

# SECOND PARTY OPINION

on the sustainability of ERG's Green Bond Framework

V.E considers that ERG's Green Bond Framework is aligned with the four core components of ICMA's Green Bond Principles 2021 ("GBP") and is in line with best practices identified by V.E



## Framework

Contribution to Sustainability:



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Expected impacts	Advanced			
ESG risks management	Robust			

SDG Mapping



Characteristics of the Framework

Green Project Category	⇒ Renewable Energy
Project locations	Italy, France, Germany, United Kingdom, Spain, Sweden and other European countries
Existence of framework	Yes
Share of refinancing	50% maximum
Look back period	24 months maximum

## Issuer

ESG Performance as of August 2020



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Environment	Advanced			
Social	Robust			
Governance	Advanced			

Controversial Activities

The Issuer appears to be involved in one of the 17 controversial activities screened under our methodology:

- |                                               |                                                           |                                                     |                                                  |
|-----------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------|
| <input type="checkbox"/> Alcohol              | <input checked="" type="checkbox"/> Fossil fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography             |
| <input type="checkbox"/> Animal welfare       | <input type="checkbox"/> Coal                             | <input type="checkbox"/> Human embryonic stem cells | <input type="checkbox"/> Reproductive medicine   |
| <input type="checkbox"/> Cannabis             | <input type="checkbox"/> Gambling                         | <input type="checkbox"/> Military                   | <input type="checkbox"/> Tar sands and oil shale |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Genetic engineering              | <input type="checkbox"/> Nuclear power              | <input type="checkbox"/> Tobacco                 |
| <input type="checkbox"/> Civilian firearms    |                                                           |                                                     |                                                  |

ESG Controversies

Number of controversies	None
Frequency	N/A
Severity	N/A
Responsiveness	N/A

## Coherence

Coherent
Partially coherent
Not coherent

V.E considers that the contemplated Framework is coherent with ERG's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

## Key findings

V.E considers that ERG's Framework is aligned with the four core components of the GBP.

### Use of Proceeds - aligned with GBP and best practices identified by VE

- Eligible Category is clearly defined and detailed. The Issuer has communicated the nature of the expenditures, the eligibility criteria and the location of Eligible Projects.
- The Environmental Objective is clearly defined, relevant for the Eligible Category and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefit is clear and precise, it is considered relevant, measurable, and will be quantified in the reporting for the Eligible Category.
- The Issuer has committed to limit the share of refinancing to 50% and committed to disclose the share of refinancing before the issuance. The look-back period for refinanced Eligible Projects will be equal or less than 24 months from the issuance date, in line with good market practices.

### Evaluation and Selection - aligned with GBP and best practices identified by VE

- The Process for Project Evaluation and Selection is clearly defined. It is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the herewith SPO.
- Eligibility criteria (selection and exclusion) for project selection have been clearly defined and detailed by the Issuer for the Eligible Category.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification and corrective measures for the Eligible Category (see detailed analysis on pages 16-17).

### Management of Proceeds - aligned with GBP and best practices identified by VE

- The Process for the Management and Allocation of Proceeds is clearly defined and detailed and is publicly available in the herewith SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bonds will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible category made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 12 months.

#### Reporting - aligned with GBP and best practices identified by VE

- The Issuer has committed to report on the Use of Proceeds annually, until bond maturity and on a timely basis in case of material developments. The report will be publicly available on the Issuer's website.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected environmental benefits of the category. The Issuer has also committed to report on material developments/controversies related to the projects.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible category will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds as well as environmental benefits to Eligible Category or Project until full allocation and in case of material changes.

#### Contact

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# SCOPE

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V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green Bonds<sup>1</sup> (the “Bonds”) to be issued by ERG (the “Issuer”) in compliance with the Green Bond Framework (the “Framework”) created to govern their issuances.

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

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

- Framework: 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 2021.
- Issuer: we assessed the Issuer’s ESG performance, its management of potential stakeholder-related ESG controversies and its involvement in controversial activities<sup>2</sup>.

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

We carried out our due diligence assessment from July 22<sup>nd</sup> to August 3<sup>rd</sup>, 2021. 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.

## Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

<sup>1</sup> 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 V.E.

