

ANNUAL REVIEW

Of the Second Party Opinion on the sustainability of the French Republic's Green OAT

V.E expresses a reasonable level of assurance on the green credentials of the Green Expenditures associated with all the issuances made in 2020.

Key findings

Contextualization

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 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's debt and cash positions had mandated V.E as an independent expert to deliver a Second Party Opinion on the Green OAT¹ Framework and its implementation. 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 eleven reissuances, bringing the total outstanding volume of this first Green OAT to €29 billion as of February 4th, 2021. In addition, a second Green OAT (OAT 0.50% 25th June 2044) was issued on March 16th, based on the same Framework and backed against the same pool of Green Eligible Expenditures. After the inaugural syndication and a first tap issue, its outstanding amount was brought to €9.3 billion as of June 3rd, 2021.

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 2021, the AFT plans to publish an allocation and performance report, and the Council continues its work on impact reports.

We express a reasonable level of assurance on the green credentials of the Green Expenditures associated with all the issuances made in 2020 and on the compliance with the commitments made at the time of the issuance concerning these tap issues.

Use of proceeds

- ▶ To date, selected expenditures appear consistent with the six Green Sectors initially defined by the issuer in the "Framework for the Green OAT". We express 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, and in accordance with its initial commitments.

Evaluation and selection

- ▶ We consider that the overall level of implementation of the issuer's commitments is advanced, with regards to the process for project evaluation and selection, the application of eligibility criteria and allocation of proceeds from the OAT.

Reporting

- ▶ We express a reasonable level of assurance on the issuer's capacity to report on the funds allocation and on the environmental performance of Green Expenditures.

¹ OAT: « Obligations Assimilables au Trésor »: government bonds, issued by the French Treasury

ASSURANCE & PERFORMANCE EVALUATION LEVELS				
USE OF PROCEEDS	Weak	Moderate	Reasonable	
EVALUATION AND SELECTION	Weak	Limited	Robust	Advanced
REPORTING	Weak	Moderate	Reasonable	

SCOPE

V.E was commissioned to update its opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green OAT issued by the French Republic (the “Issuer” or “France”) in January 2017, in compliance with the Green OAT Framework (the “Framework”) created to govern their issuance.

Our opinion is established according to V.E’s exclusive social responsibility performance and risk assessment methodology (Environmental, Social and Governance Factors - ESG) of sovereign issuers and to the latest version of the ICMA’s Green Bond Principles (“GBP”) - edited in June 2021.

Our opinion is built on the review of the following components:

- Green Expenditures 2020: verification of the existence of environmental benefits from the Green Expenditures that have been financed over the year 2020.
 - ▶ Use of proceeds: document-based review of the correspondence of these 2020 Green Expenditures with the six Green Sectors defined in the “Framework for the Green OAT”.
 - ▶ Process for Expenditures’ evaluation and selection: review of the transparency and implementation of Agence France Trésor’s (AFT) commitments regarding the evaluation and selection of Green Expenditures and the application of the eligibility criteria initially defined by AFT.
 - ▶ Reporting: assessment of AFT’s ability to report on the allocation, performance and impact of Green Expenditures 2020, and the compliance of the processes put in place and AFT’s reporting with the commitments made at the time of the inaugural issuance.
- Issuer : evaluation of the issuer’s sustainability performance with regards to its contribution to the sustainable development goals.
 - ▶ Comparative analysis, as of November 2020 (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.

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents.

We carried out our due diligence assessment from June 10th to June 25th, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. Reasonable efforts have been made to verify data accuracy.

Contact

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ISSUANCE

We express a reasonable level of assurance (V.E’s highest level of assurance) on the green credentials of Expenditures associated with all the issuances made in 2020, those of the inaugural issuance and the tap issues subsequent to it, and on the compliance with the commitments made at the time of the issuance concerning these tap issues.

Use of proceeds

To date, selected expenditures are consistent with the six Green Sectors initially defined by the issuer in the “Framework for the Green OAT”. We express 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.

To date, 49 expenditures have been financed by the three tap issues made in 2020, corresponding in their 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

Contribution to the Sustainable Development Goals

We express a reasonable level of assurance on the Issuer’s capacity to use the OAT proceeds to finance 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 Green Sectors targeted by the Green OAT – and associated tap issues – are likely to contribute to the following UN SDGs: Goal 7. Affordable and clean energy, Goal 9. Industry, innovation and infrastructure, Goal 11. Sustainable cities & communities, Goal 12. Sustainable consumption & production, Goal 13. Climate action, Goal 14. Life below water and Goal 15. Life on land.



