



# SECOND PARTY OPINION

Green Euro PP Issuance

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## Evaluation Summary

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Opinion Score	Alignment with GBP	ESG Performance of Issuer	Issuance's sustainability	Controversial activities
<b>3.7 / Advanced</b>	<b>4.1</b>	<b>2.9</b>	<b>4</b>	<b>None</b>

## Scoring System

Scoring Legend	Low	Moderate	Medium	Advanced	High
Scoring Scale	X < 1,5	1,4 < X < 2,5	2,4 < X < 3,5	3,4 < X < 4,5	X > 4,4 (5 max)

## Introduction

*La Française de l'Énergie (LFDE)* is an independent European energy company with offices in Forbach, France. It has revenues of around €8 million (FY 2020), 20 employees, and has currently activities in France and Belgium. Since 2016, the company has been listed on the Compartment C of Euronext in Paris.

To support its development, *LFDE* has decided to issue a Green Euro PP and has formalized an issuance framework to explain its commitment to comply with ICMA's green bonds principles.

As stated in the company's issuance framework, eligible projects for this Green Euro PP will fall into the following categories: *"Combined Heat and Power from abandoned mine methane"; Photovoltaic; Solar Heat; Hydrogen; Other sources of renewable energy if and whenever applicable (e.g. biogas, geothermal, tidal, new technologies)"*.

Specialized in ESG assessment of SMIDs, *EthiFinance* has been given the assignment to issue an independent expert opinion on the green value of this issuance. This opinion is based on *EthiFinance*'s comprehensive in-house methodology encompassing: a) compliance with ICMA's Green Bond Principles (GBPs); b) the issuer's ESG profile; and c) the issuance's sustainability (*Details in Methodology, pages 12/13*). Analysis has been conducted in September 2020.

## EthiFinance Global Opinion

*EthiFinance*'s opinion is that the *LFDE* issuance can definitely be considered as green, especially thanks to an advanced level of compliance with ICMA's GBPs and an advanced level regarding its contribution to sustainability:

### 1. Alignment with GBPs: Advanced

- *The LFDE* issuance framework provides clear information about the intended **use of proceeds**. *EthiFinance* considers that eligible categories of the project overall support the objective of promoting a transition to low-carbon growth. We value the company's commitment and continuous endeavor to optimize its environmental performance, especially regarding GHG mitigation.
- **Identification/selection process** for eligible projects is simple, clear and based on relevant expertise. *EthiFinance* considers that it is compliant with the GBPs but recommends more formalization/accuracy, while it values the company's commitment to document the project assessment process.
- *LFDE* has in place a process for transparent **management of proceeds** and an external review process, in line with GBPs.
- *EthiFinance* views the company's commitments in terms of **reporting** as fully compliant with ICMA's Green Bond Principles.

### 2. Issuer ESG Performance: Medium

The Issuer's ESG profile is good for an SME and compares positively with those of similar companies. It is not affected by any serious ESG controversy.

### 3. Issuance sustainability: Advanced

Eligible projects as defined in the issuance framework are 100% in line with the company strategy and are very likely to contribute to at least 2 major SDGs (#13 *Climate Mitigation* and #11 *Sustainable Cities and Communities*). The mitigation of ESG risks associated with eligible projects is good but could be more formalized.

## 4.1/ Advanced

## Alignment with Green Bond Principles (1/5)

## A/ Use of Proceeds (1/3)

**Global Opinion** - *La Française de l'Énergie's* issuance framework provides clear information about the intended use of proceeds. Ethifinance considers that eligible categories of the project overall support the objective of promoting a transition to low-carbon growth. We value the company's commitment and continuous endeavor to optimize its environmental performance, , especially regarding GHG mitigation.

