

SECOND PARTY OPINION¹

ON THE SUSTAINABILITY OF EUROGRID'S GREEN BOND FRAMEWORK

April 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 Bonds² (“Bonds”) to be issued by Eurogrid (the “Issuer”) in compliance with the Green Bond Framework (the “Framework”) created to govern their issuance.

Our opinion is established according to Vigeo Eiris’ Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the International Capital Market Association’s Green Bond Principles (“GBP”) voluntary guidelines (referred as the “GBP”), edited in June 2018.

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

- 1) **Issuer:** we summarised our rating of the Issuer’s Environmental, Social and Governance (ESG) performance,³ its management of potential stakeholder-related ESG controversies and its involvement in controversial activities.⁴
- 2) **Issuance:** we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental commitments, the Bond’s potential contribution to sustainability and its alignment with the four core components of the GBP 2018.

Our sources of information are multichanneled, combining data from (i) public information gathered from public sources, press content providers and stakeholders, (ii) information from Vigeo Eiris’ exclusive ESG rating database, and (iii) information provided by the Issuer through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds issuance, held *via* a telecommunications system.

We carried out our due diligence assessment from February 14th 2020 to April 8th, 2020. We consider that we were provided with access to all the appropriate documents and interviewees 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 the Green Bond Framework of Eurogrid is aligned with the four core components of the Green Bond Principles 2018.

We express a reasonable assurance⁵ (our highest level of assurance) on the Issuer’s commitments and on the contribution of the contemplated Bonds to sustainability.

1) Issuer (see Part I):

- ▶ As of November 2018, Eurogrid displays a good ESG performance overall. The Issuer displays a good performance on the Environment, Social and Governance pillars.
- ▶ As of today, the review conducted by Vigeo Eiris did not reveal any controversy faced by Eurogrid over the last 48 months.
- ▶ As of today, we did not find an involvement of Eurogrid in any of the 17 controversial activities screened under Vigeo Eiris methodology.

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 (www.icmagroup.org).

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

³ The Issuer’s ESG performance was assessed in November 2018 by a complete process of rating and benchmark developed by Vigeo Eiris. All potential evolutions and data published after this date are not included in the rating.

⁴ The 17 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Human embryonic stem cell, Military, Nuclear power, Pornography, Reproductive medicine, and Tobacco.

⁵ 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 Bonds within a formalised Green Bond Framework which covers the four core components of the GBP 2018 (the last updated version was provided to Vigeo Eiris on April 27th, 2020). The Issuer has committed to make this document publicly accessible on Eurogrid's website before the Bonds' issuance date, in line with market practices.

We are of the opinion that the Green Bond Framework is coherent with Eurogrid's main sector sustainability issues, with its publicly disclosed strategic sustainable development priorities, and that it contributes to achieve its sustainable development commitments and targets.

Use of Proceeds

- ▶ **The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, Eligible Projects falling under one Eligible Category, namely: Renewable energy – Transmission and grid connection. We consider that the Eligible Category is overall clearly defined.**
- ▶ **The Eligible Projects are intended to contribute to one main environmental objective, namely: climate change mitigation. This objective is formalised in the Framework and considered clearly defined and relevant.**
- ▶ **The Eligible Projects are considered to provide clear environmental benefits. The Issuer has committed to assess and, as feasible, quantify the expected environmental benefits of the Bonds issued and to publicly communicate on them within one year of issuance. The issuer has assessed and quantified the expected environmental benefits – in terms of number of households supplied with 100% renewable energy - for each Eligible Project.**
- ▶ **The Eligible Projects are likely to contribute to two of the United Nations' Sustainable Development Goals ("SDGs"), namely: Goal 7. Affordable and Clean energy, Goal 13. Climate Action.**
- ▶ **The Issuer has communicated transparently on the estimated share of refinancing for its first Bond issuance, which will be between 60-65% of net proceeds, and has committed to allocate 85% of net proceeds within 12 months from issuance. The issuer has also committed that, in case of re-financing, a look-back period of maximum 24 months from the Bonds' issuance date will be applied, in line with good market practices. The remaining net proceeds will be used to finance future capital expenditures of Eligible Projects.**

