

TODA CORPORATION GREEN BOND

FRAMEWORK OVERVIEW AND SECOND OPINION BY SUSTAINALYTICS

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1. INTRODUCTION

Toda Corporation has developed a green bond framework under which it is considering to issue a green bond and use the proceeds to finance expenditures related to the construction of floating offshore wind turbine facilities. Toda Corporation has engaged Sustainalytics to provide a second opinion on its framework and the framework's environmental credentials. As part of this engagement, Sustainalytics held conversations with various members of Toda Corporation's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Toda Corporation's green bond framework. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains two sections: Framework Overview – summary of Toda Corporation's Green Bond framework; and Sustainalytics' Opinion – an opinion on the framework.

2. OVERVIEW OF ISSUER

Toda Corporation serves primarily as a general contractor operating both in Japan and overseas. The company has been engaged in a wide range of construction businesses, including residential, institutions and commercial buildings such as apartments, hospitals, schools and government facilities, as well as infrastructure constructions such as airport facilities, station facilities, tunnels, and water and sewerage facilities. In addition to those constructions, the company focuses on building power and energy facilities including mega solar power plants, wind power plants, and hydroelectric power plants. Toda Corporation was founded in 1881 and is headquartered in Tokyo, Japan.

The Company's environmental policy details the following three commitments:

1. Promote environmental impact mitigation activities relating to prevention of pollution, effective use of resources, mitigation of climate change, adaptation to climate change and maintenance and protection of biodiversity.
2. Engage in environment-related business and technology development, and implement environmental protection activities in all aspects of building design and execution as well as in management of facilities and other such matters.
3. In addition to complying with laws, regulations, and agreements regarding the environment, also strive to disclose information and take steps for communication with society.

To further these commitments, specially 1 and 2, Toda Corporation is planning to issue a green bond to finance wind turbine facilities.

3. FRAMEWORK OVERVIEW

For the purpose of issuing Green Bond, the issuer has developed the following framework, which addresses the four key pillars of the Green Bond Principles (GBP): use of proceeds, project evaluation and selection process, management of proceeds, and reporting.

3.1 Use of Proceeds

The proceeds of the Green Bond will be allocated towards funding new projects that meet the following eligibility criteria.

3.1.1 Eligibility Criteria

1. **RENEWABLE ENERGY:** Expenditures related to the construction of floating offshore wind power generation facilities, at Goto City Offshore Wind Turbine Project (off the coast of Sakiyama, Goto City, Nagasaki Prefecture in Japan). Those relevant expenditures consist of wind turbines, floating bodies and grid connection.

Please see Appendix 1 for a full list of the wind turbines that Toda Corporation has proposed for funding using proceeds from the bond.

Please see Appendix 2 for the planned area of Goto City Offshore Wind Turbine Project.

3.2 Project Evaluation and Selection Process

Application of Eligibility and Exclusionary Criteria in Project Selection

Toda Corporation's Offshore Wind Projects Promotion Department ensures that projects selected for funding through green bond proceeds are aligned with the eligibility criteria and comply with the environmental risk mitigation processes detailed below. The Board of Directors provides a final approval for selection of projects.

Environmental Objectives

To incorporate the three environmental focus commitments into business activities, Toda Corporation places emphasis on eight environmental objectives; 1) Environment Management System, 2) Construction and General Waste, 3) Risk Management of Hazardous Substances, 4) Greenhouse Gas Emissions, 5) Biodiversity, 6) Green Procurement, 7) Researches, Developments, and Projects relating to Environment Technology, and 8) Environmental Considerations.

Additionally, Toda has four mechanisms to reduce CO₂ emissions and achieve its environmental objectives: 1) reduce carbon emissions from its construction processes through the minimum carbon construction systems, 2) reduce carbon emissions from its offices, 3) reduce carbon emissions of Toda's owned facilities, and 4) employee engagement for CO₂ reduction.