As stated in the company's issuance framework, eligible projects will fall into the following categories:

- *Combined Heat and Power from abandoned mine methane*
- *Photovoltaic*
- *Solar Heat*
- *Hydrogen*
- *Other sources of renewable energy if and whenever applicable (e.g. biogas, geothermal, tidal, new technologies)*

**A1 - Level of accuracy**

**The definition of eligible categories in the issuance framework is clear. Moreover, it has been completed during the interview as follows:**

- *"Abandoned mine methane"* stands for coal mine methane (CMM) only. No coal bed methane (CBM) project – still at the experimental phase - will be financed with these proceeds (1).
- *"Hydrogen"* projects which *La Française de l'Énergie* intends to develop will match the European Union Hydrogen Roadmap's definition of "low-carbon hydrogen" (2) as they include a 100% carbon capture process once power is produced.
- Overall, the annual expected impact of these investments in terms of avoided emissions amounts to 2 or 3 million tons of CO<sub>2</sub>eq (3)
- Financed projects will be located exclusively in France and Belgium.

As it stands, it appears that the issuance's net proceeds will be mainly dedicated to the first category, namely *"abandoned mine methane"*.

The issuer states that *"Eligible Green Projects shall be projects with disbursements after the issuance of the Green Bonds or disbursements not earlier than calendar year 2020"* which is **accurate and in line with market best practices**. In reality, the company's first project debt refinancing deadlines are in 2024, so issuance net proceeds will mainly be dedicated to financing new operations.

(1) Thus there is no issue of hydraulic fracturation or use of chemicals products (which, anyway, *La Française de l'Énergie* does not use for its experiments regarding CMB)

(2) Low-carbon hydrogen as defined within the EU Hydrogen Strategy (July 2020) encompasses fossil-based hydrogen with carbon capture and electricity-based hydrogen, with significantly reduced full life-cycle greenhouse gas emissions compared to existing hydrogen production.

(3) Assessment based on both the certification of the volumes of coal mine methane present in the former coal mines of Northern France and Anderlues (Wallonia) and the full cycle assessment of the volumes of CO<sub>2</sub>eq emissions avoided by LFDE's activity in Northern France's first 4 gas capture and cogeneration site.

## 4.1 / Advanced

## Alignment with Green Bond Principles (2/5)

## A/ Use of Proceeds (2/3)

**A2 - Level of relevance**

- **Cogeneration projects based on coal mine methane (CMM)**

These projects fit into the “Pollution prevention and control (including greenhouse gas control)” category, as defined by ICMA’s Green Bond Principles.

This activity avoids important gas release and greenhouse gas emissions to the atmosphere:

- The gas captured by *Gazonor – La Française de l’Énergie’s* operational subsidiary - in closed ancient coal mines - is mainly composed of methane (CH<sub>4</sub>): failing its capture, the methane is gradually released to the atmosphere, with a greenhouse effect assessed to be 85 higher than the CO<sub>2</sub> over a 20 years period in terms of Global Warming Potential (GWP) according to the latest GIEC standards (AR5 published in 2013).

This gas is mainly turned into power, with the environmental value-added to replace emissions of CH<sub>4</sub> by emissions of CO<sub>2</sub>, by far less harmful.

- According to Ineris - the French National Institute for Industrial Environment and Risks, an industrial and commercial public establishment under the aegis of the Ministry of the Environment – 602,000 tons of CO<sub>2</sub> emissions are prevented per year thanks to Gazonor’s extraction of CMM (Ineris study 2019, full life cycle analysis from extraction to distribution, focused on CO<sub>2</sub> emissions only – Based on current activity, ie 4 sites in France).

Furthermore, we value the following facts:

- Extraction of CMM contributes to the mitigation of potential local explosions, fire hazards, and/or ground movements linked to remaining gas leakage.
- The company follows strictly a short circuit policy: extraction and distribution of produced energy occur within the same territory.
- This brings about positive social impacts in traditional industrial and coal-producing areas now facing hard socio-economic issues, thanks to job creation and cheaper energy. (4)