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 criteria (selection and exclusion), relevant to the environmental objectives defined for the Eligible category.**
- ▶ **The identification and management of the environmental, social and governance risks associated with the Eligible Projects appear to be overall 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.**
- ▶ **The selected reporting indicators related to the fund's allocation and to environmental benefits are considered clear and relevant.**

Eurogrid has committed that its Green Bonds will be supported by the following external reviews:

- A pre-issuance consultant review: the hereby Second Party Opinion delivered by Vigeo Eiris, covering all the features of the Bonds, based on pre-issuance assessment and commitments, to be made publicly available by the Issuer on its website,⁶ at the date of issuance.
- A post-issuance review: the Issuer has committed to a post-issuance independent opinion of the management of its Green Bond (s) built on the review of the coherence between the Issuer initial commitments, the Green Bond Principles and the Bond processes actually implemented, the allocation process and results obtained from the use of proceeds, and the reporting on the environmental benefits of the Eligible Projects. An annual verification: an independent third-party audit, annually and until full allocation of proceeds, covering the allocation of proceeds to Eligible Projects as defined in the Framework.

An area for improvement is to commit to an external audit of the data used to report on the environmental benefits of the Bonds.

This Second Party Opinion is based on the review of the Framework and information provided by the Issuer, according to our exclusive assessment methodology and to the GBP voluntary guidelines (June 2018). Eurogrid 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.

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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has never executed any audit mission nor consultancy activity for Eurogrid until so far. No established financial relation exists between Vigeo Eiris and the Issuer.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, 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. Providing this opinion does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the assets to be financed by the Bond. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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⁶ <https://www.eurogrid.com/en-us/>

DETAILED RESULTS

Part I. ISSUER

Eurogrid GmbH (Eurogrid) is the holding of 50Hertz which is an energy company with investments in electricity utility assets and that provides support services to its customers. The Company is indirectly owned and managed by Elia System Operator NV/SA (Elia). Eurogrid has 100% shares in 50Hertz Transmission GmbH which is engaged in the operation, maintenance, planing and expansion of transmission grid in Germany.

Level of ESG performance

The Issuer's ESG performance was assessed through a complete process of rating and benchmark.

As of November 2018, Eurogrid displays an overall good ESG performance. The Issuer displays a good performance on the Environment, Social and Governance pillars.

Domain	Comments	Opinion
Environment	<p>Eurogrid's performance in the Environment pillar is considered good.</p> <p>Eurogrid has issued a formalised and comprehensive commitment to environmental protection in its Company Charter and specific procedures and responsibilities are appointed in relevant environmental guidelines and policies. None of the company's sites have a certified environmental management system. The Issuer has a comprehensive system in place to prevent pollution and ensure industrial safety backed by risk assessment and prevention procedures, training and pollution control audits. Monitoring of energy losses and reduction of fugitive emissions are implemented throughout the company's electric network. As a result of efficient internal monitoring of the operation and maintenance of its insulated facilities, Eurogrid is already significantly below its own commitment for SF6 loss rate. Energy losses from its network have however increased between 2015 and 2017. Eurogrid has implemented all relevant resources to limit the impacts of its operations on biodiversity, including bird protection programmes, vegetation management programmes, and biotope management plans. Data on biodiversity indicators are however not available. The Issuer reports that requirements on environmental protection are included in contracts with suppliers.</p>	Advanced
		Good
		Limited
		Weak
Social	<p>Eurogrid's performance in the Social pillar is considered good.</p> <p>Concerning Human Rights, Eurogrid has made a generic commitment to respect and promote human rights in society in its Annual report. An advanced system appears to be in place to prevent discrimination and promote diversity, backed by affirmative action programmes, monitoring of salary disparities and flexible working arrangements. Information days, newsletters and yearly staff meetings are set up by Eurogrid to provide employees with information on their labour rights. A decline in the share of women in management positions has been observed between 2015 and 2017.</p> <p>Concerning Human Resources, Eurogrid has addressed the promotion of labour relations in its extensive Labour Agreement, and issues related to the quality of the work environment are included in collective bargaining between the company and employee representatives. The Issuer has set quantitative targets in terms of Health and Safety supported by an OHSAS 18001 certified management system. Injury rates for employees have deteriorated between 2015 and 2017. In terms of career management, employees have annual performance interviews. The share of employees that received training in 2017 is not reported, and the annual training budget and the number of training hours decreased between 2015 and 2017.</p> <p>Eurogrid has made reference to including social factors in supply chain management in its website, it has integrated occupational safety in its purchasing and procurement policies - binding for all suppliers – and specific on-site H&S audits are carried out by external auditors on all relevant suppliers. The Issuer has set up non-compliance procedures (end of contract) for suppliers. In terms of Community Involvement, Eurogrid promotes energy transition in schools and operates a grievance hotline mechanism. To promote access to energy, it has reported on knowledge sharing through free visits to its sites for delegations from developing countries. No other initiatives nor quantitative key performance indicators have been reported.</p>	Advanced
		Good
		Limited
		Weak
Governance	<p>The Issuer's performance in Governance pillar is considered good.</p> <p>All 50Hertz Supervisory Board members are non-executive directors. The roles of Chairman and CEO are separated; however, the chairman is considered not independent. The Board of Directors diversity appears to be robust, with three employee representatives and members with demonstrated professional experience in the company's sector of activities. Most of the relevant CSR issues appear to be addressed at Board meetings. The Audit Committee seems to play a comprehensive role in overseeing internal and external controls, although its members are not</p>	Advanced
		Good

