

hep global GmbH

Green Bearer Bonds – April 2021

hep global GmbH plans to issue a green bond (hereafter also called "green bearer bonds") to finance photovoltaic projects in the area of renewable energy and has commissioned imug | rating to provide a Second Party Opinion. The findings below are based on our assessment of the issuer

and of the issuer's framework (March 2021) in accordance with the voluntary process guidelines outlined in the Green Bond Principles ("GBP") published by the International Capital Market Association (June 2018 edition).



imug confirms that the green bearer bonds issued by hep global GmbH are in line with the Green Bond Principles (GBP).

FRAMEWORK



- ✓ Use of proceeds
- ✓ Project evaluation and selection
- ✓ Management of proceeds
- ✓ Reporting

ISSUER



- ✓ Sustainability strategy
- ✓ Controversy research
- ✓ Analysis of controversial business activities

OPINION



The framework for the green bearer bonds issued by hep global GmbH meets the requirements of the Green Bond Principles. Financing photovoltaic projects is a positive contribution to sustainability that promotes one of the United Nations' Sustainable Development Goals (UN SDGs): Goal 7 "Affordable and Clean Energy".

hep global GmbH's core business in the field of renewable energy comprises in particular the development, financing, construction and operation of solar parks. The issuer is not involved in controversies or in controversial areas of business. Issuing the green bearer bonds is in line with the strategic sustainability goals of hep global GmbH: expanding renewable energy from photovoltaic power plants.

1. BACKGROUND

imug has been commissioned to provide a Second Party Opinion on the framework and planned bearer bonds issuance of hep global GmbH (hereafter referred to as "hep" or "the company"). We are evaluating the framework using the Green Bond Principles (GBP) published by the International Capital Market Association (ICMA) in June of 2018.

imug has not been commissioned to carry out any further assessments or audits.

*hep global
GmbH*

In April 2021, hep is planning to issue green bearer bonds in order to finance projects that contribute to the expansion of renewable energy production from photovoltaics. hep, with its main office in Güglingen (near Heilbronn), was founded in 2008. Its main areas of business comprise the development, construction and operation of solar parks, along with the conception of alternative investment funds. Since its inception, hep has developed solar projects totaling 800 megawatts. Its target markets are Asia, Europe and North America.

hep has an active project pipeline of 5,300 megawatts. It owns and operates 16 solar parks at sites in the US, Japan, Germany and Canada, through which, according to information provided by the issuer, 44,155 megawatt hours of solar power have been fed into the power grid. This represents a saving of 33,900 metric tonnes of CO₂ when compared to producing electricity using fossil fuels.

Through the establishment of HEP Kapitalverwaltung AG, hep provides investors in the German capital market with the opportunity to invest money responsibly.

There are further solar parks planned for 2021. In 2020 the company grew to 139 employees, obtained membership in the Forum für nachhaltige Geldanlagen (FNG) and became a signatory to the UN PRI initiative to commit to responsible investment.

In issuing the green bearer bonds, hep undertakes to use the revenue obtained exclusively for financing projects in the area of renewable energy.

imug performed the assessment from the beginning to the end of March of 2021. hep provided all the relevant documents, and the information available to us has allowed us to provide a conclusive opinion on the framework's alignment with the above-mentioned guidelines.



2. FRAMEWORK

2.1. Use of proceeds

imug confirms that the project categories are clearly defined and in line with the Green Bond Principles. The photovoltaic projects financed provide clear environmental benefits, which the issuer quantifies.

The revenues are used to finance projects that demonstrate positive environmental benefits. It is anticipated that these projects will contribute positively to one of the United Nations' Sustainable Development Goals (UN SDGs): Goal 7 "Affordable and Clean Energy".

PROJECT FINANCING

- No refinancing
- Refinancing
 - 36 months
 - 24 months
 - 12 months
- Financing

The net revenues from the bond will be used to finance projects focusing on the following area:

Renewable energy – photovoltaic projects

■ Goals and Benefits

- ▶ Preventing greenhouse gas emissions
- ▶ Increasing the installed power generation capacity of renewable energy

The projects financed through the bond contribute positively to sustainability by slowing the rate of climate change. The issuer is able to demonstrate the environmental benefits quantitatively.