*Reservation: as a fossil energy, this gas cannot be considered as a green energy and cannot fit stricto sensu into the “renewable energy” category of ICMA’s green bond principles. Nevertheless, French regulation includes it within the ENR&R (energies renouvelables et de récupération) category, which encompasses various means of recovering energy that would have been, failing that, wasted. (5) Within this category, in addition, the capture of Coal Mine Methane has the specificity to prevents a significant pollution that would otherwise occur.*

(4) French value added tax (VAT) is lower for heat stemming from *energies renouvelables et de récupération* (article 76 de la loi n° 2006-872 du 13 juillet 2006)

(5) ADEME assesses that, associated with an improved consumption control, ENR&R could provide 2/3 of French needs, thus combining national energy independence, environmental protection, and local development (source: <https://www.ademe.fr/energies-renouvelables-recuperation>)

## 4.1 / Advanced

## Alignment with Green Bond Principles (3/5)

## A/ Use of Proceeds (3/3)

**A2 - Level of relevance**

- **Hydrogen**

One should make a distinction between production and use of hydrogen. While the use of hydrogen as a source of energy clearly contributes to climate change mitigation, the full life-cycle greenhouse gas emissions of the production of electricity-based hydrogen depends on how the electricity is produced. Nowadays, globally, more than 90% of hydrogen is manufactured using fossil fuel (5).

Interesting enough, though, the European Union currently expresses the following position on hydrogen:

- The EU recent **Hydrogen Roadmap identifies hydrogen as a “key priority to achieve the European Green Deal and Europe’s clean energy transition”**. The priority for the EU is to develop renewable hydrogen, produced using mainly wind and solar energy. Nevertheless, until renewable hydrogen becomes cost-competitive and scales up, the EU considers that **“In the short and medium term, however, other forms of low-carbon hydrogen (6) are needed”**.
- The EU green taxonomy states that the manufacture of hydrogen could be eligible for its *“Climate mitigation”* category provided specific criteria are met and requires that such investments should incorporate precise mitigation plans to decarbonize the manufacturing process.

As mentioned above, the technical specificities of LFDE’s Hydrogen projects that will be financed with the proceeds (100% carbon capture process) enable them to fall into the European Union’s category of *“low carbon hydrogen”*.

As such, these projects meet the *“climate change mitigation”* objective, which is one of the environmental objectives identified as key for a green issuance by the Green Bond Principles.

Moreover, regarding the climate change mitigation issue, EthiFinance views positively that the whole process (power/heat generation and carbon capture) will be deployed locally, in short circuits (permanent key requisite of the issuer).

*Reservation: To ensure the relevance of its hydrogen projects with respect to this Climate Change Mitigation objective and the EU green taxonomy, though, we recommend that associated mitigation plans should be specified on a project basis when reporting to investors.*

- **Photovoltaic, Solar heat, biogas, geothermal, tidal, etc.**

These projects clearly fit into the *“renewable energy (including production, transmission, appliances and products)”* category as defined by ICMA’s *Green Bond Principles*. As such, they fall into the European Taxonomy’s category of *“Climate Change Mitigation”*.

*Reservation: Each category may have environmental pitfalls, though: we recommend that the way the company mitigates these risks be specified for each project when reporting to investors on this category of investment.*

(5) Norton Rose Fulbright Report, June 2020

(6) Low-carbon hydrogen as defined within the EU Hydrogen Strategy = encompasses fossil-based hydrogen with carbon capture and electricity-based hydrogen, with significantly reduced full life-cycle greenhouse gas emissions compared to existing hydrogen production.

## 4.1 / Advanced

## Alignment with Green Bond Principles (4/5)

## B/ Project Evaluation / Selection

**Global Opinion** - The identification/selection process for eligible projects is simple, clear and based on relevant expertise. EthiFinance considers that it is compliant with the GBPs but recommends more formalization/accuracy, while it values the company's commitment to document the project assessment process.

As it stands, the identification of project is already clear: for the coming 3-4 years (see part 3) La Française de l'Énergie is to focus on its existing or future public concessions, for which the location and the energy potential are already known. In that context, the process of investment selection consists of iterations between the site's project manager and the company's management committee.

