

Green Bond Evaluation by Japan Credit Rating Agency, Ltd.

Japan Credit Rating Agency, Ltd. (JCR) announces the Annual Review of its Green Bond Evaluation.

## JCR Reviewed Green Bond Evaluation of Trust Beneficiary Rights of Canadian Solar Securitized Green Equity Trust 1

Subject	: Canadian Solar Securitized Green Equity Trust 1 Trust Beneficiary Rights
Type	: Trust Beneficiary Rights
Dividend Rate	: Actual Dividend
Trust Setup Date	: August 6, 2018
Trust Expiration Date	: September 30, 2037
Method of Repayment	: By the method specified in the trust agreement
Use of Proceeds	: Acquisition of Equity in Investment in Silent Partnership by Trustee

### <Green Bond Review Results>

Overall Evaluation	Green 1
Greenness Evaluation (Use of Proceeds)	g1
Management, Operation and Transparency Evaluation	m1

### 1. Overview

On March 22, 2019, JCR announced its "Green 1" overall evaluation of trust beneficiary rights to invest in two solar power generation facilities developed by Canadian Solar Projects K.K. ("CSP") The main summary is as follows.

(Excerpted from the Evaluation Report of March 22, 2019)

CSP is a company specializing in the solar power plant business that was carved out from Canadian Solar Japan in 2014. It mainly develops renewable energy power generation facilities (defined by the Japanese Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities, Article 2, Paragraph 3) and real estate. Canadian Solar Asset Management K.K. ("CSAM"), CSP's subsidiary, manages the assets that CSP has developed.

Both CSP and CSAM are group companies of Canadian Solar Inc. ("CSI")

JCR evaluates the trust beneficiary rights backed by the silent partnership of the solar power generation projects which CSP has developed and CSAM manages. The projects acquired through the proceeds consist of two solar power generation facilities developed in accordance with CSP's investment policy. JCR has confirmed technical due diligence reports and soil contamination reports from third parties. JCR found that these projects have little possibilities that the negative impact on the environment exceeds the environmental improvement effects and JCR has evaluated it as green projects that greatly contribute to reducing CO<sub>2</sub> emissions.

(End of excerpt)

JCR has confirmed that two solar power generation facilities, which are use of proceeds of the trust beneficiary rights, are in normal operation. JCR received data of actual solar power generation from CSAM and confirmed that the environmental improvements by power generation are continuing.

As a result, JCR maintains "g1" for "Greenness Evaluation (Use of Proceeds)" and "m1" for "Management, Operation and Transparency Evaluation." Consequently, JCR maintains "Green1" as an overall evaluation result of the trust beneficiary rights. Evaluation results are discussed in detail in the next chapter. The trust beneficiary right is considered to meet the criteria for items in Green Bond Principle and MOE's Green Bond Guidelines.<sup>12</sup>

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<sup>1</sup> ICMA(International Capital Market Association) Green Bond Principles 2018  
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> Ministry of the Environment Green Bond Guidelines 2017  
[http://greenbondplatform.env.go.jp/pdf/greenbond\\_guideline2017.pdf](http://greenbondplatform.env.go.jp/pdf/greenbond_guideline2017.pdf)

## 2. Post-Issuance Review Items

In this section, JCR describes the items to be confirmed in the post-issuance review. The review focuses on items whose content has changed compared with the previous evaluation periods.

### (1) Use of Proceeds (Status of Appropriation)

JCR evaluates if the management of funds procured by the green bonds and the appropriation of funds procured for green projects has been properly carried out in a manner specified by the issuer at the time of assigning the Green Bond Evaluation.

### (2) Appropriateness and Transparency Concerning Selection Standard and Processes of the Use of Proceeds

JCR evaluates if there are any changes to the objectives to be achieved through the green bonds, the criteria for selecting green projects, the adequacy of the process, and the series of processes to be implemented.

### (3) Appropriateness and Transparency of Management of the Proceeds

JCR evaluates whether the proceeds have been certainly allocated for green projects or not. JCR also evaluates if there is a system and internal system in which the allocation status can be easily tracked and managed.

### (4) Reporting

JCR evaluates if the environmental improvement effects resulting from the green project financed by the funds procured by the green bonds are appropriately calculated according to the method stipulated by the issuer at the time of assigning the Green Bond Evaluation.