It is anticipated that the renewable energy projects financed through the bond will contribute to one of the United Nations' Sustainable Development Goals (UN SDGs): Goal 7 "Affordable and Clean Energy".

UN SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all



UN SDG 7 aims to make it easier for people to access and use renewable energy. The following are among the goals to be achieved by 2030:

- ▶ Increase the share of renewable energy in the global energy mix and promote investments in the energy infrastructure and clean energy technologies.
- ▶ Double the global rate of improvement in energy efficiency.

By using the revenues from the green bearer bonds to finance photovoltaic projects, hep is making a contribution towards achieving UN SDG 7.



2.2. Project evaluation and selection

imug confirms that the process for project evaluation and selection is in line with the Green Bond Principles.

Issuing the green bearer bonds helps hep to achieve its sustainability goals. The issuer has implemented structured processes that allow it to identify suitable projects that have benefits for the environment. Furthermore, the underlying process is transparent, structured and spread across several levels of authority. The issuer also has a process in place to identify and manage any significant risks that may be associated with the projects.

SELECTION AND EVALUATION

In order to ensure that the process for selecting and evaluating projects is well structured, hep has assembled a Green Bond Committee for the issuance of the green bearer bonds. The committee comprises the following representatives:

- ▶ Chief Executive Officer
 - ▶ Chief Financial Officer
 - ▶ Chief Project Officer
- The process is clearly defined, clearly documented and suitably structured.
 - The selection and evaluation of projects are based on clearly defined allocations of responsibility.
 - There is a Green Bond Committee responsible for the process.
 - The verifiability and traceability of the projects is assured.

The Green Bond Committee is responsible for tracking and monitoring the projects. The Green Bond Committee is responsible for selecting the projects that are to receive initial funding through the green bearer bonds. Once the decision has been made to use the Green Bond to fund a project, it is recorded in a monitoring tool specifically intended for this purpose. The suitability of the projects selected has been confirmed by the in-house experts on the solar park's project development team and a risk assessment with regard to environmental, social and economic risks has been carried out. Both the selection process within the Green Bond Committee and the final decision by the company's management are documented in writing.

ELIGIBILITY CRITERIA

The issuer has defined eligibility criteria for selecting and evaluating projects.

PROJECT TYPE	CRITERIA
PV solar power plant	<i>Location</i> ▶ Average regional solar radiation ▶ External expert opinions taking into account the location
	<i>Risk assessment</i> ▶ The projects have to have undergone an internal risk analysis in terms of sustainability risks ▶ Market risks, reputation risks, legal risks, sociopolitical and personnel-related risks are taken into account
	<i>Laws and approvals (a legal assessment and the rectification of any discrepancies found are obligatory)</i> ▶ Existing approvals and regulation concerning feed-in tariffs ▶ Validity period of any power purchase agreements

Other assessment aspects

- Evaluation criteria are subject to external review
- Internal evaluation

Where necessary, independent assessors are consulted in connection with technical quality inspections or the performance of environmental audits required by law.

EXCLUSION CRITERIA

The issuer specifies investments in greenhouse-gas-intensive projects as ineligible for funding. Business partners who haven't been able to successfully negotiate the due diligence process during the course of a potential project will also be excluded.

Furthermore, according to information provided by the company, projects

- that, although perhaps considered permissible in the place where the solar power plant will be located (e.g. in the target country), would be assessed illegal or unlawful in Germany,
- that violate the codes of conduct of the hep companies, compliance requirements or ethical principles, or
- that lead to disproportionately negative environmental impacts will also be excluded.

MANAGEMENT OF ESG RISKS

imug regards hep as having suitable guidelines and processes in place for managing any significant ESG risks associated with the projects. The issuer has implemented a good risk management system to identify and manage potentially important ESG criteria.