This management committee combines different competencies, namely: the Managing Director (expertise in Health Safety and Environment and in energy production), the CFO (expertise in energy financing), and the CEO (expertise in finance and regulation, member of the UN Expert Committee on coal mine methane).

The management committee decisions regarding eligible projects are based on technical surveys conducted by the project manager. Based on these surveys, development choices are made in order to meet the two structural objectives of the company: short circuits and GHG mitigation.

The decisions made are to comply with the company's formal HSE and Quality Policies that both encompass environmental requisites. We note, though, that those policies (available on LFDE's website) are too general and could be more precise.

Overall, EthiFinance views this process as sound and effective.

*Reservation: Nevertheless, this process remains somewhat informal, which is quite normal with regard to the size of the company, and decision-making criteria could be more explicit. Hence, we value the fact that the company intends to document the rationale behind its decisions and recommend that they should report these.*

## C/ Management of Proceeds

**Global Opinion** - La Française de l'Énergie has in place a process for transparent management of proceeds and an external review process, which are in line with Green Bond Principles.

Management of proceeds will be under the responsibility of the Group's CFO, who has a strong background in the energy sector.

The proceeds will be appropriately earmarked and tracked using an internal accounting system: The company can rely on its ERP system to track each disbursement linked to specific projects and, thus, to projects identified by the management committee as eligible for green financing.

The management committee will follow those "green" disbursements through a dedicated dashboard and make relevant decisions in order to adjust the balance of the tracked net proceeds.

Unallocated proceeds will be kept in regular cash management operations, also in line with good market practices. Information about funds' allocation will be verified annually by external auditors (Mazars = LFDE's current lead auditor)

## 4.1 / Advanced

## Alignment with Green Bond Principles (5/5)

## D/ Monitoring &amp; Reporting

**Global opinion** - EthiFinance views the company's commitments in terms of reporting as fully compliant with ICMA's Green Bond Principles.

LFDE commits to report each year and until full allocation (and later in the event of any material change in the list of Eligible Green Projects until the maturity of the bond) and to disclose:

- The total amount of proceeds allocated per Eligible Green category or, when feasible, proceeds allocated per Eligible Green Projects.
- The amount of unallocated proceeds.
- Climate or environmental benefits: annual ex-ante estimates of impacts based on recognized methodology that will be publicly available. The main indicator of LFDE's positive contribution to the energy transition initiative is the amount of CO<sub>2</sub>eq avoided thanks to its activity. LFDE will seek to provide data on an individual project basis but might also choose to aggregate certain classes of projects.

The reporting commitments are good, covering both funds allocation and the environmental impact benefits of the issuance.

The issuer provides in the Appendix of its issuance framework a list of reporting indicators related to the funds allocation and environmental benefits which are overall relevant.

We value the facts that:

- Allocation of the bond proceeds to eligible assets will be verified by an external auditor (limited assurance).
- Impact assessments in terms of CO<sub>2</sub> emissions avoided will be conducted ex post by external acknowledged experts such as Ineris, CNRS, Heidelberg University, University of Lorraine, GeoResosources lab, or BioDeloitte.

*Reservation: We recommend that the issuer be more precise regarding the reporting means: integration on the website's investors section and in the annual financial report are good practices.*



## 2.9 / Medium

## Issuer's ESG Performance

**Global Opinion** - The Issuer's ESG profile is good for an SME and is not affected by any serious ESG controversy.

### A/ ESG Performance

The ESG assessment of *La Française de l'Énergie* is extracted from the *Gaia Rating* database - developed by Ethifinance analysts specialized in ESG scoring and extra-financial ratings for small and mid-cap European companies (cf. Methodology).

The company reaches a **"medium" level of maturity in 2019** (based on 2018 data) due to an average ESG score of 58 out of 100. This score has increased since 2017 (50/100 at that time), mainly thanks to progress in areas such as *"relations with external stakeholders"*, *"environment"* and *"social/human resources"*.