<sup>2</sup> The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

# COHERENCE

Coherent
Partially coherent
Not coherent

V.E considers that the contemplated Framework is coherent with ERG's strategic sustainability priorities and sector issues and contribute to achieving the Issuer's sustainability commitments.

The Electric & Gas Utilities sector has a major role to play with regard to fight against climate change, through the promotion and development of renewable energy sources. These companies' main challenges are the development of renewable energy, the protection of biodiversity, health and safety and the promotion of sustainable relations with the communities where they operate. Energy companies can contribute to climate change mitigation and energy transition by increasing the share of renewable energy production in their energy mix and by reducing their greenhouse gas (GHG) emissions.

In pursuing that essential goal, the European leaders has set, within the 2030 Climate & Energy Framework<sup>3</sup>, three key targets for the year 2030, namely:

- At least 40% cuts in greenhouse gas emissions (from 1990 levels)
- At least 32% share of renewable energy
- At least 32.5% improvement in energy efficiency

ERG appears to acknowledge its responsibility in contributing to the above-mentioned sustainability challenges.

ERG's ESG strategy is built on below 4 pillars:

1. PLANET: commitment to fight against climate change through the decarbonization of power generation portfolios thanks above all to the development of energy production from renewable sources
2. ENGAGEMENT: commitment to promote a proactive dialogue with each of the Group's stakeholders to understand their needs and integrate them into the way of doing business
3. PEOPLE: focus on well-being, training, growth and enhancement of people, diversity and inclusion as well as on their health and safety
4. GOVERNANCE: construction of an infrastructure of principles and management bodies that ensures compliance with the applicable laws and all other commitments voluntarily subscribed by the Group, and applies operational best practices as the foundation for a sustainable development model

On May 14<sup>th</sup>, 2021, ERG released the 2021-2025 Business Plan continuing to be focused on growth in renewables via a geographical and technological diversification policy and the progressive securitisation of revenues.

The 2025 targets include:

- Carbon neutrality:
  - o Scope 1 & 2 neutrality in Business Plan period (scope 3 by 2040)
  - o Carbon index down 30%
- > 98% Circular Wind:
  - o < 2% Wind Repowering waste in landfill
- Energy Efficiency:
  - o + 260 kTEE (Thermo), +40 GWh (Minihydro), +8.7 GWh (Solar)

<sup>3</sup> [https://ec.europa.eu/clima/policies/strategies/2030\\_en](https://ec.europa.eu/clima/policies/strategies/2030_en)



Furthermore, the key strategic guidelines and respective 2021-2025 targets include:

- Setting high growth ambition Renewable Energy sources portfolio: the target is to achieve +1.5GW through RPW (repowering), Greenfield and Mergers and Acquisitions (M&A).
- Wind and solar as growth drivers, with solar gaining share: the target is to increase 0.5GW of solar PV.

Additionally, in 2019, ERG launched a “sustainable procurement project” focused on the introduction of new pillars to qualify and monitor the main vendors on environmental, health & safety and human rights performances.

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

# FRAMEWORK

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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 2021 (the last updated version was provided to V.E on August 3<sup>rd</sup>, 2021). The Issuer has committed to make this document publicly accessible on ERG's website<sup>4</sup>, in line with good market practices.

## Alignment with the Green Bond Principles

### Use of Proceeds



The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, projects falling under one Green Project Category ("Eligible Category"), as indicated in Table 1.

- Eligible Category is clearly defined and detailed. The Issuer has communicated the nature of the expenditures, the eligibility criteria and the location of Eligible Projects.
- The Environmental Objective is clearly defined, relevant for the Eligible Category and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefit is clear and precise, it is considered relevant, measurable, and will be quantified in the reporting for the Eligible Category.
- The Issuer has committed to limit the share of refinancing to 50% and committed to disclose the share of refinancing before the issuance. The look-back period for refinanced Eligible Projects will be equal or less than 24 months from the issuance date, in line with good market practices.

#### BEST PRACTICES

- ⇒ The definition and eligibility criteria (selection and exclusion) are clear and in line with international standards for the Eligible Category.
- ⇒ The relevant environmental benefit is identified and measurable for the project category.
- ⇒ The Issuer has committed to limit the share of refinancing to 50%.
- ⇒ The look-back period for refinanced assets is equal or less than 24 months, in line with good market practices.