### (5) Organization's Environmental Activities

JCR evaluates if the issuer's management is continuing to regard environmental issues as a high priority issue.

### 3. Contents of Review

#### (1) Use of Proceeds (Status of Appropriation)

- a. The proceeds of the trust beneficiary rights has been fully allocated for the acquisition of the silent partnership's equity interest of two solar power generation projects listed in the table below, the Rokunohe-Machi Power Station and the Yamaguchi-Aio Power Station.

(List of Use of Proceeds)

Project Name	Location	Output Capacity (dc)	Yearly Power Generated (October 2018-September 2019)	Annual CO <sub>2</sub> Reductions (October 2018-September 2019)
CSJ Kamikita District Rokunohe-Machi Power Station	Rokunohe, Aomori	10,204.48kW	Approx. 12,757MWh	Approx. 6,672t-CO <sub>2</sub>
Smart Solar Yamaguchi Aio Power Station	Yamaguchi, Yamaguchi	23,829.75kW	Approx. 30,475MWh	Approx. 19,554t-CO <sub>2</sub>

(Source: Technical Due Diligence Reports, assumed annual power generation excluding power consumption in power plants)

\* Methods for calculating CO<sub>2</sub> reductions = Actual annual power generation × Adjusted emission coefficients (latest figures: fiscal 2018)

Adjusted emission coefficients are published by the Ministry of the Environment by electric utility and by fiscal year.

- b. Both of the two solar power generation facilities are in operation. In the current fiscal year (October 2018-September 2019), both facilities outperformed the capacity projected in the Technical Due Diligence Report.
- c. No serious negative environmental impacts have been identified, including sediment-related disasters, electric shocks and complaints from local residents.

#### (2) Appropriateness and Transparency Concerning Selection Standard and Processes of the Use of Proceeds

At the time of the initial evaluation, JCR evaluated that the appropriateness of the criteria for selecting the use of proceeds and its process as appropriate. In this review, JCR evaluated that there is no change from the initial evaluation through the interview with CSAM. JCR also evaluated that transparency is ensured through the inclusion of such information in the evaluation report at the time of the initial evaluation.

#### (3) Appropriateness and Transparency of Management of the Proceeds

JCR evaluated cash management as appropriate at the initial evaluation. Since the entire proceeds from the issuance of trust beneficiary rights have already been allocated to the investment of silent partnerships in two solar power facilities, there is no need for tracking management.

#### (4) Reporting

##### a. Reporting on the proceeds allocation

At the initial evaluation, JCR confirmed that funds procured from the trust beneficiary rights have been immediately allocated to the acquisition of the silent partnership's equity interest in the two solar power generation projects. JCR also confirmed that the status of appropriation is disclosed regularly by sending a report on the status of trust assets to investors once a year.

##### b. Reporting on environmental improvement effects

The environmental improvement effects of the two projects are disclosed annually to investors by disclosing CO<sub>2</sub> reductions calculated using a predetermined calculation method based on the actual outputs of power generation in the report.

#### (5) Organization's Environmental Activities

##### a. Canadian Solar Inc.'s Environmental Initiatives

CSI, CSAM's parent company, has made a broader and deeper contribution to environmental and social considerations. According to the 2018 Sustainability Report released in October 2019, CSI achieved the following results in terms of environmental and social considerations.

- i. Over the past year, CSI's PV plant output has increased by 46%. (December 2017: 3,149MW, March 2019: 4,600MW)
- ii. Water consumption was reduced by approximately 42.8% per 1MW compared to 2017.
- iii. CO<sub>2</sub> emissions per manufacturing 1KW were reduced by about 19% compared to 2017.
- iv. CSI has fair trade principles and provides a comfortable working environment for its employees and stakeholders by not doing business with mines that have labor issues or companies that engage in forced labor.

The top management of CSI has expressed their intention to make a clear commitment to environmental and social considerations.

Chairman and CEO Dr. Shawn Qu describe environmental and social considerations as follows.

*"Our goal is to promote solar energy across the globe and ensure that more and more people will reap the benefits of clean air, decreased pollution, and sustainable economic development."*

##### b. Canadian Solar Asset Management and the Canadian Solar Project's Environmental Initiatives

CSAM complies with CSI's environmental and social policies. In August 2019, CSAM became the first domestic asset management company of Infrastructure Fund to sign the United Nations Principles for Responsible Investment (UN PRI). JCR evaluates that this is one of the signs of CSAM's stance of taking into account ESG factors in its operations.