	<p>independent. The Issuer reports that executive remuneration is based on health and safety performance indicators, but the exact target is not disclosed. Data on the ratio of CEO compensation vs. average employee salary are not disclosed.</p>	<p>Limited</p>
	<p>Eurogrid has extensively addressed the issue of corruption in its separate policy on corruption prevention, supported by regular training for all relevant employees on the basics of procurement, anti-corruption and rule-compliant behaviour. The Issuer transparently reports on its lobbying budget, though employees do not appear to receive formal training in this regard.</p>	<p>Weak</p>

Management of stakeholder-related ESG controversies

As of today, the review conducted by Vigeo Eiris did not reveal any controversy faced by Eurogrid over the last 48 months.

Involvement in controversial activities

As of today, we did not find an involvement of Eurogrid in any of the 17 controversial activities screened under Vigeo Eiris methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Embryonic human stem cells, Fossil Fuels industry, Tar sands and oil shale, Gambling, Genetic engineering, 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 issuance

Context note: Electric and Gas Transmission companies have their responsibilities in addressing climate change and protecting the environment. Companies are expected to increase their efforts to reduce the energy consumption of their networks as well as fugitive air emissions. In addition, the operation of such linear infrastructures (pipelines, high-voltage lines, etc.) adds responsibility for the company to protect biodiversity through the entire lifecycle of its activities. At last, pipeline operators are highly concerned by the prevention of accidents along the network and at compressor stations (fires, explosions, ruptures, etc.).

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

Transmission system operators (TSOs) have a central role in the European energy system. TSOs build and maintain the grid, operate the system, make the infrastructure available to market parties and have a role as market facilitators. Particularly due to its geography, Germany plays a key role as a transit country for large volumes of current flow. The four German TSOs fulfil a social mandate to “operate and maintain a stable, reliable and efficient power supply grid in an unbiased manner, optimising, enhancing and expanding this in line with demand” insofar as this is economically viable (Section 11, German Energy Management Act). This legislation places responsibility for the safety, stability and modernisation of the German ultra-high voltage system in the hands of the transmission system operators. Their tasks are regulated by federal laws – in addition to the German Energy Management Act (Energiewirtschaftsgesetz or EnWG), this also includes the German Renewable Energy Act (Erneuerbare-Energien-Gesetz or EEG) and the German Energy Line Extension Act (Energieleitungsausbaugesetz or EnLAG).⁷

The German energy transition's (Energiewende) focus on expanding renewable sources of energy presents a whole new set of demands on the capabilities of the energy transmission grid and thus also on grid development. New sources of energy must be synchronised with the expansion of the energy grids. According to the Electricity Grid Development Plan (“Netzentwicklungsplan Strom”) more than 7,500 kilometres of the transmission grid will have to be optimised, developed or newly constructed. Germany's Renewable Energy Sources Act (EEG) has set the objective of reaching a share of renewable energies in the electricity supply of at least 65 percent by 2030. The German grid has to deal with congestions as the renewable production units in Northern Germany are far away from the consumption centres in Southern Germany and grid expansions has been lagging behind.