The benchmark made up of comparable companies rated by Gaia analysts shows that these results enable ***La Française de l'Énergie* to be positively distinguished from comparable companies**. Its ESG profile confirmed comparative key strengths on several topics: relationships with suppliers, environmental policy and management system, social characteristics and policies, and compensation of officers and directors.

Within the Gaia Panel, *La Française de l'Énergie's* relative positioning is positive:

- 24<sup>th</sup> rank among 131 companies with a turnover < €150m (1<sup>st</sup> quintile)
- 1<sup>st</sup> rank among 4 energy sector companies with a turnover < €150m

Rating	2018	Trend 2017-2018	Appreciation / Benchmark
<b>GOVERNANCE</b>	52	↗	●
Dilution risk of minority shareholders	50	=	●
Composition of governance bodies	38	↘	●
Operation of governance bodies	75	=	●
Compensation of officers and directors	83	=	●
Business ethics	50	↗	●
CSR policy, extra-financial issues and implementation of the non-financial reporting (EU directive)	33	↗	●
<b>SOCIAL</b>	61	↗	●
Social characteristics and policies	86	=	●
Working conditions	45	↗	●
Skills development	60	↗	●
Equal opportunities	43	↗	●
Health and Safety	67	↗	●
<b>ENVIRONMENT</b>	60	↗	●
Environmental policy and management system	79	↗	●
Energy and Greenhouse Gases	56	↗	●
Water, ground, air and waste	50	↘	●
<b>EXTERNAL STAKEHOLDERS</b>	68	↗	●
Relations with suppliers	100	↗	●
Relations with customers, civil society and responsibility of products	46	=	●
<b>Overall score</b>	<b>58</b>	↗	●

Caption : ● favorable (score > benchmark average) ● neutral (score +/-10 pts = benchmark average) ● unfavorable (score < benchmark average)

### B/ ESG Controversy

**Activities:** LFDE is mostly specialized in the capture and production of gas. Although a low-emission resource compared to oil and coal, gas remains a fossil energy and is thus under debate. The sustainability of LFDE's main activity, coal mine methane (CMM), though, is not questioned. As for the coal bed methane (CBM), still at an experimental phase for LFDE, it is under scrutiny for its potential environmental impacts: groundwater pollution, use of chemical products, landslide or seismic activity.

**Company:** According to the controversy's analysis tool developed by Ethifinance (cf. Methodology), LFDE is not affected by any serious controversy.

## 4 / Advanced

## Issuance's Sustainability (1/2)

**Global Opinion** – Eligible projects as defined in the issuance framework are 100% in line with the company strategy and are very likely to contribute to at least 2 major SDGs (#13 Climate Mitigation and #11 Sustainable Cities and Communities). The mitigation of ESG risks associated with eligible projects is good but could be more formalized.

### A/ Strategic Consistency

The company's strategy, as presented in its financial report, is twofold:

- Main orientation is to develop LFDE's activities on its core business, the capture and recovery of energy in short circuits. Until 2023-2024, the company will focus on these activities.
- Diversification orientation is to extend the use of its energy producer know-how to green projects such as solar thermal, photovoltaic or biogas, in the territories where the company already operates.

The company fully integrates sustainability issues into its strategy, with a focus on CO2 mitigation and local circuits. **Eligible projects as defined in the issuance framework are 100% in line with this strategy.**

### B/ ESG Risks Management

LFDE's risk management is based on methods and processes that have a proven track record. This enables LFDE to identify risks and opportunities linked to each project at an early stage and base its actions on them.

For each project, various surveys and tests are conducted – such as surveys on environmental risks, studies of soils and structures, noise nuisance assessments, public inquiries – at different stages of conception and implementation. This enables the project manager to identify environmental, safety or social risks, among other things, and to put forward solutions to avoid or mitigate them. Final decisions are taken at the Management Committee level based on the group's health & safety and environmental standards.

On the whole, the identification and management of environmental and social risks associated with the selected projects seems good.

