

SECOND PARTY OPINION¹

ON THE SUSTAINABILITY OF SAUDI ELECTRICITY COMPANY'S GREEN SUKUK FRAMEWORK

May 2020

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (thereafter "Second Party Opinion" or "SPO") on the sustainability credentials and management of the Green Sukuks² (the "Sukuks") to be issued by Saudi Electricity Company (the "Issuer" or "SEC") in compliance with the Green Sukuk Framework (the "Framework") created to govern their issuances.

Our opinion is established according to Vigeo Eiris' Environmental, Social and Governance ("ESG") exclusive assessment methodology and to the latest version of the ICMA's Green Bond Principles ("GBP") voluntary guidelines, edited in June 2018.

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

- 1) **Issuer:** we assessed the Issuer's ESG strategy, its management of potential stakeholder related ESG controversies and its involvement in controversial activities³.
- 2) **Issuance:** we assessed the Framework, including the coherence between the Framework and the Issuer's environmental commitments, the Sukuks' potential contribution to sustainability and their alignment with the four core components of the GBP 2018.

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

We carried out our due diligence assessment from February 20th to June 2nd, 2020. We consider that we were provided with access to all the appropriate documents we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

VIGEO EIRIS' OPINION

Vigeo Eiris is of the opinion that Saudi Electricity Company's Green Sukuk Framework is aligned with the four core components of the Green Bond Principles 2018.

We express a reasonable assurance⁴ (our highest level of assurance) on the Issuer's commitments and on the contribution of the contemplated Sukuks to sustainability.

1) Issuer (see Part I):

- ▶ As of May 2020, we reach a moderate level of assurance on Saudi Electricity Company's capacity to integrate relevant ESG factors in its strategy, and to account on them.
- ▶ As of today, the review conducted by Vigeo Eiris did not reveal any controversy faced by SEC over the last 3 years.
- ▶ Regarding the 17 controversial activities screened under our methodology, we found a major involvement of SEC in the Fossil Fuels industry.

¹ This opinion is to be considered as the "Second Party Opinion" described in the GBP voluntary guidelines (June 2018 Edition) edited by the International Capital Market Association (<https://www.icmagroup.org>)

² The "Green Sukuk" is to be considered as the sukuk to be potentially issued, subject to the discretion of the Issuer. The name "Green Sukuk" has been decided by the Issuer: it does not imply any opinion from Vigeo Eiris.

³ The 17 controversial activities screened by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

⁴ Definition of Vigeo Eiris' scales of assessment (as detailed in the Methodology section):

- Level of Evaluation: Advanced, Good, Limited, Weak.
- Level of Assurance: Reasonable, Moderate, Weak.

2) Issuance (see Part II):

The Issuer has described the main characteristics of the Sukuks within a formalised Green Sukuk Framework which covers the four core components of the GBP 2018 (the last updated version was provided to Vigeo Eiris on April 24th, 2020). The Issuer has committed to make this document publicly accessible on SEC's website before the inaugural Green Sukuk issuance date, in line with good market practices.

We are of the opinion that the contemplated Sukuks are coherent with SEC's strategic sustainability priorities and sector issues and contribute to achieving the Issuer's sustainability commitments.

Use of Proceeds

- ▶ The net proceeds of the Sukuks will exclusively finance or refinance, in part or in full, projects falling under two Green Project Categories ("Eligible Categories"), namely: Energy Efficiency and Renewable Energy. We consider the Eligible Categories to be clearly defined.
- ▶ The Eligible Categories are intended to contribute to one main environmental objective (climate change mitigation). This objective is formalised in the Framework and considered clearly defined and relevant.
- ▶ The Eligible Categories are considered to provide clear environmental benefits. The Issuer has committed to assess and, when feasible, quantify the expected environmental benefits of the Sukuks and to publicly communicate on them within one year from issuance. The Issuer has also assessed and quantified the expected environmental benefits ex-ante for both categories.
- ▶ The Eligible Categories are likely to contribute to two of the United Nations' Sustainable Development Goals ("SDGs"), namely: Goal 7. Affordable and clean energy and Goal 13. Climate Action.
- ▶ The Issuer has transparently communicated on the estimated share of refinancing for its first Sukuk issuance, which will be equal to 0%. The Issuer has committed to transparently communicate to investors the estimated share of refinancing before each issuance. The Issuer has also committed that, in case of re-financing, a look-back period of maximum 12 months from the Sukuks' issuance date will be applied, in line with good market practices.

Process for Projects Evaluation and Selection

- ▶ The governance and process for the evaluation and selection of the Eligible Projects are formalised in the Framework. We consider that the process is reasonably structured, transparent and relevant.
- ▶ The process relies on explicit eligibility selection criteria, relevant to the environmental objectives defined for the Eligible Categories.
- ▶ The identification and management of the environmental and social risks associated with the Eligible Projects are considered good.