Evaluation and selection

We consider the overall level of implementation of the Issuer's commitments to be advanced, in terms of the project evaluation and selection process, the application of eligibility criteria and the allocation of proceeds from the OAT.

The process for projects evaluation and selection obeys to a structured and controlled process, 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 Economy and Finance, Ministry of Public Accounts Action, Ministry of Higher Education, Research and Innovation, Ministry of Territorial Cohesion and Relations with Territorial Collectivities, Ministry of Agriculture and Food and Ministry of Europe and foreign affairs).
- All Eligible Expenditures were publicly documented, and a record of decisions was 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.

To be noted that the Expenditures selected as eligible for 2021 were presented and approved by the Evaluation Council, composed of international experts.

- 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 the Green OAT's Expenditures are the subject of specific studies supervised by the Green OAT Evaluation Council, including an analysis of mitigation measures for the associated risks. After publishing reports on the Energy Transition Tax Credit (CITE), on Voies navigables de France and on the National Forestry Office, the Council intends to address the various Eligible Expenditures one after the other.

Reporting

We express a reasonable level of assurance on the issuer's capacity to report on the funds allocation and on the environmental performance of Green Expenditures.

The issuer produces a report combining allocation reporting and performance reporting. This report will be supplemented by the publication of an ex-post evaluation report, carried out under the supervision of the Green OAT Evaluation Council.

Issuer's capacity to report

Indicators on funds allocation are reported. In addition, the issuer provides information on the environmental performance of the Green Expenditures. These are based solely on existing State's expenditures indicators and mainly on performance indicators identified in existing government budget documentation, specifying calculation methodologies. The AFT has selected 45 performance indicators, whose relevance was assessed by an independent third party.

External reviews

In addition to the audits carried out by the Court of Auditors, France has committed to have its report on the funds allocation reviewed by an independent auditor, covering:

- All operational processes leading to the allocation of eligible Green Expenditures backed by OAT issuances in 2020.
- The proper implementation of eligible Green Expenditures.

ISSUER



Level of the Issuer's sustainability performance

According to the Sovereign Sustainability Rating © last updated by V.E (Vigeo Eiris) in November 2020, France received a rating of 82/100 which indicates an overall advanced sustainability performance. France ranks 4th out of 178 countries rated in our global sovereign sustainability index, and also 4th out of 37 OECD countries² rated by V.E³.

V.E's assessment of the Issuer's sustainability performance is based on publicly available information and statistics derived from sources that have been agreed for use in the data collection and rating methodologies for the Sovereign Sustainability Rating.

France has an advanced performance across all three pillars: Environmental Responsibility (75/100), Social Responsibility (81/100), and Governance Responsibility (89/100).

DOMAINE	COMMENTAIRES	OPINION
Environment	France has an advanced performance in the Environmental Responsibility pillar, however its score of 75/100 is the lowest across the three pillars of sustainability. The country ranks in the top quartile in V.E's rated sovereign universe (10 th out of 178).	Advanced
	France has ratified all the international environmental conventions included in our rating framework, including the Paris Agreement, the Convention on Biological Diversity, the United Nations Framework Convention to Combat Desertification, the Stockholm Convention on persistent organic pollutants and the Aarhus Convention on access to environmental justice.	
	As a member of the European Union (EU), France steered and jointly endorsed the collective pledge to reduce GHG emissions by 40% by 2030, compared to 1990 levels. ⁴ France has the fifth lowest carbon intensity per unit of economic output (0.11 kg per PPP USD of GDP ⁵) in the OECD group. However, the country needs to strengthen its efforts to reduce consumption-based and transport emissions.	Robust
	France performs well in addressing air pollution. The country's urban pollution levels fare below the OECD average – e.g. the annual mean levels of fine particulate matter (PM2.5) in cities (population weighted) was 11.7 microgram/m ³ in 2016. ⁶ However, energy efficiency and transition to renewable energy are areas that need improvement. The country has the seventeenth highest energy intensity (3,692 kg of oil eq./capita ⁷) and the eight lowest production of electricity from renewable sources excluding hydropower (6.2% ⁸) in the OECD group.	Limited
	Areas related to biodiversity protection, green growth and the transition to a circular economy also need improvement. Regarding biodiversity, France has a mixed performance on ecosystem management. The country has developed a reasonable coverage of protected areas aimed to safeguard its rich terrestrial and marine biodiversity.	

