

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

April 3, 2018

In January 2017, the French Republic issued the first French sovereign green bond (green OAT 1.75% 25 June 2039) (hereafter referred to as the "Green OAT"), dedicated to 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 OAT².

Since then, to maintain the liquidity of this Green OAT through tap issues after the initial issuance, as for conventional benchmark OATs, AFT has issued twice, first €1.6 billion in June 2017 and in second time €1.1 billion in December 2017, bringing the total outstanding Green OAT debt standing at €9.7 billion as at December 31, 2017.

During the same period, AFT met its commitment to set up the Green OAT Evaluation Council, which met for the first time on December 11, 2017. AFT plans to publish reports on the use of proceeds, outputs and impacts as soon as 2018.

SCOPE

Vigeo Eiris, acting as an independent third-party expert, was commissioned by AFT to update its opinion on the sustainability credentials and management of the Green OAT, according to Vigeo Eiris' Environmental, Social and Governance (ESG) assessment methodology and in line with the Green Bond Principles guidelines.

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

- **Issuer:** evaluation of the issuer's sustainability performance.
 - ▶ Comparative analysis, as of November 2017 (date of the last rating cycle), of the level of integration of sustainable development principles and objectives in the Issuer's institutional systems and public policies.
 - ▶ 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 2017.
- **Green Expenditures 2018:** assessment of the green credentials of the Green Expenditures that would be financed by future tap issues over the year 2018.
 - ▶ Use of proceeds: document-based review of the correspondence of these Green Expenditures 2018 with the six Green Sectors defined in the "Framework for the Green OAT".
 - ▶ Evaluation and selection process: review of the transparency and implementation of AFT's commitments regarding the evaluation and selection process for 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, the issuer and data published by its stakeholders. We were able to access all solicited documents. Vigeo Eiris has carried out its due diligence from March 6 to April 3, 2018.

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

² http://www.aft.gouv.fr/articles/l-oat-verte_12845_ing1.html

VIGEO EIRIS' OPINION

- **Issuer:**
 - ▶ France overall sustainability performance, as a sovereign bond issuer, is advanced and stable: the issuer continues to demonstrate an advanced³ performance (best level on our rating scale), among the best at the European and global scale, with an advanced level of performance in the environmental domain.
 - ▶ Since our initial opinion, France has faced occasional allegations, mainly related to its institutional responsibility, as observed for its peers. France is considered as “remediative”: the country communicates in a transparent way on its cooperation with impacted parties and the corrective actions implemented.
- **Green Expenditures 2018:** we have a reasonable level of assurance on the green credentials of the Green Expenditures identified by the interministerial working group for 2018:
 - ▶ The proceeds will be used to finance and refinance Green Eligible Expenditures corresponding to six Green Sectors. We have 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 United Nations’ Sustainable Development Goals (UN SDGs).
 - ▶ We consider that the overall level of implementation of issuer’s commitments is good in terms of evaluation and selection process, application of eligibility criteria and allocation of proceeds from the OAT.

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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: since 2013, Vigeo Eiris has executed one audit mission for the French Republic (Second Party Opinion in 2017). 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 tap 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.

³ 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 performance⁴

As of November 2017 (date of the last rating cycle), France 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 rather stable during the last five years. France ranks 8th out of 176 countries worldwide and 7th out of the 28 European Union (EU) member states, advancing four places worldwide and two places at EU level.

France's approach towards its management of environmental, institutional and social responsibilities is considered advanced. France has ratified international conventions and texts on these subjects, 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, like other European Union member countries and other countries such as the United States, Canada and Japan.

- France attains an advanced performance in the Environmental responsibility domain (74/100), ranking 8th out of 176. France's environmental strengths relate to its management of air emissions and biodiversity. In particular, France is among the leaders worldwide regarding the protection of terrestrial and marine areas. The country has also 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 CO₂ emissions in the OECD. Room for improvement lies in the transition towards green growth, notably in terms of nuclear waste production per Gross Domestic Product.
- France obtains an advanced score in the Social responsibility and solidarity domain (76/100), ranking 13th out of 176. 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 but moderate score on employment with a regression in terms of development aid.
- France attains an advanced performance in the institutional responsibility domain (88/100), ranking 11th out of 176. France's performance is among the best for the vast majority of the indicators under review. 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 free exercise by citizens of the right of appeal to the European Court of Human Rights (ECHR). France is considered as "remediative": the country 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 2016, 916 applications involving France were allocated to a juridical formation by the ECHR and France faced 14 adverse judgments finding at least one violation (which represents 1,53% 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	

⁴ Vigeo Eiris has reviewed its 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.

Part II. ISSUANCE

We have a reasonable level of assurance on the green credentials on the Green Expenditures identified by the interministerial working group for 2018

Use of proceeds

To date, 52 expenditures were selected by the issuer as eligible in 2018, among which 7 new expenditures compared to the ones submitted to Vigeo Eiris' analysis in 2017. All eligible expenditures meet one (or several) 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 2018 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 – and associated tap issues – 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 expenditure evaluation and selection

The process for expenditure evaluation and selection appears to be efficiently implemented, in line with France's environmental policies.

- The selection and validation of Green Expenditures was ensured via an interministerial working group involving the concerned ministries (Ministry of Ecological and Solidarity Transition, Ministry of Territorial Cohesion, 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 of selection decisions.
- Selection and exclusion criteria appear to have been appropriately applied during the evaluation and selection of Green Expenditures, allowing the selection of Eligible Green Expenditures.
- We maintained our recommendation to clarify 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.

In line with international standards, 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 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 fund raising. In this sense, Vigeo Eiris writes an opinion on the Issuer's sustainability performance as an organisation, and on the 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 176 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' feedback

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:

- 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);
- 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).

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 credentials of 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		



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Rating

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Enterprise

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 and have been certified to the independent ARISTA® standard. 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