Management of Proceeds

- ▶ The rules for the management of proceeds are clearly defined and will be verified. We consider that they would enable a documented and transparent allocation process.

Reporting

- ▶ The reporting process and commitments appear to be good, covering both the funds allocation and the environmental and social benefits of the Eligible Categories. The selected reporting indicators related to the funds' allocation and to the benefits are considered clear and relevant.

Saudi Electricity Company has committed that its Sukuks will be supported by external reviews:

- **A pre-issuance consultant review:** the hereby Second Party Opinion delivered by Vigeo Eiris, covering all the features of the Sukuks, based on pre-issuance assessment and commitments, to be made publicly available by the Issuer on its website,⁵ before the inaugural issuance.
- **An external verification:** the Issuer commits to mandate an independent auditor to annually verify the allocation of funds and the compliance of Eligible Green Assets in compliance in all material aspects with the eligibility criteria as defined in the Framework, until the full allocation of the proceeds.

An area for improvement consists in committing to an external verification, performed by a third-party auditor, of the impact reporting/ the data used to report on the environmental and social benefits of the Sukuks.

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). Saudi Electricity Company 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, June 2nd, 2020

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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has not carried out any audit mission or consultancy activity for Saudi Electricity Company. No established relation (financial or commercial) exists between Vigeo Eiris and the Issuer.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Sukuks, 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 Sukuks, 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.

Restriction on distribution and use of this opinion: The deliverables remain the property of Vigeo Eiris. The draft version of the Second Party Opinion by Vigeo Eiris is for information purpose only and shall not be disclosed by the client. Vigeo Eiris grants the Issuer all rights to use the final version of the Second Party Opinion delivered for external use via any media that the Issuer shall determine in a worldwide perimeter. The Issuer has the right to communicate to the outside only the Second Party Opinion complete and without any modification, that is to say without making selection, withdrawal or addition, without altering it in any way, either in substance or in the form and shall only be used in the frame of the contemplated concerned Sukuks issuances. The Issuer acknowledges and agrees that Vigeo Eiris reserves the right to publish the final version of the Second Party Opinion on Vigeo Eiris' website and on Vigeo Eiris' internal and external communication supporting documents.

⁵ <https://www.se.com.sa/en-us/Pages/home.aspx>

DETAILED RESULTS

Part I. ISSUER

Saudi Electricity Company (SEC) is the national Saudi electric energy company. It is involved in the generation, transmission and distribution of electric power in Saudi Arabia through 40 power generation plants in the country. The company was formed in 2000 by Order of the Council of Ministers through a merger of existing regional electricity companies in the Central, Eastern, Western and Southern regions into a single joint stock company. The company is 81.1% owned by the government.

Level of Saudi Electricity Company's ESG strategy

As of May 2020, we reach a moderate level of assurance on Saudi Electricity Company's capacity to integrate relevant ESG factors in its strategy, and to account on them.

| Domain | Comments | Opinion |
|-------------|--|------------|
| Environment | <p>We reach a reasonable assurance on Saudi Electricity Company's existing capacity to integrate relevant environmental factors in its strategy.</p> <p>SEC has issued a formalised commitment to environmental protection, and sets specific targets in this regard. An Environmental Compliance department is in charge of the policy. The company aims to reduce its scope 1 and 2 emissions by 25% by 2025.</p> | Reasonable |
| | <p>The company has planned investments in renewable capacity to reach 4.2GW by 2022 and 27.6GW by 2030.</p> | Moderate |
| | <p>Regarding demand-side management, SEC has set up – in the context of its Smart Metering Project – a target of expected energy savings of 1% of the country's total consumption compared to 2019 consumption level.</p> <p>In addition, the company has committed to take into account accidental pollution prevention during its operations, as well as biodiversity issues.</p> | Weak |
| Social | <p>We reach a moderate assurance on Saudi Electricity Company's existing capacity to integrate relevant social factors in its strategy.</p> <p>The company has issued a formal commitment to promote career management and training which is publicly available in its Code of Conduct and Ethics that covers all its responsibilities. The Head of Human Resources is not part of the company's Board of directors but line managers are evaluated on their performance in terms of human resources management.</p> | Reasonable |
| | <p>Saudi Electricity Company has made a formalised commitment to health and safety issues for both its employees and contractors, with the following quantitative target: aiming at zero fatalities.</p> <p>The company makes references to promote local social and economic development in its corporate literature. However, the visibility of this policy is lowered by its absence of formalisation. This policy covers promoting the employment and training of local personnel.</p> | Moderate |
| | <p>Concerning responsible management of reorganisations, the company has committed to optimize its workforce and minimize the number of lay-offs and redundancies. However, Vigeo Eiris lacks of visibility on the involvement of employee representatives in the process.</p> <p>Saudi Electricity Company has committed to respect and promote human rights in society in its Code of Conduct and Ethics. However, there is no dedicated structure nor targets to back its commitment.</p> <p>Some references to freedom of association and the right to collective bargaining have been made, nevertheless the company does not engage with international trade unions.</p> | Weak |