In addition to the positive environmental benefits, the projects financed using the revenues from issuing the green bearer bonds also harbor certain ESG (environmental, social and governance) risks. These include the loss of biodiversity, construction noise, the burdens of waste and recycling and also conflicts with local stakeholder groups. Environmental and social risks in connection with suppliers are also important given the international nature of the supply chain. hep has implemented a number of measures to manage any ESG risks that occur.

- ▶ Risk assessment: When selecting a project, the project development team examines that project's risk-return profile. By adhering to the requirements laid out in the risk management strategy and using a risk catalogue as a basis, the issuer ensures that risks are taken into account when selecting projects and quantified. The risks given consideration also include sustainability risks.
- ▶ Environmental management: Although the company does not yet have any ISO-standard certifications for its environmental management, hep asserts that it reduces the negative impact on the environment and uses high-quality, high-value solar modules and mounting structures that are very efficient. Renaturation, emission reduction and waste avoidance measures are also implemented. The projects are also located exclusively in countries that have strict environmental legislation (currently the US, Japan, Germany and Canada). Analyses of the land surface, the soil and the species present in the area as well measures to protect against flooding and/or earthquakes are consequently required depending on the location, and in some cases stipulations concerning compensatory measures also apply.
- ▶ Environmental impacts: The company strives to cause as little negative change to land areas as possible. Since hep itself designs, builds and operates solar parks, the concepts that the company employs are integrated and long-term. hep also develops methods that can help to reduce soil disturbance to a minimum.
- ▶ Recycling: A systematic approach is not yet in place for the recycling of the solar modules. hep states that it is looking for a solution for the recycling of defective modules.
- ▶ Working conditions: hep has adopted internal guidelines that regulate the issues of occupational health and safety.
- ▶ Safety at work: In order to ensure that the requirements in the internal guidelines are met, the company has implemented appropriate processes for managing safety. These include clear responsibilities and providing its staff with protective equipment. The staff also receives regular training in workplace safety and compliance.
- ▶ Supplier considerations: A company policy document states that reliability, responsibility and quality are taken into account in the procurement process. When choosing its suppliers, hep also takes into consideration their compliance with social criteria such as occupational health and safety, fair remuneration and adequate working conditions. In 2021 the most important suppliers will be asked about their conduct with regard to environmental, social and governance issues. This information will be used to draft a catalogue of requirements for suppliers, which will apply in future as a binding supplier code of conduct.

- ▶ Dialogue with stakeholder groups and controversies: The company states that it maintains close contact with local stakeholders during the planning process and has several local points of contact in the respective countries where it is active.
- ▶ The company is well established in the areas of governance and compliance. hep has in place a guideline for handling conflicts of interest, an anti-money-laundering guideline and a policy on gifts for its employees and management to follow. Its code of conduct covers all the relevant issues. There is a compliance function in place that operates as an overarching control mechanism, and all the staff regularly do external e-learning courses on these issues. And newly created in 2021, the company's "Internal Revision" department is an independent department that reports directly to management and will function as an auditing body.



2.3. Management of proceeds

imug confirms that the rules put in place for managing revenues are in line with the Green Bond Principles.

hep has established internal rules that facilitate a transparent allocation process.

TRACKING OF THE PROCEEDS

- Sub-account
- Sub-portfolio
- Otherwise suitably tracked

hep and/or its subsidiaries reflect all unallocated funds resulting from the green bearer bonds in their balance sheets. Project Controlling tracks the revenues and the allocation of funds as well as ensuring transparency and that there are control mechanisms in place. If any planned projects do not eventuate, the Green Bond Committee will choose alternative projects that correspond to the existing framework and meet the specified eligibility criteria.

- The issuer has an internal process in place that is used to ensure that the revenues will only be used for the PV solar projects chosen.

A controlling system that includes a monitoring tool has been implemented to monitor the allocation of the project funds. The Chief Financial Officer is ultimately responsible for this system.