As one of the four TSOs in Germany, Eurogrid's subsidiary 50Hertz is responsible for safe and future-proof power grids. The vision of 50Hertz is as follows: “A successful energy transition – for a sustainable world”. The company has set itself five strategic goals to fulfil this task in the best possible way: (1) maintain the highest possible level of supply reliability; (2) expand the transmission grid to meet demand, (3) achieve a competitive and sustainable result, (4) further improve efficiency, and (5) foster its value-based corporate culture with a strong focus on occupational safety. 50Hertz is currently planning and implementing a number of transmission line projects to strengthen its grid and better connect Germany to the electricity grids of neighbouring countries. Moreover, the company connects offshore wind farms in the Baltic Sea to the transmission grid.

Eurogrid has set quantified targets with regard to its Greenhouse Gas (GHG) emissions related to Transmission & Distribution activities, and these cover the entire group. The company aimed to reduce the measured loss rate for the entire inventory of 0.8 percent in 2004 to 0.6 percent by 2020. As a result of efficient internal monitoring of the operation and maintenance of its insulated facilities, it is already significantly below its own commitment at a SF6-loss rate of 0.06 percent in 2017.

By issuing Green Bonds to finance and refinance the transmission of renewable energy from offshore wind power plants into the onshore electricity grid Eurogrid coherently aligns with its sustainability strategy and commitments and addresses important issues of its sector in terms of sustainable development.

In agreement with the Federal Network Agency, the Federal Maritime and Hydrographic Agency (BSH, Bundesamt für Seeschifffahrt und Hydrographie) defines in an area development plan the areas on which wind farms are to be erected in future and how and when these areas will be connected. The area development plan (“Flächenentwicklungsplan”) is thus the central planning instrument for the use of offshore wind energy. The demand for offshore connecting lines is determined on the basis of the area development plan in the onshore grid development plan.

⁷ For more information: <https://www.netzentwicklungsplan.de/en/grid-development-plans/grid-de-vel-op-ment-plans-2030-2017>

Use of proceeds

The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, Eligible Projects falling under one Eligible Category, namely: Renewable energy – Transmission and grid connection. We consider that the Eligible Category is overall clearly defined.

The Eligible Projects are intended to contribute to one main environmental objective, namely: climate change mitigation. This objective is formalised in the Framework and considered clearly defined and relevant.

The Eligible Projects are considered to provide clear environmental benefits. The Issuer has committed to assess and, as feasible, quantify the expected environmental benefits of the Bonds issued and to publicly communicate on them within one year of issuance. The issuer has assessed and quantified the expected environmental benefits – in terms of number of households supplied with 100% renewable energy – for each Eligible Project.



The Issuer has communicated transparently on the estimated share of refinancing for its first Bond issuance, which will be between 60-65% of net proceeds, and has committed to allocate 85% of net proceeds within 12 months from issuance. The issuer has also committed that, in case of re-financing, a look-back period of maximum 24 months from the Bonds' issuance date will be applied, in line with good market practices. The remaining net proceeds will be used to finance future capital expenditures of Eligible Projects.

Eurogrid Framework				Vigeo Eiris Analysis
Eligible Category	Definition	Eligibility Criteria	Objectives and benefits	
Renewable Energy – Transmission and grid connection	<p>Transmission of renewable electricity from offshore wind power plants into the onshore electricity grid using direct current technology or alternating current technology</p> <p>Projects: Ostwind 1⁸ and Ostwind 2⁹ (Baltic Sea, Germany)</p>	<ul style="list-style-type: none"> - Offshore platforms - Grid connections between offshore energy projects and onshore substations through sea and land cables (including offshore interconnectors to electricity grids across territory boundaries and connection facilities at the onshore substation). - Only assets located in the Baltic sea, Germany. - Compliant with requirements of the German Federal Network Agency (Bundesnetzagentur) (e.g. location, Environmental Impact Assessment, stakeholder dialogue, risk mapping). 	<p>Climate Change mitigation</p> <p>Increased share of renewable energies in the German electricity grid</p> <p>GHG emissions avoidance (enabling renewable energy transmission)</p>	<ul style="list-style-type: none"> - The definition of the Eligible Category is clear. - The objective is clearly defined and relevant. - The expected environmental benefits are clear, relevant and measurable. - The Issuer has assessed and quantified the expected environmental benefits – in terms of number of households supplied with 100% renewable energy – for all Eligible Projects.