| | | |
|------------|--|------------|
| Governance | <p>We reach a moderate assurance on Saudi Electricity Company's performance in the Governance pillar.</p> <p>The roles of Chairman and CEO are separated, however the Board of directors is 33% independent, which is less than the recommended level. The chairman is not considered independent. In addition, the Board of Directors does not appear to be diverse. On a more positive note, regular board meetings are held, and attendance rates are disclosed, but these are below 90%.</p> <p>Concerning audit and internal controls, the members appear to be independent. Members appear to have financial experience and relevant operational experience. In addition, at least a member has CSR skills and experience and there is a confidential reporting system in place for accounting issues. Moreover, the non-audit fees represent only 5% or less of total fees.</p> <p>In terms of shareholders rights, the company respects the "one share - one vote" principle. There are no major restrictions on shareholders' ability to vote, and it is possible to vote using online services. However, major restrictions have been identified to add items to the agenda of the AGM, a shareholder needs at least 5% of the voting rights to call an Exceptional General Meeting or to submit a resolution for the AGM agenda.</p> <p>A Remuneration Committee ("Nomination and Remuneration Committee") is in place, no executive is a member of the committee, but half or fewer are independent. Bonuses are linked to predetermined and disclosed economic and/or operational performance indicators. In addition, the actual quantified targets are disclosed, covering some CSR issues. Nevertheless, individual compensation has not been disclosed nor the CEO's compensation.</p> <p>Regarding Business Ethics, the company has issued a formalised commitment to preventing corruption and anti-competitive practices, and has set specific targets: SEC commits to achieve zero cases of anti-competitive practices and corruption.</p> | Reasonable |
| | | Moderate |
| | | Weak |

Management of stakeholder related ESG controversies

As of today, the review conducted by Vigeo Eiris did not reveal any controversy faced by SEC over the last 3 years.

Involvement in controversial activities

The Issuer is involved in one of the 17 controversial activities screened under Vigeo Eiris methodology namely:

- Major Involvement in the Fossil Fuels Industry: The Company reports that in 2019 99.9% of its generation capacity was fossil fuel powered. Specifically, steam turbines accounted for 42% of its capacity mix, combined cycle accounted for 26.5%, simple cycle (gas turbine) accounted for 31.1%, and diesel engines accounted for 0.3%. Considering that 69.7% of the electricity sold by the Company was produced in its own plants and given that electricity sales accounted for 90.5% of total turnover in 2019, it can be calculated Saudi Electricity has an estimated turnover from fossil fuels which is over 50% of total turnover.

Saudi Electricity Company appears not to be involved in any of the other 16 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Unconventional Oil and Gas, Gambling, Genetic engineering, Human Embryonic Stem Cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Part II. ISSUANCE

Coherence of the Issuances

Context note: The Electric & Gas Utilities companies have their responsibilities in tackling climate change and protecting the environment. Companies are expected to increase their efforts to contribute to climate change mitigation and energy transition by increasing the development of renewable energy production, reducing their greenhouse gas (GHG) emissions and improving the energy efficiency of their networks. The complexity and specificities of impacts related to their activities call for targeted measures to ensure the appropriate management of social and environmental related issues, namely biodiversity protection, health and safety and the promotion of responsible relations with the communities where they operate. Finally, companies involved in distribution are also expected to promote energy efficiency measures for their end customers, ensuring energy savings that will contribute to the fight against climate change.

We are of the opinion that the contemplated Sukuks are coherent with SEC's strategic sustainability priorities and sector issues and contribute to achieving the Issuer's sustainability commitments.

SEC appears to acknowledge its role in providing solutions to support society's transition to a low carbon economy and climate change mitigation.

In 2020, the Issuer has formalised a sustainability framework built upon three key ESG ambitions from which underlying general objectives have been set:

- (i) Facilitating transition to a low-carbon and circular economy:
 - o Mitigating climate change
 - o Managing resources efficiently

- (ii) Empowering its people and communities:
 - o Developing and protecting people
 - o Supporting communities
 - o Building customer trust
 - o Managing responsible supply chain

- (iii) Enabling responsible business practices:
 - o Conducting its business with integrity
 - o Promoting good governance.