- The issuer will periodically allocate the balance of the net revenues to the projects as long as the green bearer bonds are pending
- The issuer will disclose the planned (periodic) placement to the investors.

The net revenues are reflected in hep's balance of accounts. A monitoring tool will be used to track unallocated funds until they have been fully allocated. The issuer affirms that the money will not be used to finance any projects, funds or companies that are greenhouse-gas-intensive.

- The issuer undertakes to allocate revenues to projects within a specified time period. Remaining revenues will have been allocated no later than 36 months after issuance of the bond.

- External verification

An external, independent authority (financial auditor) will be reviewing the allocation of the money from the revenues resulting from the green bearer bonds.



2.4. Reporting

imug confirms that the reporting process is in line with the Green Bond Principles.

The issuer undertakes to report on both the allocation of revenues and the environmental benefits of the projects. The underlying process for acquiring and consolidating data is clearly defined.

imug considers the issuer's commitment to regularly reporting in future on the use of revenues and the bearer bonds' environmental benefits to be convincing and reliable.

REPORTING LEVEL

- On a project portfolio basis
- At the project level

REPORTING INDICATORS

Allocation of the revenues

- Total amount of the revenues from the issuance
- Amount allocated
- Details on any unallocated revenues resulting from the issuance
- Description of the project

Sustainability information

- An account of the benefits in terms of sustainability (quantitative)
- An account of the benefits in terms of sustainability (qualitative)

Other information

- Risk management reporting
- Reporting in the event of significant changes
- External verification of the reporting

hep undertakes to report the amount of revenue coming in, the projects receiving financing, the sustainability benefits of those projects and the corresponding sustainability indicators and ESG risks. The issuer has undertaken to report on any risks relating to compliance or workplace safety.

REPORTING IS DONE VIA...

- Website
- Annual Report / Sustainability Report
- Internal channels to investors and interested parties

FREQUENCY

- Once a year
- Every six months
- Other

REPORTING PERIOD

- Until all revenues have been allocated or in the event of any significant changes (e.g. divestitures)
- As long as the bond is pending

PROCESS OF ACQUIRING AND CONSOLIDATING DATA

- The underlying process for acquiring and consolidating data is clearly structured. The Chief Financial Officer is ultimately responsible for reporting at hep. He decides on and coordinates the internal implementation of the reporting requirements.
- Disclosure of the methodology and/or assumptions
- Subject to external verification

INDICATORS FOR ENVIRONMENTAL REPORTING

imug considers the environmental reporting indicators selected to be relevant and significant. The issuer will use quantitative output and impact indicators to demonstrate the positive effect expected from the financing activity.

PROJECT CATEGORY	OUTPUT INDICATORS	IMPACT INDICATORS
Renewable energy – photo-voltaic	▶ Annually produced renewable energy in gigawatt-hours	▶ Annual greenhouse gas emissions saved compared to fossil-fuel power generation (in tCO ₂ e)



3. ISSUER

SUSTAINABILITY STRATEGY

The issuance is in line with the GBP and contributes to furthering hep's corporate strategy and thus the expansion of renewable energy. hep's business model is the development and construction of solar power plants. Accordingly, all its business activities are oriented towards the production of renewable energy. The issuance of the green bearer bonds, therefore, is in line with hep's corporate strategy.

Corporate strategy

The issuer is a German limited liability company that was founded in 2008 in order to promote the expansion of low-emission power systems. hep has 139 employees and its main office is in Güglingen (near Heilbronn). Through its development, construction and operation of photovoltaic power plants, hep is creating a comprehensive business model. This is supplemented by HEP Kapitalverwaltung AG's conception and management of closed-end, alternative investment funds (AIFs). hep's first sustainability report, published in 2021, reveals the company's future strategic orientation towards sustainability-related goals.

With the construction of solar parks in the target markets in the US, Japan, Germany and Canada, hep is ensuring that it is active in markets that are expanding in terms of capacity and offering available space, good conditions and structural safety.

