

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

May 2020

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 nine reissuances, bringing the total outstanding Green OAT debt standing at €25.3 billion as of April 2nd, 2020.

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. In 2020, the AFT plans to publish an allocation and performance report, and the Council continues its work on impact reports.

SCOPE

Vigeo Eiris, an independent third-party expert, was commissioned by the 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 with regards to its contribution to the sustainable development goals.
 - ▶ Comparative analysis, as of November 2019 (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.
- **"Green" Expenditures 2020:** verification of the green credentials of the Green Expenditures that would be financed by future tap issues over the year 2020.
 - ▶ Use of proceeds: document-based review of the correspondence of these Green Expenditures 2020 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 documents, and data published by its stakeholders. We were able to access all solicited documents. Vigeo Eiris has carried out its due diligence in April and May 2020.

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 (the highest level on our rating scale), among the best at the European and global scale, in particular in the environmental domain.
- **Green Expenditures 2020:** we have a reasonable level of assurance (our highest level of assurance) on the green credentials of the Green Expenditures identified by the inter-ministerial working group for 2020 (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 of the 17 United Nations' Sustainable Development Goals (UN SDGs).
 - ▶ We consider that the overall level of implementation of the issuer's commitments is good, with regards to the process for project evaluation and selection, the application of eligibility criteria and the allocation of proceeds from the OAT.

This Second Party Opinion is based on the review of the information provided by the Issuer, according to our exclusive assessment methodology and to the GBP voluntary guidelines (June 2018). The French Republic acknowledges that in case of changes of such standards and market practices and expectations, VIGEO EIRIS shall exclude any liability regarding the use of the concerned Second Party Opinion and its compliance with then-current standards and market practices and expectations.

Paris, May 11th, 2020

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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Since 2013, Vigeo Eiris has executed several audit missions for the French Republic (Second Party Opinion in 2017, review of the Second Party Opinion in 2018 and 2019). No established relationship (financial or other) exists between Vigeo Eiris and the French Republic.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond issued by the French Republic in January 2017 and its tap issues, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. The Issuer 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 the financial performance of the Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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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 2019 (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 (81/100), and has remained stable during the last six years. France's performance in sustainable development ranks France 5th out of 178 countries on the global scale, 3 ranks higher than the previous year, and 5th 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 Convention on the Rights of Migrant Workers.

- France achieves an advanced performance in terms of Environmental responsibility with a score of 74/100, or a point above the previous year's score, ranking 10th out of 178 countries. Amongst France's strengths, the commitments taken regarding the reduction of atmospheric emissions and the effort in favour of biodiversity protection are to be noted. France is among the leaders worldwide in 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. 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, as well as in terms of renewable energy production (apart from hydroelectricity).
- France obtains an advanced score in terms of Social responsibility and solidarity (79/100), or a progression of one point compared to the previous year, now ranking 7th 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 "Promotion of labour rights" indicator. The social strengths of France relate to education, social infrastructure management, gender equality, with high scores attained, namely in both primary school and secondary school education indicators, as well as on the Gender Inequality Index. Performance relating to social protection is uneven, with an advanced score on poverty reduction but a moderate score on employment. Development aid displays a stable score.
- France achieves an advanced performance in Institutional responsibility (90/100), a progression of two points compared to the previous year, ranking for the third consecutive year 11th out of 178 countries. This increase is explained by the positive evolution of the score on the criteria "Participation in International Conventions for Human Rights", due to France's ratification of the Protocol against the Illicit Manufacturing of and Trafficking in Firearms, their Parts and Components and Ammunition. 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.

Part II. ISSUANCE

We express a reasonable level of assurance on the green credentials of the Green Expenditures identified by the inter-ministerial working group for 2020.

Use of proceeds

As of today, 48 expenditures were selected by the issuer as eligible in 2020, 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 2020 tap issues' proceeds to fund projects with environmental benefits, in line with its initial commitments.

⁵ The review of stakeholder feedback is not included in our evaluation of Sovereign Bond Issuers.

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 inter-ministerial 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 a record of decisions were established for inter-ministerial working group meetings, enabling the traceability of selection decisions.
- Selection and exclusion criteria, notably based on the Greenfin label (previously named the "Energy and Ecological Transition for Climate" 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.

- As a general rule, when draft legislation is transmitted to Parliament, it is accompanied by an impact study covering their economic, financial and social implications. In addition, and more specifically, the environmental benefits of Green OAT Expenditures are the subject of specific studies supervised by the Green OAT Evaluation Council. The latter, after publishing reports on the Energy Transition Tax Credit ("crédit d'impôt pour la transition énergétique"), and on France's waterways, intends to study the impact of all Eligible Expenses one after another. An area for improvement would be to specify the measures to mitigate potential environmental or social risks associated to eligible expenses for the lifetime of financed projects.

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.

The review of stakeholders feedbacks is not included in our evaluation of Sovereign Bond Issuers.

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 inter-ministerial working group and that would be financed by potential future tap issues over the year 2020:

The update concerns the transparency and implementation of AFT's commitments regarding the correspondence of these Green Expenditure 2020 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 an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

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 & organizations:** 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, Brussels, Casablanca, Hong Kong, Milan, New York, Rabat and Santiago de Chile.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: www.vigeo-eiris.com