For each key ambition, the Issuer had established a 3-year sustainability road map to reach its objectives. In terms of climate change mitigation and efficient resource management, the Issuer has set up the following objectives:

- Mitigate climate change and ensure a transition to a low carbon economy by:
 - o Enabling and integrating renewable energy projects to the grid (planned investments in renewable capacity to reach 4.2GW by 2022 and 27.6GW by 2030);
 - o Reducing generation emissions (scope 1 and 2 emissions by 25% by 2025) and improving overall efficiency;
 - o Supporting customers in achieving improved energy efficiency;

- Protect the environment and biodiversity through efficient operations that minimize the use of resources, minimize waste, and manage risks related to biodiversity.

By creating a Framework to issue Green Sukuks intended to finance or refinance projects related to renewable energy and energy efficiency, the Issuer coherently aligns with its sustainability strategy and commitments and addresses the main issues of its sector in terms of sustainable development.

Use of Proceeds

The net proceeds of the Sukuks will exclusively finance or refinance, in part or in full, projects falling under two Green Project Categories (“Eligible Categories”), namely: Energy Efficiency and Renewable Energy. We consider the Eligible Categories to be clearly defined.

The Eligible Categories are intended to contribute to one main environmental objective (climate change mitigation). This objective is formalised in the Framework and considered clearly defined and relevant.

The Eligible Categories are considered to provide clear environmental benefits. The Issuer has committed to assess and, when feasible, quantify the expected environmental benefits of the Sukuks and to publicly communicate on them within one year from issuance. The Issuer has also assessed and quantified the expected environmental benefits ex-ante for both categories.

To be noted that although the Issuer is currently only planning to issue Green Sukuks, it will also report, when feasible, on the social benefits of the Sukuks.

The Issuer has transparently communicated on the estimated share of refinancing for its first Sukuk issuance, which will be equal to 0%. The Issuer has committed to transparently communicate to investors the estimated share of refinancing before each issuance. The Issuer has also committed that, in case of re-financing, a look-back period of maximum 12 months from the Sukuks’ issuance date will be applied, in line with good market practices.





The Issuer reports that all the projects financed will be located in Saudi Arabia.

| Saudi Electricity Company's Framework | | | Vigeo Eiris' Analysis |
|---------------------------------------|---|---|---|
| Eligible Categories | Definition | Objectives and benefits | |
| Energy Efficiency | <p>Procurement and installation of approximately 10 million Smart Meters, from which 3.5 million will be sourced from Saudi Arabian local manufacturers for different uses (including home, commercial, agriculture etc.).</p> <p>These Smart Meters are part of the company's <i>Smart Metering Project</i>, which aims at offering an automated billing process and improving power usage patterns⁶. The Sukuks will finance the project's three phases:</p> <ol style="list-style-type: none"> 1) Replacing the old, mechanical meters with new, smart ones; 2) Connecting the new meters to a telecommunications grid; 3) Tying the meters into the company's billing system and launching a smartphone app. | <p>Climate change mitigation</p> <p><i>GHG emissions avoided⁷</i> <i>1,894,697 tonnes per year upon the project's completion</i></p> <p><i>Energy Savings</i> <i>1% of the total country consumption compared to 2019 levels</i></p> <p>Promote energy efficiency demand-side management</p> <p><i>Social co-benefit:</i> <i>Increase the number of people benefiting from this technology</i> <i>34 million beneficiaries</i></p> | <p>We consider the Eligible Category to be clearly defined.</p> <p>The objectives are considered to be clearly defined and relevant.</p> <p>The expected benefits are considered to be clear, relevant and measurable.</p> <p>The Issuer has assessed and quantified the expected environmental benefits ex-ante.</p> |
| Renewable Energy | <p>Capital expenditure for construction and/or operation of the transmission and/or distribution infrastructure for connecting renewable energy (wind and solar) sources to the grid.</p> <p>The Issuer has identified a preliminary list of projects to be completed by 2021:</p> <ul style="list-style-type: none"> - Connecting the renewable energy (wind) – Dumat Al-Jandal - Connecting the renewable energy plant – Rabigh - Connecting the renewable energy plant – Al Faisaliah - Connecting the renewable energy station in Qurayyat - Connecting the renewable energy plant in Rafha - Connecting the renewable energy plant in southern Jeddah - Connecting the renewable energy plant in Medina - Connecting the renewable energy plant in Sakaka (solar) - Connecting the renewable energy plant in Sudair (solar) | <p>Climate change mitigation</p> <p><i>GHG emissions avoided</i> <i>7,899,000 tonnes of indirect CO₂ emissions per annum starting from 2023</i></p> <p><i>Increasing connection of renewable generation capacity</i> <i>3587 MW</i></p> <p>Promote access to energy</p> <p><i>Social co-benefit:</i> <i>Increase the number of people benefiting from the grid</i></p> | <p>We consider the Eligible Category to be clearly defined.</p> <p>The objectives are considered to be clearly defined and relevant.</p> <p>The expected benefits are considered to be clear, relevant and measurable.</p> <p>The Issuer has assessed and quantified the expected environmental benefits ex-ante.</p> |

⁶ The Issuer has set the following implementation targets for the project: 35% as of 30th April 2020, 50% as of 30th September 2020, 80% as of 31st December 2020 and 100% as of 31st March 2021.