⁸ Ostwind 1: <https://www.50hertz.com/en/Grid/Griddevelopment/Offshoreprojects/Ostwind1>

⁹ Ostwind 2: <https://www.50hertz.com/en/Grid/Griddevelopment/Offshoreprojects/Ostwind2>

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

Eligible Green Projects	UN SDGs identified	UN SDGs targets
Renewable Energy – Transmission and grid connection	 <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>	7.2. Increase substantially the share of renewable energy in the global energy mix.
	 <p>SDG 13. Climate Action</p> <p>UN SDG 13 consists in taking urgent action to combat climate change and its impacts.</p>	Energy transmission 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.

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 Bonds, a Green Bond Project Team (“the Project Team”) has been created. This Project Team is composed of representatives of:
 - Eurogrid’s Head of Treasury
 - 50 Hertz’ CSR Manager
 - Project Managers
 - Controlling department
 - 50Hertz’ Management Board contributing to the Eligible Projects.
- The Project Team is responsible for:
 - Selecting the Eligible Projects to be funded through the Green Bonds in accordance with the selection criteria established in the Framework, Eurogrid’s Sustainability policy, and European and German regulation. In particular, Eurogrid’s Treasury department and 50 Hertz’ CSR officer will jointly evaluate and select the Eligible Projects based on these criteria, and 50 Hertz’ Management Board will validate the selection.
 - Screening and monitoring the Eligible Projects portfolio during the lifetime of the Bonds. The Project Team will be responsible for replacing an Eligible Project when it no longer meets the eligibility criteria or if the Eligible Project has matured.
 - Updating the Green Bond Framework.
 - In case of controversies concerning a project financed by the net proceeds of the bond, the Project Team will deliberate on the course of action (status quo or monitoring).

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

- The Project Team will meet on a regular basis, and in case of controversy.
- The traceability of the decisions appears to be ensured throughout the process, through meeting minutes that will be written for each meeting of 50Hertz Management Board.

- Internally, 50Hertz' Management Board will verify compliance of the projects with the eligibility criteria at approval.

An area for improvement is to commit to an annual external audit to verify the compliance of the selected projects with the eligibility criteria as defined in the Framework.

The process relies on explicit eligibility criteria (selection and exclusion), relevant to the environmental objectives defined for the Eligible category.

- The selection is based on the definition of the Eligible Category and on the eligible criteria defined in the Use of Proceeds section of the Framework.
- The Eligible Projects have to meet a set of criteria which are defined by the German Federal Network Agency (BNetzA). In Germany, the model of "regulated grid access" came into force in 2005 with the second amendment to the Energy Industry Act (EnWG). The Act authorizes the Federal Network Agency to regulate transmission system operators. The following mandatory requirements must be considered:
 - Location of offshore platforms: large distance to sensitive coastal ecosystems. The legal basis for authorisations in the adjoining exclusive economic zone (EEZ) are the United Nations Convention on the Law of the Sea and the German Maritime Tasks Act. The Federal Maritime and Hydrographic Agency (BSH) is investigating the areas designated in the area development plan for tendering by the Federal Network Agency (BNetzA).
 - Environmental Impact Assessment: permit approval procedures require Environmental Impact Assessments (EIA) to minimise nature conservation conflicts. As a result, appropriate corridors are identified together with external experts, and a list of necessary protective, compensatory and replacement measures is compiled.
 - Community dialogue: 50Hertz takes a comprehensive dialogue and participation approach when planning and implementing the grid expansion. 50Hertz follows the VDI 7000 standards to early address concerns of residents in the planning phase.
 - After the construction of a new power line, regular ecological pipeline management is required.
- The Issuer is committed to exclude any project aiming at financing any activity within high extra financial risk sectors (Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Embryonic human stem cells, Fossil Fuels industry, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco).

The identification and management of the material environmental, social and governance risks associated with the Eligible Projects appear to be overall good.

The Issuer has formalised several policies covering environmental, social and governance risks associated with the Eligible Projects.