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<sup>4</sup> <https://www.erg.eu/en/home>



Table 1. V.E' analysis of Eligible Category, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework.

- Nature of expenditures: Development, construction and/or operation of new and/or existing renewable energy projects
- Location of Eligible Projects: Italy, France, Germany, United Kingdom, Spain, Sweden and other European countries

ELIGIBLE CATEGORY	ELIGIBLE SUB-CATEGORIES	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Renewable Energy	Wind power generation facilities (onshore and offshore)	<u>Climate change mitigation</u> GHG emission avoidance	The Eligible Category is clearly defined. The Issuer has communicated the nature of the expenditures, the eligibility criteria and the location of Eligible Projects.  The Environmental Objective is clearly defined, it is considered relevant and set in coherence with sustainability objectives defined in international standards.  The expected Environmental Benefit is clear, it is considered relevant, measurable, and will be quantified for the Eligible Category in the reporting.
	Solar power generation facilities (PVP)		

SDG Contribution

The Eligible Category is likely to contribute to two of the United Nations’ Sustainable Development Goals (“SDGs”), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Renewable Energy		7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
		The projects are likely to contribute to SDG 13 which consists in adopting urgent measures to combat climate change and its impacts.

## Evaluation and Selection of Eligible Projects



- The Process for Project Evaluation and Selection is clearly defined. It is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process will be publicly disclosed in the herewith SPO.
- Eligibility criteria (selection and exclusion) for project selection have been clearly defined and detailed by the Issuer for the Eligible Category.
- The process applied to identify and manage potentially material E&S risks associated with the projects is publicly disclosed in the herewith SPO. The Process is considered robust: it combines monitoring, identification and corrective measures for the Eligible Category (see detailed analysis on pages 16-17).

### Process for Project Evaluation and Selection

- For the purpose of the Bonds, a ESG Committee (“the Committee”) has been created. This Committee is composed of representatives of:
  - Chairman of the Board of Directors
  - Executive Deputy Chairman
  - Chief Executive Officer
  - Chief Financial Officer
  - Chief Human Capital & ICT
  - Chief Operating Officer
  - Chief M&A and Business Development Officer
  - General Counsel
  - Chief Regulatory & Public Affairs Officer
  - Chief Engineering Development Officer
  - Chief ESG, IR and Communication Officer
- The Committee is responsible for:
  - Reviewing and validating the identification of the Eligible Green Projects in accordance with the defined Eligible Green Project Category listed in the Use of Proceeds section.
  - Monitoring the Eligible Green Project Portfolio during the life of the transaction.
  - Removing an Eligible Green Project from the Eligible Green Project Portfolio that no longer meet the eligibility criteria.

- Monitoring any ESG controversies that affect ERG and are directly related to an Eligible Green Project and removing the project if necessary;
  - Managing any future update of the Green Bond Framework.
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
- The Committee is in charge of monitoring Eligible Green Projects throughout the life of the Bonds, at least annually. Projects that no longer meet the eligibility criteria will be removed from the portfolio by the Committee and replaced by a new Eligible Project.
  - The Committee is in charge of monitoring potential ESG controversies related to eligible projects, at least annually. Projects facing a major ESG controversy will be analysed, and the Committee may decide to exclude the project from the portfolio and replaced by a new Eligible Project.
  - The decision-making process will be traceable through meeting minutes of the Committee's annual meetings.

### Eligibility Criteria

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

- The selection criteria are based on definitions of the Eligible Category defined Table 1 in the Use of Proceeds section.
- The exclusion criteria are defined as per below:
  - Projects financed by previous Green Bond issuances or fully financed by bank loans
  - Projects which have not achieved all the specific environmental requirements and social screening before receiving the building permit as required by the country law where the project is located
  - Projects involved in controversies that may impact local communities or changes in ecosystems.

### BEST PRACTICES

- ⇒ Eligibility and exclusion criteria for project selection are clearly defined and detailed for the eligible category.
- ⇒ The Issuer reports that it will monitor compliance of selected projects with eligibility and exclusion criteria specified in the Framework throughout the life of the instrument and has provided details on content, frequency, duration and on procedure adopted in case of non-compliance.
- ⇒ The Issuer reports that it will monitor potential ESG controversies associated with the projects throughout the life of the instrument and has provided details on frequency, content and procedures in case a controversy is found on a project.

## Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and detailed and is publicly available in the herewith SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bonds will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has committed that as long as the Bond is outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible category made during that period.
- The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 12 months.

## Management Process

- The net proceeds of any green bonds issued by ERG are held on the Issuer's general treasury and managed on a portfolio or project basis by the ERG treasury department.
- All the eligible projects are usually established as a Special Purpose Vehicle (SPVs) which belongs to a specific legal entity thereby having a dedicated accounting reporting system. In case of refinancing, the proceeds from issuances are traced through a transfer of funds from the Issuer to the designated project SPV. Such transaction is traceable by the auditor in charge of external assurance in the context of the Green Bond Report audit.
- In the case of financing of new projects, an internal register tracks the transfer of funds from the Issuer (ERG S.p.A. as parent company of ERG Group) to our Group sub holding ERG Power Generation and then from the sub holding to the SPVs owner of the new projects whose construction capex need to be financed via Green Bond issue.
- Unallocated proceeds from the issuance are invested in cash or cash equivalents until allocation to Eligible Green Projects. Exclusion criteria is explicitly applied to GHG intensive activities, controversial activities, or activities facing material ESG issues.
- In case of project postponement or divestment, the Issuer reports that the ESG Committee will evaluate the reallocation to other eligible projects, within a maximum of 12 months.

### BEST PRACTICES

- ⇒ The allocation period is 24 months or less.
- ⇒ The Issuer has committed not to invest temporarily unallocated net proceeds in GHG intensive activities or controversial activities.
- ⇒ The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the bond framework within 12 months.

## Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until bond maturity and on a timely basis in case of material developments. The report will be publicly available on the Issuer's website.
- The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected environmental benefits of the category. The Issuer has also committed to report on material developments/controversies related to the projects.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible category will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds as well as environmental benefits to Eligible Category or Project until full allocation and in case of material changes.

### Indicators

The Issuer has committed to transparently communicate on a portfolio basis:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds are relevant and exhaustive.

#### REPORTING INDICATORS

- ⇒ Eligible Green Project Portfolio breakdown for the Eligible Green Project Category, location and status of the projects.
- ⇒ Average life of the projects or portfolio which green bond proceeds have been allocated to
- ⇒ List of outstanding Green Bond
- ⇒ Amount of net proceeds allocated to the Eligible Green Project Category
- ⇒ Amount of unallocated proceeds (if any) and types of temporary placements
- ⇒ Types of temporary unallocated funds placements and uses
- ⇒ Share of financing vs refinancing (%)
- ⇒ Share of co-financing (if any) (%)

- Environmental benefits: The indicators selected by the Issuer to report on the environmental benefits are clear and relevant.

ELIGIBLE CATEGORY	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Renewable Energy	<ul style="list-style-type: none"> <li>- Installed renewable energy capacity in MW</li> <li>- Produced Green Energy in MWh</li> </ul>	<ul style="list-style-type: none"> <li>- Estimated annual CO<sub>2</sub> tons emissions avoided<sup>5</sup></li> </ul>

#### BEST PRACTICES

- ⇒ The Issuer will report on the Use of Proceeds until bond maturity.
- ⇒ The Issuer's report will be publicly available.
- ⇒ The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the category. The Issuer has also committed to report on material development related to the projects, including ESG controversies.
- ⇒ The indicators selected by the Issuer are exhaustive with regards to allocation reporting. The reporting methodology and assumptions used to report on environmental benefits of the Eligible category will be disclosed publicly.
- ⇒ Environmental benefits and impacts will be externally verified, until full allocation.