⁷ The issuer has estimated the following ex ante environmental benefits : 100 million electro-mechanical meter reading trips per annum will be potentially avoided, one million transportations trips for disconnection – reconnection per annum can be avoided due to the ability to disconnect and reconnect remotely.

The Eligible Categories are likely to contribute to two of the United Nations’ Sustainable Development Goals (“SDGs”), namely: Goal 7. Affordable and clean energy and Goal 13. Climate Action.

| Eligible Categories | UN SDGs identified | UN SDGs targets |
|---------------------------------|---|---|
| <p>Energy Efficiency</p> |  <p>SDG 7. Affordable and Clean Energy</p> <p>UN SDG 7 consists in ensuring access to affordable, reliable, sustainable and modern energy for all.</p> | <p>7.1 <i>Ensure universal access to affordable, reliable and modern energy service.</i></p> <p>7.3 <i>By 2030, double the global rate of improvement in energy efficiency.</i></p> <p>7.B <i>By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programmes of support.</i></p> |
| |  <p>SDG 13. Climate Action</p> <p>UN SDG 13 consists in taking urgent action to combat climate change and its impacts.</p> <p>Energy companies can contribute to this goal by supporting the transition to net-zero carbon energy, and by improving the efficiency and reducing the energy consumption of their networks.</p> | <p>N/A</p> |
| <p>Renewable Energy</p> |  <p>SDG 7. Affordable and Clean Energy</p> <p>UN SDG 7 consists in ensuring access to affordable, reliable, sustainable and modern energy for all.</p> | <p>7.2 <i>Increase substantially the share of renewable energy in the global energy mix.</i></p> |
| |  <p>SDG 13. Climate Action</p> <p>UN SDG 13 consists in taking urgent action to combat climate change and its impacts.</p> <p>Energy companies can contribute to this goal by supporting the transition to net-zero carbon energy, and by developing and sharing scalable systems to improve the efficiency and sustainability of production across the value chain.</p> | <p>N/A</p> |

Process for Project Evaluation and Selection

The governance and process for the evaluation and selection of the Eligible Projects are formalised in the Framework. We consider that the process is reasonably structured, transparent and relevant.

The process for evaluation and selection of Eligible Projects is clearly defined.

The evaluation and selection of Eligible Projects is based on relevant internal expertise, with well-defined roles and responsibilities:

- For the purpose of the Sukuks, a Green Financing Committee (the “Committee”) has been created. This Committee is composed of:
 - Treasury Executive Director in charge of chairing the Committee and of the alignment with the Issuer’s funding strategies;
 - Strategic Transformation representatives in charge of the alignment with SEC’s strategy;
 - Capital Planning representatives in charge of the projects’ data;
 - Corporate Finance representatives in charge of market intelligence and analysis;
 - Other members from business units or external sustainability expert, on a case by case basis, nominated as subject matter experts.
- The Committee is responsible for:
 - The evaluation and selection of the projects to be financed and/or refinanced through the proceeds of Green Financing according to a pre-approved selection of potential Eligible Projects provided by the Investment Committee;
 - Monitoring any ESG controversy linked to the Eligible Projects.
- After the selection of potential Eligible Projects by the Committee, the projects meeting the pre-determined Eligibility Criteria are included in SEC’s Green Project Portfolio.
- Allegations or controversies will be tracked internally on a monthly basis and evaluated in accordance to frequency and severity of impact on a scale of high, medium and low. Corrective actions will be deployed and reported on accordingly.

The traceability of the selection and evaluation and verification of the projects is ensured throughout the process:

- The Committee will meet at least twice a year and minutes of meetings will be kept ensuring traceability;
- The Committee will also monitor that Eligible Projects continue to meet the eligibility criteria set in the Framework until the proceeds until full allocation of proceeds;
- An external auditor will be mandated to verify the compliance of the selected Green Project Portfolio with the Eligibility Criteria and with the process defined in the Framework.

The process relies on explicit eligibility selection criteria, relevant to the environmental objectives defined for the Eligible Categories.

- The selection is based on the Eligible Categories defined in the Use of Proceeds section of the Framework.

The identification and management of the environmental and social risks associated with the Eligible Projects are considered good.

Environmental risks

Environmental Management System: All projects are audited by the Issuer's Environmental compliance audit department in terms of environmental risks following the ISO 19011:2011 standard Guidelines for Environmental Management Systems Auditing. For smart meters, the Issuer's suppliers and contractors are required to have an ISO 14001 certified EMS.

