.

We consider that the overall level of implementation of the issuer's commitments is good in terms of evaluation and selection process, application of eligibility criteria and allocation of proceeds from the OAT.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance/Institution (ESG/I) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation or activity, including the issuance of bonds. In this sense, Vigeo Eiris writes an opinion on the Issuer's sustainability performance as an organisation, and on the Issuance's objectives, management and reporting of the expenditures (re)financed by this transaction.

Part I. ISSUER

Level of the Issuer's sustainability performance

Vigeo Eiris has revised its sovereign rating research, resulting from a continuous improvement process and based on permanent monitoring of international normative developments as well as stakeholder expectations and debates. This enhanced version includes 69 new factors to meet market needs. The 172 indicators are put into perspective with the UN Sustainable Development Goals and are organized into 56 criteria, 17 sub-domains and 3 rating domains. Of note, the new methodology leads to a decrease in the absolute scores of the majority of countries.

Vigeo Eiris' methodology, the Sustainability Sovereign Rating®, measures and compares the levels of integration of international public law and soft law frameworks, including for the recent period the Sustainable Development Goals (SDGs), and the action programmes of Agenda 21, adopted by 173 countries at the Rio Earth Summit in 1992. We pay particular attention to the commitments, policies and impacts of public policies in terms of respect of fundamental human rights, access to economic, social, cultural and environmental rights, quality of governance, as well as international solidarity and cooperation. Based on the analysis of a universe composed of 178 countries, the results provide a comparative view of risks and performances, with regard to universally acknowledged sustainability objectives.

The sustainability performance of the French Republic was evaluated by Vigeo Eiris in November 2017 based on three rating domains, all equally weighted in the model: Environment (i.e. environmental protection), Social (i.e. social protection and solidarity) and Institutions (i.e. rule of law and governance). These three domains are analysed through 56 criteria, which bring together 172 indicators of two types:

- Commitment indicators: reflecting the state's level of commitment to the goals and principles set by major international agreements: Conventions, recommendations and statements of the ILO; UN Charters and treaties; guiding principles of the OECD; regional instruments (assuming their full compliance with the United Nations Charter); the Universal Declaration of Human Rights and its related protocols and treaties.
- Result indicators: measuring the efficiency of the country's sustainable development actions.

Vigeo Eiris gathers information from diversified sources including international organisations such as intergovernmental organisations, international trade unions and NGOs.

Sustainability-related stakeholders' feedbacks

Vigeo Eiris has gathered sustainability-related stakeholder feedbacks on France's sustainability commitments and practices from public information in order to take account of their views and opinions. The main sources of information used by Vigeo Eiris to collect this information are:

- Amnesty International, Transparency International, the United Nations Food and Agriculture Organization (FAO), International Labour Office (ILO), the United Nations Division for Sustainable Development of the Department of Economic and Social Affairs (DESA-DSD), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the UNICEF, the Office of the United Nations High Commissioner on Human Rights (OHCHR), the World Resources Institute (WRI), the Organization for Economic Cooperation and Development (OECD), the European Commission, the European Court of Justice, the European Court of Human Rights, the UN International Court of Justice

An allegation is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on country/state responsibility issues. Such allegations are mainly related to infringement procedures that can be initiated when a failure to comply with obligations under national, community or international laws is detected. We have considered different steps of the procedures based on their status in the advancement of the infringement procedures and decisions, and have only integrated material non-compliances and condemnation/adverse judgment, i.e. justice decision ruled against the Issuer and possible penalties payment or corrective measures to be taken.

Vigeo Eiris provides an opinion on sustainability-related allegations risk mitigation based on the analysis of three factors:

- Frequency: reflects for each ESG challenge the number of allegation cases faced. At country level, this factor reflects on the overall number of cases faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Severity: the more a controversy will relate to stakeholders' fundamental interests, prove actual Issuer responsibility in its occurrence, and have adverse impacts for stakeholders, the highest its severity will be. Severity assigned at country level will reflect the highest severity of all cases faced by the Issuer (scale: Minor, Significant, High, Critical);
- Responsiveness: ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At country level, this factor will reflect the overall responsiveness of the Issuer for all cases faced (scale: Proactive, Remediate, Reactive, Non Communicative);

The impact of an allegation on an Issuer's reputation reduces with time, depending on the severity of the case and the Issuer's responsiveness to this case. Conventionally, Vigeo Eiris covers allegation cases during 4 years.

Part II. ISSUANCE

In the initial opinion, our analysis included:

Use of proceeds

The use of proceeds requirements are defined to ensure that the funds raised are used to finance and/or refinance an Eligible Projects and are traceable within the issuing organisation. Each project endorsed shall comply with at least one of the Eligible Project Category definition in order to be considered as an Eligible Green Project. Vigeo Eiris evaluates the relevance, visibility, and measurability of the associated environmental and/or social objectives. The sustainability purpose of the Green OAT's associated Eligible Green Expenditures has been precisely defined, with regard to the Issuer's commitments, and assessed based on the described and estimated benefits of Eligible Projects. The contribution of Eligible Projects to Sustainable Development is evaluated based on the United Nations Sustainable Development Goals.

Process for expenditure evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and efficiency. The relevance and exhaustiveness of selection criteria and associated supporting elements integrated in the Green OAT framework, and the coherence of the process are analysed based on material issues considered in Vigeo Eiris' methodology.

We have updated our initial opinion on the Green Expenditures identified by the interministerial working group and that would be financed by potential future tap issues over the year 2018:

The update concerns the transparency and implementation of AFT's commitments regarding the correspondence of these Green Expenditure 2018 with the six Green Sectors and the evaluation and selection process for Green Expenditure, as well as the application of the eligibility criteria initially defined by AFT in the "Framework for the Green OAT" dated 10 January 10, 2017.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and use of innovative methods to anticipate emerging risks	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Robust	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak		



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 two types of services through separate business units

- ▶ **Vigeo Eiris rating** offers databases, sector-based analyses, ratings, benchmarks and portfolio screening, to serve all ethical and responsible investment strategies.
- ▶ **Vigeo Eiris enterprise** works with organisations of all sizes, from all sectors, public and private in order to support them in the integration of ESG criteria into their business functions and strategic operations.

Vigeo Eiris methodologies and rating services adhere to the strictest quality standards. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Santiago, Stockholm and Tokyo and has a team of 200. The agency works with partners through its Vigeo Eiris Global Network.

For more information: www.vigeo-eiris.com