<sup>5</sup> The indirect emissions are calculated on the basis of the conversion factors relating to the gross thermoelectric production of each country published by Terna on its website: <http://www.terna.it/en-gb/sistemaelettrico/statisticheeprevisionsi.aspx>

## Contribution to sustainability

### Expected Impacts

The potential positive Impact of the eligible projects on environmental objectives is considered to be advanced.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Renewable Energy	ADVANCED	<p>Incorporating renewable energy is a key issue for energy providers. In EU, the CO<sub>2</sub> equivalent in 2019 (including indirect CO<sub>2</sub> emissions) amounted to 4067 million tonnes<sup>6</sup>, making it a critical issue to tackle.</p> <p>The sense of urgency is evidenced by the European commission's sweeping scheme introduced in July 2021 which commits to reduce the EU's carbon emissions by 55 % from 1990 levels by 2030 and achieve "net zero" by 2050.<sup>7</sup> The European Green Deal<sup>8</sup>, pledges to make Europe the first climate-neutral continent by 2050 and it has been codified in the European Climate Law.<sup>9</sup> According to IEA, in 2019, the share of energy from renewable sources in gross final energy consumption reached 19.7% in the European Union (EU) and the annual capacity additions of renewable energy is forecast to increase 11% to 44 GW in 2021 and 49 GW in 2022.</p> <p>In order to reach the EU target and reduce CO<sub>2</sub> emission, it is important for energy providers to accelerate their production of renewable energy. To date, ERG has achieved an installed capacity of 3,200 MW and plans to further accelerate its effort through the issuance of green bonds and achieving +1.5GW through RPW (repowering), Greenfield and M&amp;A by 2025. In addition, the category is following the EU Taxonomy Climate Delegated Act screening criteria.</p>

<sup>6</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Greenhouse\\_gas\\_emission\\_statistics\\_-\\_emission\\_inventories#Trends\\_in\\_greenhouse\\_gas\\_emissions](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Greenhouse_gas_emission_statistics_-_emission_inventories#Trends_in_greenhouse_gas_emissions)

<sup>7</sup> [https://ec.europa.eu/clima/policies/eu-climate-action/2030\\_ctp\\_en](https://ec.europa.eu/clima/policies/eu-climate-action/2030_ctp_en)

<sup>8</sup> [https://ec.europa.eu/clima/policies/eu-climate-action\\_en](https://ec.europa.eu/clima/policies/eu-climate-action_en)

<sup>9</sup> [https://ec.europa.eu/clima/policies/eu-climate-action/law\\_en](https://ec.europa.eu/clima/policies/eu-climate-action/law_en)

### ESG Risks Identification and Management systems in place at project level

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

ERG acquires facilities in operation or projects under construction and develops greenfield projects. Other projects are on their way to receive the final authorisation and will be developed by ERG. During the construction phase, projects are managed internally by ERG. During the operation phase, plants are managed and operated either internally or externally by ERG's suppliers.

#### Environmental management

Environmental Impact Assessments (EIA), covering both construction and operation phases, have been conducted for all Eligible Green Projects (both wind and solar power projects) in Italy, Germany, UK (by the end of 2021) and France (by the end of 2022). Environmental specific risks are identified, and the relative Management Systems which are compliant with ISO 14001 are adopted in each of the power generation facilities categories (solar and wind) in Italy and Germany.

At the end of 2020, ERG is covered by an Environmental Management System (EMS) which is in compliance with ISO 14001 (Environment) for all activities carried out in Italy and Germany. The environmental certification under ISO 14001 covers over 80% of ERG's installed capacity.

#### Biodiversity protection

In terms of biodiversity, ecological monitoring is conducted for all projects and quantitative indicators are documented as required by the European legislation. ERG complies to the authorisation procedures issued by national/local bodies (according to local legislation based on EU regulations) and ISO 14001 certified (Italy and Germany only) management systems to ensure protection of the biodiversity.

In France, projects must obtain the single environmental authorisation handled by the region's prefectures and the involvement of many organisations which includes the analysis of urban planning, environmental aspects (including noise and impact on biodiversity and birdlife).

#### Accident prevention and control

A management strategy covering accident prevention and control is implemented at company level with: HSE policies and rules, HSE integrated management systems, Health, Safety and Environment risk assessments general guidelines. An HSE corporate procedure covers all the aspect related to accident/incident/near miss/unsafe acts and conditions management, through all the process from the singulation to the root cause analysis and the definition of the necessary corrective actions. Additionally, at project level, each site has its own risk assessment and emergency plans and specific procedures in case of fire, floods, oil leakage or other incidents. Technicians receive dedicated trainings as regards accident prevention and control. Additional measures, procedures, HSE management system and an HSE audit plan ensures continuous monitoring and verification of the proper conduct of the activities.