Environmental risks

- Regarding **environmental management**, 50Hertz has established an environmental management system geared towards ISO 14001, which covers training, monitoring and reporting requirements and responsibilities. There is no formal eco-design approach, but most assets are in operation for several decades. The recycling rate is approx. 85% and for key materials such as steel and copper, it is around 100%. In addition, all projects are subject to an Environmental Impact Assessment to identify nature conservation conflicts.
- Regarding **waste management and end of life decommissioning**, 50Hertz covers these issues within its Environmental Management System, which is supported by international guidelines on waste management. In its Sustainability Report, 50Hertz discloses key performance indicators (KPIs) such as waste by type and disposal method; water bodies affected by water discharges and/or runoff. In Germany, for onshore cables there is no general obligation for end of life decommissioning, only in individual cases, if the decommissioned line represents a hazard. For offshore cable systems, an additional provision is usually included in the respective planning approval decision, which provides for an obligation to end of life decommissioning.
- Regarding **local pollution and industrial accidents**, 50Hertz covers such issues through policies of environmental protection and water protection. 50Hertz assesses risks of environmental pollution and industrial accidents on a quarterly basis. Employees and contractors are trained regarding water protection,

waste disposal, and transport of dangerous goods. In order to prevent and limit pollution, the company trains its employees on specific topics. Behaviour in case of pollution is carried out annually and the detailed procedures are described in an annual instruction plan. Pollution control audits are carried out on a regular basis e.g. oil losses are monitored continuously from a control room. There are at least monthly inspections of the switch gears and there is an emergency plan for every switch gear including immediate measures, contact and necessary information. Furthermore, 50Hertz must ensure that the route in question is free of remnants of war before construction work begins. Recovered explosive and chemical ordnance is disposed of on land and documented accordingly.

- Regarding the **protection of biodiversity**, German law requires 50Hertz to undergo an Environmental Impact Assessment for every project in the planning process. Where interventions are unavoidable, 50Hertz takes compensatory and replacement measures, such as: water measures, as well as species protection, dismantling and other measures. 50Hertz has a comprehensive approach to protect life under water: the so-called 2 Kelvin criterion goes beyond the legal requirements. The temperature in 20 cm sediment depth shall at no time deviate more than 2 Kelvin (equivalent to 2 degrees) from natural temperature. In some cases, the submarine cables are laid deeper than necessary.

Social Risks

- Regarding **human and labour rights and quality of employment**, 50Hertz carried out a human rights analysis for its own operations and suppliers in 2019. The result was that the supply chain carries the highest human rights risks. Therefore, 50Hertz introduced a Code of Conduct for suppliers. Moreover, the Company is a signatory of the Global Compact, committed to the core labour standards of the International Labour Organisation (ILO) and is a member of the Arbeitgeberverband Energie- und Versorgungswirtschaftlicher Unternehmen e.V. (employers' association of energy and utility companies). The company has integrated sustainability issues into procurement processes and carries out strategic supplier audits.
- Regarding **health, safety, and working conditions**, 50Hertz has a certified health and safety management system according to ISO 45001 in place, which is based on international guidelines. Safety inspections and training are covered. In its Sustainability Report, 50Hertz discloses certain KPIs on health and safety, such as accident rate, accident severity and occupational accidents.
- Regarding **promotion of social and economic development**, 50Hertz conducts a Stakeholder Impact Assessment and develops a communication strategy for each project. The company offers a continuous stakeholder dialogue, for example through information days.
- Regarding **integration of social and environmental factors in the supply chain**, 50Hertz has analysed each product category in terms of its business and sustainability risks in the supply chain. Thus, the company implemented a Supplier Code of Conduct and commits to request suppliers in high-risk product/service categories to sign its Code of Conduct. In case of non-compliance, consequences span from dialogue to exclusion. The company regularly monitors social and environmental factors in the supply chain through audits.

Governance Risks

- Regarding **business ethics**, 50Hertz has a Company Charter and guidelines to prevent corruption in place. The organisation identifies governance risks through a whistle blower system and an external ombudsman and manages them through an Internal Compliance Committee. Moreover, 50Hertz must comply with the European Union's Procurement Guidelines.

