

Encevo Green Schuldschein

Type of Engagement: Annual Review

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Introduction

In 2018, Encevo S.A. (Encevo) issued a green Schuldschein aimed at financing and refinancing, in whole or in part, projects that promote a transition toward a sustainable economy. In September 2019, Encevo engaged Sustainalytics to review the projects funded through the issued green Schuldschein and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Encevo Green Schuldschein Framework.

Evaluation Criteria

Sustainalytics evaluated the projects and assets financed and refinanced in 2018 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Green Schuldschein Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Green Schuldschein Framework.

Table 1 lists the Use of Proceeds and Eligibility Criteria, while Table 2 lists the associated the KPIs.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria
Renewable Energy	<ul style="list-style-type: none"> • Development, construction, installation and maintenance of renewable energy production units, from sources including, but not limited to wind power, solar PV installations and hydroelectric power (the financing of hydroelectric power plants is limited to units with a capacity less than 25MW).
Energy Transmission, Distribution and Smart Grid Projects	<ul style="list-style-type: none"> • Development, construction and reconstruction of electricity networks that enhance the transmission capacity for renewable energy. • Investments in existing infrastructure to increase energy efficiency and decrease network losses. • Investments in new infrastructure that improve reliability of energy supply and energy efficiency through the use of smart grid technologies and the installation of smart meters.
Sustainable Real Estate	<ul style="list-style-type: none"> • Sustainable real estate or green building is a building that, in its design, construction or operation, reduces or eliminates negative impacts, and can create positive impacts on our climate and natural environment. Green buildings preserve precious natural resources and improve our quality of life. • The proceeds of the Schuldschein will be used for investments in existing and new buildings, which meet at least the minimum requirements of DGNB Gold.
Clean Transportation Solutions	<ul style="list-style-type: none"> • Based on non-fossil fuel or hybrid technologies and supporting infrastructure, including improvements to the grid in order to prepare it for the connection and installation of electric vehicle charging stations.

Table 2: Key Performance Indicators

Key performance indicators	
Renewable Energy	<ul style="list-style-type: none"> • Number of households provided with access to renewable energy • The estimated annual greenhouse gas emission reductions (CO₂, SF₆)
Energy Transmission, Distribution and Smart Grid Projects	<ul style="list-style-type: none"> • The number of smart grid components installed (smart meters, smart stations etc.)
Sustainable Real Estate	<ul style="list-style-type: none"> • The certificates regarding energy efficiency of the new buildings
Clean Transportation Solutions	<ul style="list-style-type: none"> • Number of charging stations developed

Issuing Entity's Responsibility

Encevo is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Encevo's Green Schuldschein Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from Encevo employees and review of documentation to confirm the conformance with the Green Schuldschein Framework.

Sustainalytics has relied on the information and the facts presented by Encevo with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Encevo.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,¹ Sustainalytics identified one exception from the Encevo Green Schuldschein Framework, i.e. the use of proceeds for share capital increase into Soler ("Société Luxembourgeoise des Energies Renouvelables S.A."). Soler is responsible for the project development, the planning, the construction and the operation of renewable electricity generating plants, including small hydro and wind parks. Sustainalytics recognizes that the Encevo Green Schuldschein framework does not mention private equity investments as eligible use of proceeds. However, given that the purpose of capital injection is to finance new projects and given that Soler's exclusive activity is the installation and operation of onshore wind parks and small hydropower Sustainalytics considers the use of proceeds to be impactful.

Aside from this exception nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of the Encevo Green Schuldschein,

¹ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Green Schuldschein Framework. Encevo has disclosed to Sustainalytics that 67% of the proceeds of the green Schuldschein were allocated as of December 2018.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the green Schuldschein 2018 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Green Schuldschein Framework and above in Table 1.	Sustainalytics identified the private equity injection into Soler as an exception to the framework, given that the framework does not identify that use of proceeds will be used for equity. All other projects reviewed complied with the Use of Proceeds criteria.	Equity injection in Soler.
Reporting Criteria	Verification of the projects funded by the green Schuldschein in 2018 to determine if impact of projects was reported in line with the KPIs outlined in the Green Schuldschein Framework and above in Table 2. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

Appendix 1: Allocation and Impact Reporting by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Allocation in million Euro	UoP	Reported Impact
Renewable Energy	3	<ul style="list-style-type: none"> • Equity injections into Soler • Installation of PV panels 	5,647 t/y CO ₂ avoided
Energy Transmission, Distribution and Smart Grid Projects	128	<p>Costs of transmission lines based on a pro rata approach of renewable energy transmitted by the network</p> <p>(i) Invest/Re-invest to enhance the transmission capacity for renewable energy</p> <ul style="list-style-type: none"> ○ Invest lines LV, MV and HV² ○ "Mise en souterrain" lines LV, MV and HV ○ Invest in stations MV/HV and MV/LV ○ Re-invest in transformers with higher power ○ Switch from 65kV to 110 kV <p>(ii) Invest/Re-invest in existing infrastructure to increase energy efficiency and decrease network losses:</p> <ul style="list-style-type: none"> ○ Re-invest in stations HV/MV and MV/LV ○ Re-invest/replacement Lines LV, MV and HV ○ Re-invest in transformers <p>(iii) Invest/Re-invest in new infrastructure that improve reliability and efficiency through smart grid technologies and smart meter installations:</p> <ul style="list-style-type: none"> ○ Roll-out smart meters ○ Smart Grid in 20/0.4 KV Stations ○ Digitalization grid electricity ○ Smart Switchgear 20kV ○ Remote Control 	176,936 total number of smart meters installed as of January 2019
Sustainable Real Estate	20	<p>Building Bettembourg: planned to obtain "Gold" DGNB certification</p> <p>Building Bové: planned to obtain "Platin" DGNB certification</p>	
Clean Transportation Solutions	5	Smart charging stations for electric cars throughout Luxembourg	219 charging stations installed

² HV = High Voltage; MV = Medium Voltage; LV = Low Voltage

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