Process to Mitigate Environmental and Social Risks

Toda Corporation ensured the following two process to mitigate environmental risks:

1. Wind turbine and floating body of the Floating Offshore Wind Turbine facilities that will be constructed using proceeds from this bond are the same types as the ones (Downwind type for wind turbine, and Hybrid spar type for floating body) that have undergone empirical research under the Ministry of the Environment (MoE)'s project: 'Floating Offshore Wind Turbine Demonstration Project' from FY2010 to FY2015.¹ In the MoE's project, along with the technology criteria of wind turbine facilities, the environment impact of the construction of a wind farm off the coast of Kabashima, Goto city was studied, which concluded that any potential negative impact to the environment was small. Toda participated in the MoE's project as a contractor.
2. Wind turbine facilities follow the procedure for environmental impact assessment (EIA), which is set by the Japanese Environmental Impact Assessment Law². By law, the construction of a wind turbine that produces 10,000 kw of power or more is required to conduct an environmental assessment procedure in order to prevent serious environmental impacts and promote a sustainable society. Toda Corporation has been conducting the EIA procedure for Goto City Offshore Wind Turbine Project since September 2016³. In August 2017, the project received an opinion on its draft of the assessment methods (Scoping document) as part of the EIA process, from the Minister of Economy, Trade and Industry⁴. Toda Corporation has surveyed, forecasted, and evaluated the environmental impacts of the projects giving due consideration to the opinion provided by the Minister and is preparing a Draft Environmental Impact Statement (EIS) that describes the assessment results and the approach to addressing environmental protection. After completion of the Draft EIS procedure, implementation of procedure for the EIS and impact mitigation reporting are required before conducting the project.

3.3 Management of Proceeds

Toda Corporation's finance department will allocate and manage the proceeds from the green bond. The finance department will have an internal management systems-to keep track of the budget and actual expenditure of the eligible projects on a quarterly basis. Prior to the allocation to eligible projects, the company will temporarily deposit an amount equal to the funds in the bank deposit. Payments of principals and interest will be made from the company's operating funds, and the amount of payment will not be directly linked to the performance of the eligible projects. Toda Corporation plans to spend the majority of proceeds from the Green Bond project within 3 years after the issuance of the bond .

¹ Floating Offshore Wind Turbine Demonstration Project (Japanese), Ministry of the Environment of Japan
<http://goto-fowt.go.jp/english/about/env/>

² Environmental Impact Assessment Law, Ministry of the Environment Government of Japan
http://www.env.go.jp/policy/assess/1-3outline/img/pamph_e.pdf

³ Goto City Floating Wind Turbine Project by Toda Corporation (Japanese), Ministry of Economy, Trade and Industry, Japan
http://www.meti.go.jp/policy/safety_security/industrial_safety/sangyo/electric/detail/furyoku_gotoshioki.html

⁴ Opinion on "the Environmental impact assessment procedure for Goto City Floating Wind Turbine Farm Project" (Japanese), Ministry of Economy, Trade and Industry, Japan
http://www.meti.go.jp/policy/safety_security/industrial_safety/sangyo/electric/files/furyoku/furyoku-gotoshioki/hohosyo_daijinkankoku.pdf

3.4 Reporting

Allocation Reporting

Toda Corporation ensures that the company will annually report on the projects including additional project description, subject to confidentiality considerations, until the proceeds are fully allocated into the eligible projects. Amount allocated to each project and project description will be annually disclosed on its corporate website (<http://www.toda.co.jp>) and included in its CSR report that are annually published. Furthermore, the company will receive an annual letter from its Chief Financial Officer that confirms that green bond proceeds will be allocated to eligible projects. The first report on the allocation details will be published one year later after the bond is issued.

Impact Reporting

In addition to allocation reporting, until the maturity of the bond, Toda Corporation will disclose in the report on the below indicators which are relevant to the eligible projects;

- Number of constructed wind turbines and power output capacity of wind turbines
- Where data is available, the amount of carbon offset from the eligible projects

3.5 Compliance Review

Before the first anniversary of the Green Bond issuance, Toda corporation will engage Sustainalytics to review the projects financed by Toda's Green Bond in order to assess the compliance of the projects with the Toda Green Bond Framework. This review will be conducted annually until full allocation of the net proceeds from the Toda's Green Bond. Sustainalytics will provide a report of the review, which Toda Corporation will publish on its website. In an unlikely event that the annual review identifies allocations made to activities that do not comply with the Toda Green Bond Framework, Toda will reallocate the corresponding amounts to different activities that are compliant with Toda Green Bond Framework.