Eco-design and decommissioning: As part of the obtention of an environmental permit required for construction and operation, Environmental Impact Assessments (EIA) are conducted for all transmission and distribution renewable energy projects during the feasibility study to be authorised under the Saudi Arabia's General Environmental Regulations and Rules for Implementation. For coastal projects, an extended version of the EIA is required. EIA are not conducted for the Smart Meter project. The Issuer has set up an end-of-life decommissioning policy to promote the re-use of decommissioned assets to second users. However, Vigeo Eiris (VE) has no visibility on the specific measures implemented nor on the monitoring of compliance with this policy.

Protection of biodiversity: When considering connecting the renewable energy facilities to the grid, the Issuer reports that marine surveys are conducted in order to assess the environmental impacts of the electric power generation plants on water quality and marine sediments, as well as on the biological diversity of the marine environment. All power transformers that use oils containing carcinogenic substances are excluded to avoid negative impacts on biodiversity, soil and surface water. The Issuer states that none of the projects are located in marine and terrestrial protected areas. If any project was located in marine or terrestrial protected areas, an approval has to be obtained from the Saudi Wildlife Authority⁸.

Management of GHG emissions: The Issuer has set specific criteria in order to manage and control fugitive emissions in all projects, notably a fugitive emission management plan (FEMP) for sites exceeding a certain threshold for the use of solvents. The Smart Meters project should lead to a reduction of GHG emissions from transportation of employees - 100 million electro-mechanical meter reading trips per annum will be potentially avoided, one million transportations trips for disconnection and reconnection per annum can be avoided due to the ability as well to disconnect and reconnect remotely. For all projects, the Issuer has set up inspections, leak detections and troubleshooting procedures to prevent fugitive emissions including SF6 emissions.

Pollution prevention and control: The Issuer reports that it has set up an Emergency Planning management that includes measures to reduce impacts of its facilities on the environment. Trainings are provided frequently to employees to ensure the implementation of the emergency plan and emergency drills. An area for improvement consists in setting up monitoring procedures and mitigating measures specific to the construction phase of the projects.

Integration of environmental and social factors in the supply chain: The Issuer has committed to communicate its environmental commitments to suppliers and contractors for all projects and to ensure that they are addressing these as part of their engagement. ISO certifications⁹ where applicable are a prerequisite in the suppliers and contractors' qualification process as detailed in the Environmental Management System risk analysis. In particular, contractors are required to provide a valid Environmental Protection Qualification Certificate from General Authority of Meteorology and Environment and regular environmental compliance audits in accordance with ISO 19011, including projects under construction, are conducted. Contractors in breach can be fined and blacklisted. Concerning suppliers, SEC requires evidence that internal audits are being conducted by the suppliers. The Issuer reports that all contracts include environmental, social and governance requirements. On-site audits are conducted to ensure the compliance of the contractors with SEC's social requirements and engagements.

Energy demand-side management: The Smart meters category's direct objective is to ensure a better knowledge of the country's energy consumption, and to monitor and reduce this consumption. In addition, the Issuer has set

⁸ The Saudi Wildlife Authority is a government agency established in 1986 and responsible for the protection, preservation and development of wildlife in Saudi Arabia.

⁹The following certificates are required for the smart meters: MID B: The management of Measuring Instruments Directive - 2014/32/EU; ISO 9001: Quality management system; ISO 14001: Effective environmental management system (EMS); ISO 17025: Testing and calibration laboratories; ISO 27001: information security management system (ISMS); OHSAS 18001: Occupational Health and Safety Management; Certificate for the Exemption of Import and Export Commodities from Inspection.

up a shift procedure to reduce the peak demand during the day and has launched campaigns to enhance awareness on the importance of saving energy.

Social Risks

Human and labour rights: The Issuer has established a Code of Conduct and Ethics covering all relevant risks - including discrimination - related to the respect of international human rights standards. All suppliers and contractors have to be compliant with all the Issuer's standards. The Issuer has reported that its Code forbids forced and child labour and is compliant with the Saudi Arabia Juvenile Regulation and Executive Regulation on Child Protection. A Whistle-blower Hotline is available for employees to report any infringement to the Code or any other violations, and awareness procedures for stakeholders are conducted. In addition, SEC commits to promote labour rights by complying with international standards - such as the ILO principles - as ratified by the Kingdom of Saudi Arabia. SEC has committed to conduct on-sites audits to ensure compliance with the Code of Conduct and Ethics of all employees and contractors. The Issuer reports that contractors can get suspended if breaches are discovered, and this will be reported in SEC's ESG reporting. In addition, trainings are required for all employees. However, VE has low visibility on the documented conditions/contracts under which employees and sub-contractors are working. Areas for improvement consist in conducting a risk mapping for human rights related issues including illegal work.