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:

- The net proceeds of the Bonds will be credited to Eurogrid's general treasury and managed on a portfolio basis. Eurogrid will transfer the proceeds through 50Hertz to 50Herz Offshore, in order to be allocated to Eligible Projects.
- 50 Hertz and 50 Hertz Offshore will monitor and track the allocation of net proceeds to Eligible Projects through their international accounting system.
- Eurogrid commits to allocate the Bonds' net proceeds to Eligible Projects within a maximum of 24 months after issuance.
- The unallocated proceeds will be cashpooled to Eurogrid and held within Eurogrid's treasury liquidity portfolio in accordance with its usual treasury investment strategy. The issuer has committed that the temporary placements and instruments in which unallocated proceeds are kept will not finance GHG intensive activities or controversial activities.
- In case of projects postponement, cancellation, divestment or ineligibility, or in case an Eligible Project has matured, the Issuer has committed to replace the no longer Eligible Project with a new Eligible Project, as soon as reasonably practicable and within a maximum time-limit of 36 months.

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

- The Project Team is responsible for verifying that the net proceeds match the portfolio of Eligible Projects until the Bonds' maturity date.
- The proceeds will be appropriately managed and tracked by the Project Team using an internal accounting system. An internal audit process will track and monitor the net proceeds allocation and management.
- The management and allocation of proceeds will be annually verified by an internal auditor. An area for improvement is to commit to an annual external audit of the tracking/management and allocation of proceeds.

Monitoring & Reporting

The reporting process and commitments appear to be good. The selected reporting indicators related to the fund's allocation and to environmental 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 relevant Business lines will be responsible for monitoring the environmental benefits data associated to the Eligible Projects they manage in their portfolio.
- The Project Team will be responsible for monitoring the allocation of proceeds data, collecting and consolidating the environmental benefits data and creating the Green Bond reports (the Reports).

The Issuer has committed to report annually and until full allocation of proceeds, and later in case of ESG controversies, through the annual Reports which will be made publicly accessible on Eurogrid's website. The reporting will be at project level.

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

- Allocation of proceeds: the selected reporting indicators of the fund's allocation are clear and relevant.

Reporting indicators	
-	A list and description of the Eligible Projects financed and amount allocated per Eligible Project
-	A breakdown of Eligible Projects by the nature of what is being financed (e.g. assets, capital expenditures, operating expenditures, etc.)
-	The % of refinancing, per Eligible Project
-	The share of co-financing.

An area for improvement is to commit to report on the balance and % of net proceeds yet to be allocated, on the financial instruments in which unallocated proceeds are kept, and on the share of co-financing.

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

Eligible categories	Environmental benefits indicators	
	Outputs and outcomes	Impact Indicators
Renewable Energy	- Number of households supplied with 100% renewable energy	<ul style="list-style-type: none"> - Renewable energy provided by the project (in MW) - Avoided CO₂ emissions (in tonnes CO₂ equivalent)

The Issuer has committed to publically disclose the key methodologies and assumptions used to calculate the benefits of Eligible Projects on the Issuer's website as part of their Green Bond reporting.¹⁰ In addition, the issuer has committed to report on the progress of the Eligible Projects in building phase.

The Issuer has committed to an independent third-party audit, annually and until full allocation of proceeds, covering the allocation of proceeds to Eligible Projects as defined in the Framework. An area for improvement is to commit to an external audit of the data used to report on the environmental benefits of the Bonds.

¹⁰ <https://www.eurogrid.com/en-us/>

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 our generic Electric & Gas Utilities ESG assessment frameworks and on specific issues considering 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 Ethics, and all consultants have also signed its add-on covering financial rules of confidentiality.

Part I. ISSUER

NB: The Issuer's level of ESG performance (i.e. commitments, processes, results of the Issuer related to ESG issues), has been assessed through a complete process of rating and benchmarking developed by Vigeo Eiris.

Level of the Issuer's ESG performance

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

- Leadership: relevance of the commitments (content, visibility and ownership).
- Implementation: coherence of the implementation (process, means, control/reporting).
- Results: indicators, stakeholders' feedbacks and controversies.

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 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.

This second party opinion was carried out by **imug | rating** – the Vigeo Eiris network partner in Germany – in co-operation with Vigeo Eiris.

For more information: www.vigeo-eiris.com