4 SUSTAINALYTICS' OPINION

Section 1: Sustainalytics' Opinion on the Green Bond Framework

Overall, Sustainalytics is of the opinion that the Toda Green Bond Framework creates meaningful impact, is transparent, and aligns with the Green Bond Principles 2017. Some considerations in Sustainalytics' assessment are listed below:

- Renewable Energy is recognized by the Green Bond Principles 2017 as a project category with clear environmental impact.
- Toda's project selection process and management of proceeds is in line with market norms.
- Toda's process to mitigate environmental and social risk stemming from projects funded by the TODA Green Bond is robust, and aligned with market best practices. Toda is not only conducting an environmental impact assessment (EIA) for the projects that will be funded through this Toda Green Bond, but has also been part of a previous pilot assessment of environmental risks for offshore wind turbines, which concluded that the negative impact of such turbines is low.
- Toda's reporting on quantitative impact metrics is aligned with market norms.

Section 2: Sustainability Performance of the Issuer

Contribution of framework to issuer's sustainability strategy

Toda Corporation has a strong environmental commitment, as seen by its environmental policy and objectives that are integrated into its overall CSR policy. With respect to objectives, in particular, the company demonstrates its commitment on contributing to Environmental challenges, with 8 pillars; 1) Promoting Environment Management System, 2) Reducing Construction and General Waste, 3) Strengthening Risk Management of Hazardous Substances, 4) Suppressing Greenhouse Gas Emissions, 5) Addressing biodiversity, 6) Promoting Green Procurement, 7) Promoting and Conducting Researches, Developments, and Projects relating to Environment Technology, and 8) Promoting Environmental Considerations. As part of the objective 7, Toda Corporation set a internal target with respect to the business it conducts in power generation, including power generation from floating offshore wind turbines. Such a target demonstrates that the TODA Green Bond Framework will contribute to the company's Environmental objectives and strategy.

Sustainalytics is of the opinion that the Toda Corporation's Green Bond Framework is aligned with the company's CSR strategy and contributes to the company's environmental strategy.

Well prepared to mitigate environmental risks related to construction

Sustainalytics recognizes the construction of offshore wind turbine facilities can carry environmental risks, such as construction noise, biodiversity, occupational health and safety, and conflicts with local communities. Toda Corporation's process to mitigate environmental and social risks has been described

in the framework document. Sustainalytics is of the opinion that this is a robust process based on the following:

- (i) Toda Corporation was part of an environmental impact study for a sample floating offshore wind turbine project, to assess whether construction of future floating offshore wind turbine facilities could pose any negative environmental impacts. The conclusion of that study was that offshore wind turbines have low negative environmental impact.
- (ii) Toda Corporation has been conducting an environmental impact assessment (EIA), in alignment with Japanese legal requirements for projects funded by this Toda Green Bond.
- (iii) Toda has health and safety policy as well as occupational health and safety management system to ensure workers' health and safety.

Given that Toda Corporation assessed the potential negative environmental impacts of floating offshore wind turbine facilities through a sample project, and that it has committed to conducting an EIA specifically for the projects funded by this TODA Corporation Green Bond, Sustainalytics is of the opinion that Toda is well prepared to mitigate any environmental risks. Given Toda Corporation's health and safety policy as well as occupational health and safety management system, the company is well prepared to mitigate any social risks.

Section 3: Impact of Use of Proceeds

As part of its COP22 commitments, the government of Japan promotes expansion of renewable energy to the maximum extent possible, including the adoption of wind power along with solar power and geothermal energy, hydroelectric power and biomass⁵. The plan states that it is indispensable to expand the introduction of offshore wind turbines in the medium and long term because land suitable for onshore wind is limited in Japan.

This is reflected in the Long-term Energy Supply and Demand Outlook compiled by Ministry of Economy, Trade and Industry (METI) in 2015, which sets out Japan's potential energy mix for 2030, based on a broad perspective with respect to safety, energy security, economic efficiency as well as environmental conservation⁶. The plan is to increase the reliance on renewable energy to account for 22%-24% (including wind power for 1.7%) of power generation by 2030, which doubles the current figures. The targets on expanding the introduction of renewable energy including offshore wind power are also outlined in the Innovative Energy Strategy launched by METI in 2016⁷.