Health and Safety: The Issuer has set up a Health and Safety Management System to be certified ISO 45001 by the end of 2020. According to the Issuer, its Social Responsibility, Occupational Safety and Health and Environmental Protection policies detail the measures implemented to ensure health and safety for employees and contractors such as: awareness raising, training programmes, monitoring, safety inspections and emergency evaluation simulations at the power stations¹⁰. The contractors invited to safety projects have to pre-qualify by obtaining a valid Contractor Classification Certificate from the General Authority for industrial security. The Issuer reports that disciplinary measures can be taken against employees and contractors violating SEC's policies and procedures. It also reports that an Executive Safety Committee is in charge of regular safety inspections across company facilities, and that health and safety internal audits are in place to ensure the compliance with the Company's policies, procedures and regulations.

Local social and economic development and access to energy: Saudi Electricity Company has launched in 2018 the Build and Employ National Abilities programme that aims at the selection of local suppliers. The number of national qualified local factories registered with the Company has increased to more than 600 at the end of 2019. For some projects local procurement goals have been set. The renewable energy projects aim at facilitating access to energy and improving the Saudi Electricity Company country coverage by connecting remote and economically disadvantaged areas to the grid. In addition, SEC's has implemented appropriate grievance mechanisms for employees, contractors, suppliers and all relevant stakeholders.

Data privacy: For Smart Meters, the Issuer has set up measures to ensure that customers' data are not misused and become available to unsolicited marketing. A dedicated structure - the Cybersecurity Organization - has been created for this purpose. A Data Protection Officer is responsible for ensuring the security and the respect of the Data Privacy General Guidelines.

Business Ethics: The Issuer's Code of Conduct and Ethics covers corruption issues. Significant measures have been implemented to ensure compliance and avoid conflicts of interest, namely: monitoring, internal controls and external audits. Moreover, a confidential hotline has been set to report any incident related to Business Ethics. SEC has committed to conduct on-sites audits to ensure compliance with the Code of Conduct and Ethics of all employees.

Management of proceeds

The rules for the management of proceeds are clearly defined and will be verified. We consider that they would enable a documented and transparent allocation process.

The allocation and management of the proceeds are clearly defined:

¹⁰ SEC carried out 7,531 safety inspections in 2018 (during which 15,129 safety observations were noted, 95% of which were rectified) and implemented more than 70 emergency evaluation simulations.

- The net proceeds of the Sukuks will be credited to a dedicated sub-account and an amount equivalent to the net proceeds of each Green Sukuk will be earmarked for allocation to Eligible Projects.
- The Issuer commits to allocate the funds within 12 months, in line with best market practices.
- Pending the full allocation of the net proceeds to Eligible Projects, any unallocated funds will be held in cash, short term deposits or marketable Sovereign securities, according to Treasury liquidity policy.
The Issuer commits that the temporary placements and instruments for unallocated proceeds do not finance GHG intensive activities, controversial activities, or activities facing material ESG issues.
- In case of projects ineligibility, postponement or divestment, the Issuer has committed to replace the no longer Eligible Project by another Eligible Project and reallocate the proceeds within 12 months.

Traceability and verification of both the tracking method and allocation of the proceeds are ensured throughout the process:

- The Committee, SEC's Internal Audit and Investment and Cash Management departments are responsible for verifying that the net proceeds match the Green Project Portfolio until the full allocation of the proceeds;
- The proceeds will be appropriately monitored by the Issuer's Investment and Cash Management department using an internal monitoring system;
- The proceeds' allocation will be internally controlled, verified and audited by the Issuer's internal audit department;
- SEC has committed to mandate an external auditor to verify the tracking method and the allocation of the proceeds to the Green Project Portfolio.

Monitoring & Reporting

The reporting process and commitments appear to be good, covering both the funds allocation and the environmental and social benefits of the Eligible Categories. The selected reporting indicators related to the funds' allocation and to the benefits are considered clear and relevant.

The processes for monitoring, data collection, consolidation, validation and reporting are clearly defined by the Issuer in internal documentation.

The processes are structured and based on relevant internal expertise and involve relevant departments of the Issuer:

- The Issuer reports that it has set up monitoring and reporting processes to facilitate and steer data collection and monitoring. A central statistics department is in charge of supervising the reporting, data validation, data consolidation, report drafting, and review, approval and publication of final reports. The data is collected by the operational departments through data collection template.
- The Performance Monitoring team supported by the Issuer's Investor Relations department will be in charge of data verification. External ESG consultants may be hired, if required;
- The Investment and Cash Management department will be in charge of the allocation monitoring and reporting;
- The Investor Relations department will be in charge of compiling data and publishing the report.