Having focused historically on free-field installations, in future hep will be expanding into rooftop installations with its product "hepSolution" and thus making use of the surface area potential that is available in Germany. Agri-PV can also be used to further optimize the use of open areas. Elevated mounting frames ensure that open spaces can also be used for the cultivation of fruit and vegetables.

hep's strategy is in line with the issuance of the green bearer bond.

CONTROVERSIAL AREAS OF BUSINESS AND CONTROVERSIES

imug has examined hep in relation to a total of 15 controversial areas of business¹. hep is not active in controversial areas of business. Up to the reporting date of 01.04.2021, there was no information available to suggest that hep is involved in controversies.²

¹ Controversial areas of business are specified in the Methodology section (page 14).

² Controversial business activities are specified in the Methodology section (page 14).



4. OPINION

hep is a globally active company in the photovoltaic sector and provides various different products and services. imug regards the contribution hep makes to sustainability as very positive.

Having done an in-depth analysis of the framework hep employs to support its financing activities, imug rates it as suitable for supporting the issuance of the green bearer bonds. This framework allows hep to finance eligible projects that are completely in line with the current Green Bond Principles.

The framework for hep's green bearer bonds is in line with the Green Bond Principles.

By producing solar electricity, hep's power plants are making a contribution to mitigating ongoing climate change and increasing the share of renewable energy in the global energy mix. Financing solar power plants makes a positive contribution that promotes one of the United Nations' Sustainable Development Goals (UN SDGs): Goal 7 "Affordable and Clean Energy".

imug confirms that hep's strategy is in line with the issuance of the green bearer bonds. hep's core business is the development and construction of solar installations. **There is no evidence to suggest that hep is involved in controversies or any other controversial areas of business.**

5. METHODOLOGY

This SPO has been drafted by qualified imug analysts at our offices in Hanover. Our sustainability research is done using only recognized procedures employing established and dependable methods. We have strict quality standards in place for all research activities and customer processes. In 2002, imug | rating adopted a Code of Conduct guaranteeing that its sustainability evaluations are independent, documented and of high quality. In order to bring its research and work processes even more in line with recognized standards, imug | rating underwent an external audit in June of 2019 and was certified compliant with the ISO 9001:2015 Quality Management Standard. Surveillance audits are carried out regularly to verify the initial certifications.

Having examined the framework in detail, imug then confirms whether an issuance is in line with the Green Bond Principles (GBP).

For an assessment to be positive there must be transparent reporting and verifiable implementation on the part of the issuer with regard to the following: (1) Use of proceeds, (2) Project selection and evaluation, (3) Management of proceeds and (4) Reporting. Besides the framework, interviews with the issuer's relevant employees and publicly available information make up the informational basis for this SPO. These sources were only used if the information was verifiable and documented. The issuer is also sent a questionnaire in order to examine in depth its ESG risk management in the areas of environment, social aspects and governance.

imug | rating also examines whether an issuance is consistent with the issuer's corporate strategy or, in the absence of a strategy, whether suitable environmental measures are already being implemented.

imug analyzes the issuer's activities in the following controversial business areas: fossil fuels (including thermal coal or unconventional oil and gas production), the production of nuclear energy and strategic products / services for the operation of nuclear power plants, the manufacture of conventional and controversial weapons and munitions, industrial livestock farming / tests on animals, green genetic engineering, gambling, tobacco, alcohol, pornography and hazardous chemicals. Any controversial business activities discovered are cited irrespective of turnover thresholds.

imug also investigates every issuer for other controversial business activities such as potential violations of internationally recognized sustainability standards, e.g. the UN Global Compact or the ILO core labour standards. imug only cites those controversial business activities that can be verified through reliable and verifiable public sources. The following areas are investigated: environmental damage (loss of biodiversity, etc.), social aspects (human rights, social standards, workplace safety, protecting health etc.) and corporate governance (corruption, tax avoidance, cartels, money laundering, fraud, etc.). imug categorizes controversies according to their degree of severity (negligible, significant and severe) and the frequency of their occurrence is also taken into account.

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