*Reservation: Nevertheless, it lacks formalization and detail. We recommend that the company sets up more precise HSE and quality policies, and sets up formal procedures and tools to facilitate the readability and the performance of its ESG risk management.*



### C/ UN Sustainable Development Goals (SDGs)

In our view, eligible projects are very likely to contribute to at least 2 major SDGs, namely:

- SDG #11 – Sustainable Cities and Communities
- SDG #13 – Climate Mitigation

We value the fact that

- The company has specific and relevant targeted impacts to address those issues
- The company intends to report on relevant KPIs, partly based on external assessment

SDG	Rationale	KPI and measurement
	<p>Short circuits and local successful integration are key requisites for LFDE project development.</p> <p>Currently 100% of its energy production and distribution is local. And 100% of eligible projects will be local.</p> <p>LFDE supports local employment, local energy independence, and local cost-competitive energy.</p>	<p>KPIs such as</p> <ul style="list-style-type: none"> <li>• installed capacity in MW</li> <li>• annual generation in MWh</li> <li>• annual GHG emissions avoided (in tCO2e)</li> <li>• number of renewables generation sites/units</li> </ul> <p>Will be documented at local territories' level, either in France or in Belgium.</p>
	<p>Climate change mitigation is a major requisite for all LFDE's projects.</p> <p>Currently 602,000 tons of CO2 emissions are prevented per year thanks to Gazonor's extraction of CMM (2019 Ineris survey).</p> <p>LFDE expects its new projects development to trigger an average of 2 or 3 million tons of CO2eq avoided each year.</p>	<p>The main KPI of LFDE's contribution to climate change mitigation is the amount of CO2eq avoided.</p> <p>Those CO2 impacts will be assessed by external acknowledged experts, based on recognized methodology that LFDE commits to make publicly available.</p>

## Methodology

The present document was developed on the basis of the in-house methodology of Ethifinance. **The Green (Social or Sustainability) Bond Second Party Opinion by Ethifinance** is an external and independent qualitative analysis of debt instruments financing sustainable development-related projects.

Ethifinance intends to provide investors with a comprehensive opinion on the "sustainable" quality of a debt instrument and financed projects by analysing 3 various topics: 1) alignment with Green Bond Principles; 2) level of extra-financial maturity of the issuer; 3) opinion on the funded project.

This threefold analysis enables our team to position the issuance on **an ESG quality scale** which ranges from low to high level, as follows:

Scoring Legend	Low	Moderate	Medium	Advanced	High
Scoring Scale	X < 1,5	1,4 < X < 2,5	2,4 < X < 3,5	3,4 < X < 4,5	X > 4,4 (5 max)

The issuance's ESG quality rating is based on **an in-house standard, with various weighting keys**, as follows:

Theme	Underlying themes	%	Composition
GBP Alignment (30%)	Use of Proceeds	25%	% of proceeds allocated to eligible assets
	Project Evaluation / Selection	25%	Quality of the process
	Management of Proceeds	25%	Allocation transparency
	Monitoring & Reporting	25%	Frequency and quality of reporting
ESG Performance of Issuer (30%)	ESG Profile of the Issuer (1)	100%	ESG strategy of the issuer
Issuance Contribution to Sustainability (40%)	Strategic Consistency	35%	Relevance of the designated projects to global strategy and activities of the issuer
	ESG Risk Management	50%	Risks identification and management
	SDGs impact	15%	SDGs contribution

(1) In case of identification of controversies the ESG score is adjusted. It can be downgraded by 10%, 20% or 30% according to the level of a controversy ranging from 1 to 5 (5 being the highest level).

Ethifinance analysis combines three various sources of information:

Documents	Interviews	Gaïa Rating
Green Bond issuance framework Quality and HSE policies Financial report (2019) and website Ineris study on CMM impacts (2019)	Julien Moulin, LFDE CEO Aurélie Tan, LFDE CFO	ESG score based on extra financial analysis of public data against Gaïa Rating standard (Gaïa Rating = ESG rating of European listed SMIDs)

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