#### GHG emission reduction

The ERG Group's renewable energy plants do not generate direct emissions. As regards indirect emissions, wind plants use a small amount of electricity that will be supplied with certified green energy.

#### End of life and decommissioning

The company has set up dedicated measures for managing end-of-life of equipment and infrastructures of the projects, including dismantling, waste management, clean up and biodiversity rehabilitation of the sites.

### Respect of Human and Labour right

Respect for Human rights, gender equality and dialogue with social partners are carefully safeguarded through policies (Code of Ethics, Sustainability Policy, Human Rights Policy), governance instruments and working practices. These apply to all employees, collaborators, either as suppliers, contractors, or business partners.

An internal whistleblowing system has been set up for receiving and addressing Human and labour rights violations issues. Moreover, at project level, the ESG Committee will be monitoring any controversies directly related to any of the Eligible Green Projects, including human and labour rights controversies.

### Health & Safety

A specific risk management on HSE matters is in place in all the Group's companies relying on integrated HSE management systems compliant with the ISO 14001 (Environment) and ISO 45001 (Health and Safety) standards. Health and safety certification covers over 80% of ERG's installed base and about 91% of their people.

At project level, the Operating Units are in charge of implementing the HSE operational rules with the support of the HSE unit, co-ordinated at central level.

### Social factors in the supply chain

The selection of suppliers relies on the Corporate Purchasing procedures and tools which are developed at central level. Suppliers are qualified based on HSE principles and the Issuer reports their performances are verified on site with specific HSE audits which are regularly performed for both O&M activities and for construction works. In 2019, Sustainable Procurement Project has been implemented by the company in order to further improve the management of suppliers regarding social issues. The project enabled ERG to define an audit plan for suppliers with poor rating, support path for suppliers with gaps and a project KPI to be targeted on an annual basis with a view to "continuous improvement".

ERG reported that the selection of its strategic suppliers is based, among other things, on their ESG performance as assessed by an external consultant.

### Local social and economic development and local consultation

Social Impact Assessments (SIA), covering both construction and operation phases, have been conducted for all Eligible Green Projects. The plants/regional managers are in charge of communities relations, in order to detect possible impacts of the projects on the community and to carry out mitigation works although no formalized grievance mechanisms are in place at projects level. Moreover, during the operation phase, the ESG Committee will monitor any controversies directly related to an Eligible Green Project including controversies that may impact local communities.

Regarding the local community development, ERG established a clear system where they identified and developed specific initiatives for the local area, fostering the community's widespread social and economic well-being.

# ISSUER



ERG manages the production of power from wind, solar, water and thermoelectric sources, with production sites across 7 countries in Europe.

## Level of ESG performance

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

As of August 2020, ERG displays an overall advanced ESG performance, ranking 13<sup>th</sup> in our “Electric & Gas Utilities” sector which covers 66 companies. ERG’s performance is considered advanced in the Environmental and Governance pillar and robust in the Social pillar.

DOMAIN	COMMENTS	OPINION
Environment	<p>ERG performance in the Environment pillar is <u>advanced</u>.</p> <p>The company has formalised a comprehensive environmental protection commitment in its Code of Ethics and Sustainability Policy, covering all ERG plants. The company has allocated comprehensive resources to environmental management including Environmental Management Systems (EMS). Moreover, the majority of ERG’s plants are ISO 14001 certified. The Company’s carbon factor stood at 396.0 kg CO<sub>2</sub>/MWh in 2017, below the sector average.</p>	Advanced
	<p>ERG has set specific targets to develop renewable energy in its 2018 – 2022 Business Plan, namely: to increase its installed capacity from renewable sources of 850MW (30% increase of total installed capacity) by 2022. In 2019, the Company’s installed capacity in renewable sources corresponded to 84.4% of the Company’s total installed capacity well above the sector average. Company’s energy generation from renewable sources has increased over the past three years, reaching 68.54% of the total energy generation in 2019.</p>	Robust
	<p>ERG has formulated commitments on biodiversity protection, covering the main impacts of its activities. The company has carried out analysis to verify the potential impact of activities on vegetation, flora, fauna and biodiversity and has implemented relevant measures including biodiversity monitoring, bird protection programs and, for hydropower generation facilities, minimal flow rates to ensure the preservation of the river ecosystem of each water basin.</p>	Limited