Specifically, in addition to donating funds from CSP and CSAM to Marumori Town in Miyagi Prefecture, which was severely damaged by Typhoon Hagibis in 2019, CSAM also donated funds to a local shrine in Daisen Town, Tottori Prefecture, where one of its solar power facilities is located. As part of its contribution to local communities, CSP and CSAM are involved in ESG initiatives and social contribution

activities as members of the CSI Group. For example, CSP constructed a park and donated it to Daisen Town.

JCR evaluates that these activities are the good examples of how management place the environmental issues high-priority and doing Specific initiatives in CSI, CSP and CSAM.

## 4. Conclusion

As a result of examining the matters described in the previous section, JCR confirmed that 100% of the trust beneficiary rights were allocated to the green project, which was originally expected to be subject of use of proceeds, and that the assets to be appropriated for the funds were realizing the environmental improvement effects initially anticipated.

[JCR Green Bond Evaluation Matrix]

		Management, Operation and Transparency Evaluation				
		m1	m2	m3	m4	m5
Greenness Evaluation	g1	Green 1	Green 2	Green 3	Green 4	Green 5
	g2	Green 2	Green 2	Green 3	Green 4	Green 5
	g3	Green 3	Green 3	Green 4	Green 5	Not qualified
	g4	Green 4	Green 4	Green 5	Not qualified	Not qualified
	g5	Green 5	Green 5	Not qualified	Not qualified	Not qualified

### ■ Subject

[Review]

Subject	Trust Setup Date	Trust Expiration Date	Dividend Rate	Evaluation
Trust beneficiary rights in the silent partnership investment	August 6, 2018	September 30, 2037	Actual Dividend	JCR Green Bond Evaluation : Green1 Greenness Evaluation : g1 Management, Operation and Transparency Evaluation : m1

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## Important explanation of the Green Bond Evaluation

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### 1. Assumptions, Significance, and Limitations of JCR Green Bond Evaluation

JCR Green Bond Evaluation, which is assigned and provided by Japan Credit Rating Agency (JCR), is a comprehensive expression of JCR's current opinion on the extent to which the proceeds of green bonds, which are subject to evaluation, are allocated to green projects defined by JCR and the extent to which the management, operation, and transparency of the use of green bonds are ensured. This does not perfectly disclose all the efforts taken by the issuer/borrower to ensure the use of proceeds, administration, management of the proceeds and the transparency.

JCR Green Bond Evaluation is to evaluate the plan or status of the proceeds to green projects at the time of issuing green bonds or planning to issue, and does not guarantee the future actual allocation of the proceeds. JCR does not guarantee the positive environmental effects of green bonds nor is liable for their expected impacts. JCR confirms that the environmental impacts, which will be realized by the allocated proceeds, are calculated quantitatively and qualitatively by the issuer or by a third party requested by the issuer, but in principle JCR does not calculate them by itself.

### 2. Methodologies used in the conduct of this evaluation

The methodology used in this evaluation are listed on JCR website (Sustainable Finance & ESG in <https://www.jcr.co.jp/en>) as JCR Green Finance Evaluation Methodology.

### 3. Relationship with Acts Related to Credit Rating Business

JCR Green Bond Evaluation is determined and provided by JCR as a related business, which is different from the activities related to the credit rating business.

### 4. Relationship with Credit Ratings

The Evaluation differs from the Credit Rating and does not promise to provide or make available for inspection a predetermined Credit Rating.

### 5. Third-party character of JCR

There is no conflict of interest related to capital or human resources relationships between the subject of this evaluation and JCR.

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#### ■ Glossary

JCR Green Bond Evaluation: JCR Green Bond Evaluation evaluates the extent to which the funds procured from the Green bond are allocated to the Green Project as defined by JCR, and the extent to which the management, operation, and transparency of the Green Bond are ensured. Evaluations are graded on a scale of 5, beginning with the top, using the Green1, Green2, Green3, Green4, and Green5 symbols.

#### ■ Status of registration as an external assessor of green finance

- Environment Ministry's Green Bond Issuance Registration
- Members of the Working Group on Social Bonds (ICMA)
- Members of the Working Group on UNEP FI Positive Impact Finance Principles
- CBI Approved Verifier

#### ■ Status of registration as a credit rating agency, etc.

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- EU Certified Credit Rating Agency
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