² There are 37 countries that are members of the Organization for Economic Cooperation and Development (OECD): Australia, Austria, Belgium, Canada, Chile, Colombia, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. Source <https://www.oecd.org/about/members-and-partners/>. All these countries are covered by V.E in the Sovereign Sustainability Rating.

³ Note: The Issuer has not been subject to a review of its ability to mitigate sustainability risks based on the review of stakeholder opinion.

⁴ EU's First INDC, 2015 <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Italy%20First/LV-03-06-EU%20INDC.pdf>.

⁵ <https://data.worldbank.org/indicator/EN.ATM.CO2E.PP.GD>

⁶ <http://unstats.un.org/sdgs/indicators/database/?indicator=11.6.2>

⁷ <https://data.worldbank.org/indicator/EG.USE.PCAP.KG.OE>

⁸ <https://data.worldbank.org/indicator/EG.ELC.RNWX.ZS>

	<p>Compared to its OECD peers, France has an overall high proportion of sites that are important for terrestrial biodiversity which are covered by protected areas (80% in 2019⁹).</p> <p>However, the country's Red List Index has recorded a deteriorating trend over time (0.87 in 2020 from 0.93 in 2000), which indicates that the rate of biodiversity loss is increasing.</p> <p>Similarly, room for improvement lies in the transition towards green growth, notably in terms of the nuclear waste production per GDP, fertilizer consumption and the allocation of public funds for environmentally related R&D.</p>	Weak
Social	<p>France has an advanced performance in the Social Responsibility pillar with a score of 81/100. The country ranks in the top quartile in V.E's rated sovereign universe (6th out of 178).</p> <p>Like most OECD peers, France has high enrolment rates for both primary and secondary education. The government spending on education, which amounted to 5.5% of GDP (2017), is the ninth highest in the OECD group.¹⁰ Income equality is moderate, with a Gini coefficient of 0.3 (2017), which is the fifteenth lowest within the OECD economies. Unemployment is high, in particular youth unemployment, which amounted to 19.5% in 2020, the sixth highest in the OECD group.¹¹ Poverty levels have been stable over the last ten years to reach a rate of 0.08 in 2017, the seventh lowest in the OECD group. The working population enjoy fundamental rights such as freedom of association and collective bargaining. However, according to International Trade Union Confederation (ITUC), France has faced repeated violations of workers' rights in 2019.¹²</p> <p>Compared to OECD peers, France fares well in areas such as accessibility of healthcare and gender equality. With 11.5 nurses & midwives and 3.3 physicians per 1,000 people,¹³ the density of medical staff in France is well above the WHO estimates of 2.5 medical staff per 1,000 people needed to provide adequate coverage with primary care interventions.¹⁴ France has good rates of women in political life and in the labour force.¹⁵ Increasing women's access to education and the labour market is identified as a determinant for change by the Sustainable Development Goals (SDGs) in tackling world poverty.</p> <p>France has an overall moderate performance in the promotion of healthy lives and access to a balanced nutrition for the areas where there is reported data available to assess performance. Moderate scores are recorded in areas linked to the reduction of infectious diseases and the harmful use of alcohol. There is inadequate data available for France to determine the country's efforts to prevent child malnutrition & stunting.</p>	<p>Advanced</p> <p>Robust</p> <p>Limited</p> <p>Weak</p>

⁹<https://unstats.un.org/sdgs/indicators/database/>

¹⁰<https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS>

¹¹<https://data.worldbank.org/indicator/SL.UEM.1524.ZS>

¹²ITUC Global Rights Index 2020 <https://www.ituc-csi.org/ituc-global-rights-index-2020>

¹³Nurses & midwives per 1,000 people <https://data.worldbank.org/indicator/SH.MED.NUMW.P3>; Physicians per 1,000 people <https://data.worldbank.org/indicator/SH.MED.PHYS.ZS>

¹⁴As per the definition of medical staff shortage in the 2006 World Health Report https://www.who.int/whr/2006/whr06_en.pdf?ua=1

¹⁵Labor force participation rate, female <https://data.worldbank.org/indicator/SL.TLF.CACT.FE.ZS>; Proportion of seats held by women in national parliaments (%) <https://data.worldbank.org/indicator/SG.GEN.PARL.ZS>