The Issuer has committed to report annually (starting one year after the first Green Sukuk issuance) and until full allocation of the Sukuks proceeds and thereafter in case of any material changes to its Framework, through a dedicated impact report which will be made publicly accessible on SEC's website. After the full allocation of the proceeds, the impact report will be then integrated into the Issuer's annual ESG Report.

The Issuer has committed to transparently communicate at Eligible Category level, on:

- Allocation of proceeds: the selected reporting indicators are clear and relevant.

Reporting indicators

- A list of the projects financed and a breakdown of allocated amounts to Eligible Categories (in total amount and percentage)
- The % of financing vs refinancing
- The amount of unallocated proceeds and the type of temporary placement

In case of co-financing, the Issuer has committed to report on the benefits on a pro rata basis of the Green Investments proceeds' contribution to the total cost of the project.

- Environmental and social benefits: the selected reporting indicators are clear and relevant.

| Eligible Categories | Environmental and social benefits indicators | |
|--------------------------|--|---|
| | Outputs | Impact Indicators |
| Energy Efficiency | <ul style="list-style-type: none"> - Number of smart meters installed - Number of people benefiting from the technology | <ul style="list-style-type: none"> - Annual GHG emissions avoided (tCO2eq.) - Annual energy savings (MWh) |
| Renewable Energy | <ul style="list-style-type: none"> - Length of network installed (circular km) - Relative installed capacity connected (MW) - Number of people benefiting from the grid | <ul style="list-style-type: none"> - Annual GHG emissions avoided (tCO2eq.) - Renewable energy generation (MWh) |

In case of any material ESG allegations or controversies¹¹ related to the projects, the Issuer will investigate the allegations on a monthly basis and provide corrective measures if required. The Issuer will also report on its position related to the allegations and will provide details about corrective measures taken in its annual ESG Report.

The key methodologies and assumptions used to calculate the benefits of Eligible Projects will be disclosed in the Issuer's annual reporting.

The reported indicators will be internally audited and verified by the regulatory affairs and performance monitoring sector on a periodical or ongoing basis as relevant.

An area for improvement consists in committing to an external verification performed by a third-party auditor, annually and until full allocation of proceeds, and thereafter in case of any material changes covering the impact reporting/ the data used to report on the environmental and social benefits of the Sukuks.

¹¹The Issuer classifies controversies ranging from advanced (not material) to weak (material) based on the potential impact that the allegation could have on both the company and its stakeholders. This classification methodology has been provided to Vigeo Eiris.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the process and commitments applying to the intended issuance.

Vigeo Eiris' methodology for the definition and assessment of the corporation's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and is organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Our evaluation framework of the material ESG issues have been adapted, based on the specificities of the Issuer's business activity.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Director of Methods. Our SPO are also subject to internal quality control at three levels (consultants in charge of the mission, Production Manager, and final review and validation by the Director of Sustainable Finance and/or the Director of Methods. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company, then the Director of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

Part I. ISSUER

The ESG performance of the Issuer has not been assessed following the complete process of rating and benchmark developed by Vigeo Eiris. In this SPO, the assessment has been limited to the integration of ESG factors in the Issuer's commitments and strategy, i.e. the content, visibility and ownership of its ESG policies.

Level of the Issuer's ESG performance

SEC's ESG performance has been assessed by Vigeo Eiris on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).

Management of stakeholder related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Frequency: reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Severity: the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (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 corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

Part II. ISSUANCE

The Framework has been evaluated by Vigeo Eiris according to the GBP 2018 and on our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

The definition of the Eligible Projects and of their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds or Loans standards. Vigeo Eiris evaluates the definition of the Eligible Categories, as well as the definition and the relevance of the aimed sustainability objectives. We evaluate the definition of the expected benefits in terms of assessment and quantification. In addition, we evaluate the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris on its transparency, governance and relevance. The eligibility criteria have been assessed on their explicitness and relevance vs. the intended objectives of the Eligible Projects. The identification and management of the ESG risks associated with the Eligible Projects are analysed based Vigeo Eiris' ESG assessment methodology, international standards and sector guidelines applying in terms of ESG management and assessment.

Management of proceeds


The rules for the management of proceeds and the allocation process are evaluated by Vigeo Eiris on their transparency, coherence and efficiency.

Reporting

Monitoring process and commitments, Reporting commitments, reporting indicators and methodologies are defined by the Issuer to enable transparent reporting on the proceeds allocation and tracking, on the sustainable benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed. Vigeo Eiris has evaluated the reporting based on its transparency and relevance.

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 using innovative methods to anticipate emerging risks. | Reasonable | Able to convincingly conform to the prescribed principles and objectives of the evaluation framework |
| Good | 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

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