⁵ Plan for Global Warming Countermeasures (Japanese), Ministry of Environment, Japan
<https://www.env.go.jp/press/files/jp/102816.pdf>

⁶ Long-term Energy Supply and Demand Outlook, Ministry of Economy, Trade and Industry, Japan
http://www.meti.go.jp/english/press/2015/pdf/0716_01a.pdf

⁷ Innovative Energy Strategy, Ministry of Economy, Trade and Industry, Japan
http://www.meti.go.jp/english/press/2016/0419_02.html

Given this context, there is growing demand for the renewable energy including floating offshore wind power at a nation level. As such Sustainalytics is of the opinion that the TODA Green Bond Framework will contribute to an important national priority and have a clear environmental impact in the context of Japan.

Alignment with SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Conclusion

Toda Corporation's Green Bond framework is transparent and provides clarity regarding use of proceeds and the outcomes of the Green Bond investments. Renewable energy is recognized by the GBP as an eligible green project category, offering clear environmental benefits. In the context of Japan's sustainable development challenge, Toda Corporation's floating offshore wind projects contribute to an important national priority and the country's transition to a low-carbon economy. Furthermore, in Sustainalytics' view Toda Corporation's internal environmental and social risk assessment process positions it well to address the challenges associated with wind development in Japan. Sustainalytics is of the opinion that Toda Corporation's Green Bond is credible and robust.

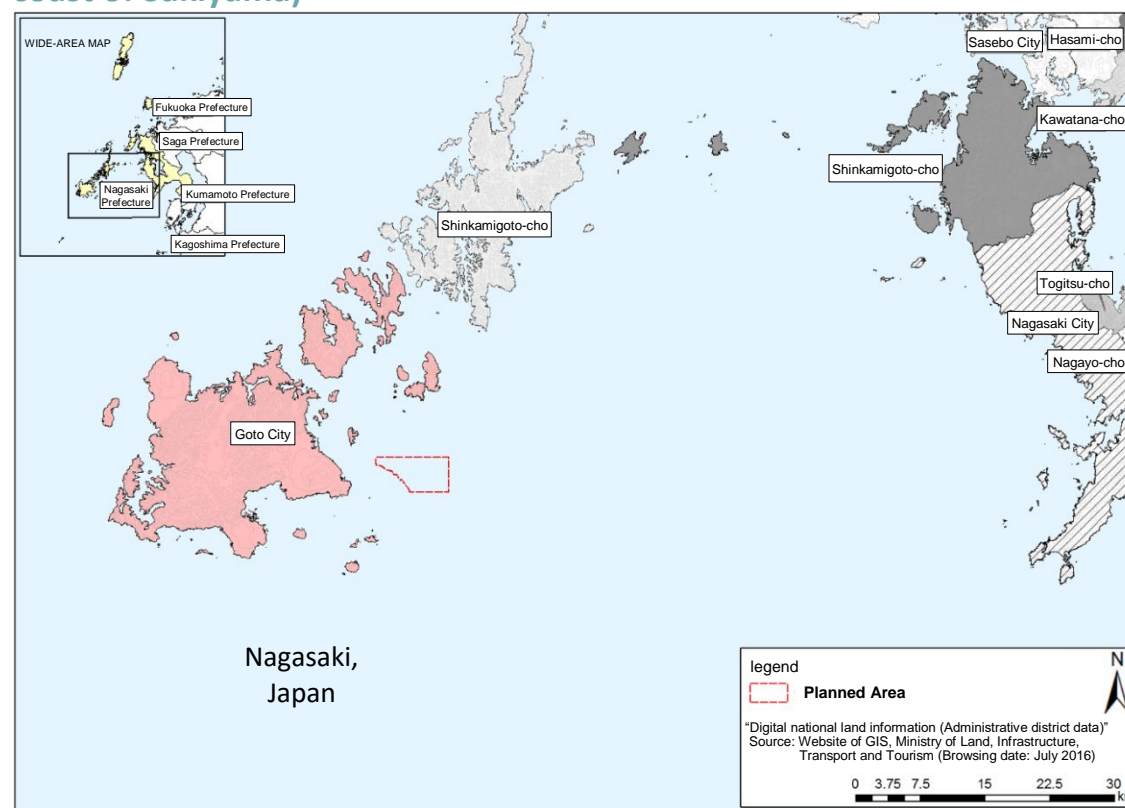
APPENDICES

Appendix 1: Proposed Number of Wind Turbines by Type and Power Output

Toda will follow option I, II, or III (or possibly another option) for the construction of floating offshore wind turbine facilities.