	<p>The company has committed to reducing water and soil emissions in its Health, Safety and Environment policy and has implemented comprehensive resources to pollution prevention and control including risk assessments conforming to the EU and national laws, training for relevant employees, audits and risk prevention procedures with emergency management simulations and evacuation drills carried out periodically.</p> <p>Finally, the company discloses a general commitment to improving its thermal power plant efficiency and reducing related air emissions. In addition, the company has set comprehensive actions including the sourcing of low sulphur fuels and low NOx combustion technologies. Overall, KPIs record a positive trend.</p>	Weak
Social	<p>ERG performance in the Social pillar is <u>robust</u>.</p> <p>The company displays a good performance in the Human and Labour rights domains. ERG has made general commitments to respect and promote Human Rights in a formalised Human Rights Policy issued in December 2018. Additionally, the company has issued formalised commitments to non-discrimination and freedom of association and the right to collective association respectively in its Code of Ethics Sustainability Policy. The commitments apply throughout the company. The company has set comprehensive means to ensure Human and Labour rights respect including a company risk identification process covering Human and Labour rights, training programmes for employees and grievance mechanisms.</p>	Advanced
	<p>ERG performance in the Community involvement domain is limited. The Company, operating only in European countries, reported in its 2016-2018 sustainability targets that it aims to support programmes that make it easier for populations in difficulty to access energy. However, it is unclear if this commitment covers developing countries. However, it is important to note that the company has issued a formalized commitment to promote local social and economic development in its Code of Ethics and Sustainability Policy. The commitment applies throughout the company, supported by senior management. In addition, the CSR Evaluation Committee, selects initiatives coming from the community, based on the values they express, and the positive impact expected over time.</p>	Robust
	<p>ERG has allocated significant means to address social and economic development, including social development programmes, infrastructure development programmes, capacity building initiatives and social impact assessments. ERG's compensation for the community has increased over the past three years although not on a continuous way.</p> <p>ERG's performance in the Human Resources domain is advanced. The company addresses labour relation in its Sustainability Report, its commitment to promote labour relation is general, in line with the Italian regulations. Additionally, the company commits to minimising the number of lay-offs and redundancies and to promote career management and training. Finally, the company has made a formalised commitment to health and safety issues, which covers both its own employees and sub-contracted workforce, in its Code of Ethics and Sustainability Policy. Local employee representative bodies have been set up in all Company's sites.</p>	Limited

	<p>Moreover, there is a company-wide representative body with which the Company negotiates. ERG has signed a collective agreement on working conditions covering all employees working in Italy (93.3% of all ERG employees). Additionally, the company has allocated significant measures to limit the impacts of reorganisations and to enhance employees training and career management including significant financial compensation, internal mobility programme, trainings and career management systems (although covering a minority of employees). Overall, KPIs record a positive trend.</p> <p>ERG performance in terms of Integration of social factors in the supply chain is advanced. The company has issued a formalised commitment to including social factors in supply chain management in its Code of Ethics and in its recent Human right policy. The company has set up comprehensive measures including supplier questionnaire, risk assessments, training and technical assistance to suppliers and non-compliance procedures for suppliers. Moreover, ERG will implement a sustainable clause in its contracts by 2020.</p>	Weak
Governance	<p>ERG performance for the governance pillar is <u>advanced</u>.</p> <p>ERG has a comprehensive governance system in place. The company as a Nomination and Remuneration Committee composed by non-executive directors and a majority of independent members. The roles of Chairman and CEO are separated, but the chairman is not considered independent and only five of the 12 Board members are considered independent which is less than the recommended level. A least 30% of the board members are women and Board members have demonstrated professional experience in the company's sector of activities. Board meetings are regularly celebrated, and the Board approves the Sustainability report (but there is no evidence that relevant CSR issues are reviewed at Board meetings). The company has set dedicated processes to manage CSR risks. The one share-one vote rule is respected, and shareholders vote the appointment of Board members and directors. Even though less than half of the board is independent, ERG has set safeguards to monitor the transactions between major shareholders and the company. In terms of executive remuneration, short-term are linked to predetermined performance indicators and long-term remunerations to performance conditions. However, neither performance indicators nor quantified performance targets are disclosed. We recommend disclosing both performance indicators and the quantified targets for short and long-term remuneration.</p> <p>ERG has issued formalized and advanced commitments to prevent corruption in its Anti-Corruption Policy, Sustainability Policy, Code of Ethics and the Organisation and Management Models. The company has issued formalized and accessible commitments to prevent anti-competitive practices and ensuring transparency and integrity of lobbying practices in its Code of ethics.</p>	Advanced
		Robust
		Limited
		Weak