Governance	<p>France's performance in the Governance Responsibility pillar is assessed as advanced with a score of 89/100. The country ranks in the top quartile in V.E's rated sovereign universe (11th out of 178).</p> <p>France has ratified fundamental conventions relating to human rights, children's rights, and labour rights such as forced labour, freedom of association and collective bargaining. However, France has not endorsed international conventions related to occupational health and safety or the rights of migrant workers. The country abolished the death penalty for all crimes.¹⁶</p> <p>France scores high in all the areas related to the promotion of rule of law, public governance, control of corruption and democratic accountability that are measured by the Worldwide Governance Indicators. However, the country's performance has recorded deteriorating trends over the last ten years in areas that measure the ability of elected politicians to ensure political stability and the participation of citizens in matters of public governance and accountability.¹⁷</p> <p>France ranked as the 66th most peaceful country in 2019 in the Global Peace Index (GPI) – throughout the year, the country was embroiled in near constant civil unrest and demonstrations by the Yellow Vests movement over rising fuel taxes and the government's tax reforms.¹⁸ According to Coface, France's political and economic governance environment posed a moderate risk for domestic companies of defaulting on their financial commitments in 2019, however this risk is likely to be amplified by the negative economic repercussions of the Covid-19 pandemic.¹⁹ France's adjusted net savings, including damage from particulate emission pollution (% of GNI) have steadily decreased over the last ten years, indicating a consistent run down in the country's overall resources and wealth.²⁰</p>	Advanced
		Robust
		Limited
		Weak

¹⁶<https://www.amnesty.org/en/countries/europe-and-central-asia/france/>

¹⁷Worldwide Governance Indicators (WGI) <https://info.worldbank.org/governance/wgi/>. Vigeo Eiris (VE) calculates performance trends where underlying historical data is available at the source.

¹⁸The Global Peace Index (GPI) scores 169 countries on a scale of 1-5, where 1 is most peaceful and 5 is least peaceful. Source: https://www.visionofhumanity.org/wp-content/uploads/2020/10/GPI_2020_web.pdf

¹⁹V.E (Vigeo Eiris) uses country risk analysis published by Coface to assess the country's business resilience to market risks. Source: <http://www.coface.com/Economic-Studies-and-Country-Risks>

²⁰Adjusted Net Saving (ANS) was developed as an indicator to approximate the change in wealth—based on simple economic theory in which savings equals investment, and investment equals the change in wealth. ANS measures gross national savings, adjusted for gains (spending on education) and losses (consumption of fixed capital, depletion of subsoil assets and forests, pollution damages). Source: <https://data.worldbank.org/indicator/NY.ADJ.SVNG.GN.ZS>

METHODOLOGY

In V.E' 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, V.E 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.

Our independent opinions (SPOs) are subject to quality checks (consultants in charge of the mission, production manager, and validated by a senior supervisor). The rights of claim and appeal are guaranteed to companies at three levels: first with the team (relationship manager or production team), next with Director of methods, Innovation and Quality and then with V.E's scientific council. All V.E's employees are signatories of V.E's Code of Conduct and all consultants have also signed its addendum regarding the financial rules of confidentiality.

ISSUANCE

In the initial opinion, our analysis included:

Use of proceeds:

The use of proceeds requirements is 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. V.E 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 process for expenditure evaluation and selection has been reviewed by V.E regarding its transparency, responsible management and efficiency. The relevance and completeness of the selection criteria in addition to the process 'coherence have been analysed with regard to the projects 'challenges and V.E' 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 2021.

The update concerns the transparency and implementation of AFT's commitments regarding the correspondence of these Green Expenditure 2021 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.

LEVEL OF THE ISSUER'S SUSTAINABILITY PERFORMANCE

V.E 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.

Our 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 V.E in November 2020 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.

V.E 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.

V.E’S ASSESMENT 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		

DISCLAIMER

Transparency on the relation between V.E and the Issuer: V.E has carried out 4 audit missions for France until now. No established relation (financial or commercial) exists between V.E and the Issuer. V.E conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeeiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeeiris-EN.pdf>.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the French OAT, based on the information which has been made available to V.E. V.E 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 V.E neither focuses on the financial performance of the OAT, nor on the effective allocation of its proceeds. V.E 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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