Option number	Number of wind turbines			Power output of wind turbines (kW)
	2MW wind turbines (Rated power output: 2,100kW)	5MW wind turbines (Rated power output: 5,200kW)	Total	
I	10	0	10	21,000
II	8	1	9	22,000
III	5	2	7	20,900

Appendix 2: Planned Area of Goto City Offshore Wind Turbine Project(off the coast of Sakiyama)



Appendix 3: Green Bond/Green Bond Programme External Review Form

Green Bond / Green Bond Programme External Review Form

Section 1. Basic Information

Issuer name: Toda Corporation

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

Review provider's name: Sustainalytics

Completion date of this form: October, 2017

Publication date of review publication:

Section 2. Review overview

SCOPE OF REVIEW

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Green Bond Framework and Second Opinion Document above.

Section 3. Detailed review

1. USE OF PROCEEDS

Overall comment on section (if applicable):

Toda Corporation uses proceeds to finance the construction of floating offshore wind turbines as per the eligibility criteria described in the framework. Sustainalytics is of the opinion that the renewable energy category is recognized as eligible by the Green Bond Principles 2017, and has a clear environmental impact.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Sustainable management of living natural resources |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient products, production technologies and processes | <input type="checkbox"/> Other (please specify): |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Toda Corporation's Offshore Wind Projects Promotion Department ensures that projects selected for funding through green bond proceeds are aligned with the eligibility criteria and comply with the environmental risk mitigation processes detailed below. The Board of Directors provides a final approval for selection of projects.

Sustainalytics is of the opinion that this is in line with market norms.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- ☒ Evaluation / Selection criteria subject to external advice or verification
- ☐ In-house assessment
- ☐ Other (*please specify*):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Toda Corporation's finance department will allocate and manage the proceeds from the green bond. The finance department will have an internal management systems to keep track of the budget and actual expenditure of all eligible projects on a quarterly basis. Prior to the allocation to eligible projects, the company will temporarily deposit an amount equal to the funds in the bank deposit. Payments of principals and interest will be made from the company's operating funds, and the amount of payment will not be directly linked to the performance of the eligible projects. Toda Corporation plans to spend the majority of proceeds from the Green Bond project within 3 years after the issuance of the bond .

Sustainalytics is of the opinion that this is in line with market norms.

Tracking of proceeds:

- ☒ Green Bond proceeds segregated or tracked by the issuer in a systematic manner
- ☐ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (*please specify*):

Additional disclosure:

- ☒ Allocations to future investments only
- ☐ Allocations to both existing and future investments
- ☐ Allocation to individual disbursements
- ☐ Allocation to a portfolio of disbursements
- ☐ Disclosure of portfolio balance of unallocated proceeds
- ☐ Other (*please specify*):

4. REPORTING

Overall comment on section (*if applicable*):

Allocation Reporting

Toda Corporation ensures that the company will annually report on the projects including additional project description, subject to confidentiality considerations, until the proceeds are fully allocated into the eligible projects. Amount allocated to the project and project description will be annually disclosed on its corporate website (<http://www.toda.co.jp>) and included in its CSR report that are annually published. Furthermore, the company will receive an annual letter from its Chief Financial Officer that

confirms that green bond proceeds will be allocated to eligible projects. The first report on the allocation details will be published one year later after the bond is issued.

Impact Reporting

In addition to allocation reporting, until the maturity of the bond, Toda Coraportion will disclose in the report on the below indicators which are relevant to the eligible projects;

- Number of constructed wind turbines and power output capacity of wind turbines
- Where data is available, the amount of carbon offset from the eligible projects

Sustainalytics is of the opinion that reporting is in line with market norms, and encourages Toda to report on quantitative metrics like amount of carbon offset wherever possible.

Use of proceeds reporting:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

Information reported:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> GB financed share of total investment |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Impact reporting:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> : |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Other ESG indicators <i>(please specify)</i> : | |

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

- (i) Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second opinions" may fall into this category.
- (ii) Verification: An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- (iii) Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- (iv) Rating: An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks / programme.

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The client is fully responsible for certifying and ensuring its commitments’ compliance, implementation and monitoring.

SUSTAINALYTICS

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