## Management of ESG Controversies

As of today, the review conducted by V.E did not reveal any ESG controversy against ERG over the last four years.

## Involvement in Controversial Activities

The Issuer appears to be involved in one of the 17 controversial activities screened under our methodology, namely:

- Major involvement in Fossil Fuels industry: ERG has an estimated turnover from fossil fuels which is 39.2% of total turnover. The Company owns and operates 480 MW 'Centrale Nord' natural gas combined-cycle thermoelectric power plant in Syracuse, Sicily, representing approximately 15.4% of the Company's installed capacity. In 2020, 31.8% of the Company's own generated electricity was derived from natural gas.

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 V.E.

# METHODOLOGY

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In V.E's 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 organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. 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 Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council.

## COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

## ISSUANCE

### Alignment with the Green Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Framework has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2021 ("GBP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

### Use of proceeds

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

### Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

### Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

### Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

## Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

### Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;<sup>10</sup>
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

### ESG risk management for eligible activities

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## ISSUER

### Issuer's ESG performance

Scale of assessment of ESG performance: Weak, Limited, Robust, Advanced

*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 V.E.*

The Issuer's ESG performance has been assessed by V.E 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

V.E defines a controversy as public information or contradictory opinions from reliable<sup>11</sup> sources that incriminate or make allegations against an issuer regarding how it handles ESG issues as defined in V.E ESG framework. Each controversy may relate to several facts or events, to their conflicting interpretations, legal procedures or non-proven claims.

V.E 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.

<sup>10</sup> The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

<sup>11</sup> 'Reliable' means that there are sufficient details to substantiate claims made, with due attention paid to the political dimension of news and the danger of misinformation. V.E draws on investigative journalism, the business press, NGO and trade union reports which focus on corporate behavior relating to ESG issues. It is neither possible nor advisable to create a prescriptive fixed list of sources as new, valid sources arise all the time and it is necessary to investigate these as and when they are retrieved in order to comprehensively cover evolving issues and media.



V.E 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 that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders’ fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the 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, V.E’s 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 screen the company’s involvement 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.

### V.E’S ASSESSMENT SCALES

Scale of assessment of Issuer’s ESG performance or strategy and financial instrument’s Contribution to sustainability		Scale of assessment of financial instrument’s alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument’s practices go beyond the core practices of the ICMA’s Green and/or Social Bond Principles and/or of the Loan Market Association’s Green Loan Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA’s Green and/or Social Bond Principles and/or of the Loan Market Association’s Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA’s Green and/or Social Bond Principles and/or of the Loan Market Association’s Green Loan Principles, but not all of them.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA’s Green and/or Social Bond Principles and/or of the Loan Market Association’s Green Loan Principles.

## Statement on V.E' s independence and conflict-of-interest policy

Transparency on the relation between V.E and the Issuer: V.E has carried audit missions for ERG. No established relation (financial or commercial) exists between V.E and the ERG. V.E's conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bonds, based on the information which has been made available to V.E. V.E has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by V.E neither focuses on the financial performance of the Bonds, nor on the effective allocation of its proceeds. V.E is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction. Restriction on distribution and use of this opinion: The deliverables remain the property of V.E. The draft version of the Second Party Opinion by V.E is for information purpose only and shall not be disclosed by the client. V.E 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 bond (s) issuance. The Issuer acknowledges and agrees that V.E reserves the right to publish the final version of the Second Party Opinion on V.E' website and on V.E' internal and external communication supporting documents.

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