

SECOND PARTY OPINION REPORT

- Green Bond Framework -

NSP-SPV Powercorp Plc



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1. EXECUTIVE SUMMARY

North South Power Company Limited (NSP) was established in 2012 to own and operate a diverse and growing portfolio of electricity generation businesses across Africa. Apart from operating the 600 MW Shiroro Hydroelectric power plant, the company is currently advancing plans to commence construction of its 300 MW solar farm. This will enable it to continue to provide power to the Nigerian grid, whilst continuing to be an active player in Nigeria's power sector through power generation from the existing Shiroro plant concession period (ending 2043).

NSP-SPV Powercorp Plc (the Issuer) was incorporated in Nigeria in 2017 as a public limited company.. The issuer is wholly owned by the NSP and its purpose is to issue green bonds.

The issuer strongly believes that there is great merit in issuing a Green Bond to re-finance existing assets and finance new assets, which are in the pipeline. The issuance of a green bond aligns with the issuer's objectives towards maintaining a sustainable low carbon environment and commitment to the integration of environmental and social considerations into their business activities as well as contributions to sustainable development.

Terms of Engagement

TÜV NORD CERT were engaged by NSP to provide a Second Party Opinion (SPO) on whether the Green Bond Framework developed by the Issuer complies with the four core components of the Green Bond Principles (GBP) issued by ICMA in June 2018.

It should be noted that members of the assessment team are not involved in any other projects or activities that would cause a conflict of interest with regard to this engagement.

Our Opinion

During the audit process, the issuer has provided evidence, by way of documents and interviews, to enable an opinion to be formed on whether the four core components of the GBP, have been complied with. The components are as follows:

1. Use of Proceeds

The proceeds of the bond will be used to solely finance and/or refinance eligible green projects. The projects will provide clear environmental benefits, which will be assessed and quantified by the issuer.

2. Process for Project Evaluation and Selection

The issuer has developed a clear process on how to determine whether the projects fit within the eligible green project categories of the Green Bond Principles. This process also considers the environmental and sustainability objectives as well as project related risks

3. Management of Proceeds

The net proceeds of the bond will be credited to a sub-account, which will enable the funds to be fully and transparently tracked. A policy exists, which clearly describes how unallocated funds will be managed.

4. Reporting

A policy exists, which will enable the issuer to keep readily available up to date information on the use of proceeds. This will be updated annually until full allocation or there are any material changes.

Conclusion

During this audit process, nothing has come to our attention, which leads us to believe, that the Green Bond Framework developed by the issuer, does not meet the requirements of the Green Bond Principles published in June 2018.

Essen, 26.10.2018



Dr. Tahsin Choudhury
Lead & Senior Auditor



Andreas Backs
Senior Auditor

Disclaimer

For the sake of clarity, it should be noted, that the Second Party Opinion report is solely based on conformance or non-conformance of the Green Bond Framework against the Green Bond Principles and do not in any way constitute purchase or investment recommendations. The Verifier has no responsibility and liability in this regard and remains the sole responsibility of the issuer. The Issuer shall hold the Verifier harmless from and against any claim including but not limited third party claims raised against the Verifier in connection with bonds such as but not limited to the economic profitability and credit worthiness of the bonds.

2. VERIFICATION TEAM

The engagement described in this report was conducted by the following employees of TÜV NORD CERT GmbH:

Name	Role
Dr. Tahsin Choudhury	Lead Auditor and Technical Expert
Andreas Backs	Lead Auditor

It should be noted that members of the assessment team are not involved in any other projects or activities that would cause a conflict of interest with regards to this engagement

3. TERMS OF ENGAGEMENT

TÜV NORD CERT, the verifier, were engaged by NSP to provide a Second Party Opinion (SPO) on whether the Green Bond Framework developed by the Issuer complies with the four core components of the Green Bond Principles (GBP) issued by ICMA in June 2018.

It should be noted that members of the assessment team are not involved in any other projects or activities that would cause a conflict of interest with regard to this engagement.

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4. METHODOLOGY

The engagement was carried out from 17/09/2018 until 26/10/2018. It consisted of the following steps:

- Review of documentation
- Verification audits
- Background investigation
- Corrective Action assessment
- Verification reporting.

The people listed in the following table participated in the audit. It should be noted, that whilst all of the people participated in the audit, it is not necessarily the case that all of them were involved in the discussions related to all of the topics listed.

Table 4-1: Interviewed persons and interview topics

Interviewed Persons	Interview topics
18.09.2018 to 19.09.2018 – Abuja, Nigeria	
<ul style="list-style-type: none"> - Omokolapo Joseph - Norman Kapambalala - Ikechukwu Okoli - Isaac Mate - Titus Arannilewa - Abiola Majaro - Nsemeke Elette - Oyediran Olanrewaju 	<ul style="list-style-type: none"> - Company Background - Sustainability and Environment Strategy - Motivation for Issuing Green Bonds - Use of Proceeds - Process for Project Evaluation and Selection - Management of Proceeds - Reporting - Technical and environmental aspects of project - Review of Findings - Closing Meeting

Table 4.2 below provides a list of the evidence which was reviewed during the audit.

Table 4-2: Evidence reviewed during the audit

GBP Component	Evidence reviewed
General Information	<ul style="list-style-type: none"> • General Company Presentation • Mission statement • Environmental & Social policy, October 2017 • Sustainability Management Plan, January 2017 • NSP CSR Profile, November 2013 • Certificate by Federal Ministry of Environment, September 2016 • Copies of Stakeholder Letters sent to Local Community • Report of Sensitization Campaign on Waste Management, July 2018 • HSE Executive Board Report, June 2018 • NSP Grievance and Complaints Procedure, 2014 • PPA between Nigerian Bulk Electricity Trading Plc and Shiroro Hydro-electric Plc, February 2013 • Loan Summary Document, August 2018 • Motivation for issuing a Green Bond.
Use of Proceeds	<ul style="list-style-type: none"> • Environmental & Social Policy, October 2017 • Final Report of Environmental Audit of NS Power Shiroro Hydro-electric Power Station, December 2014 • Loan Summary Document, August 2018 • Environmental Benefits of Project, October 2018
Process for Project Evaluation and Selection	<ul style="list-style-type: none"> • Social & Environmental Presentation, September 2018 • NSP ESIA Process (provided by Federal Ministry of Environment) • Sustainability Management Plan, January 2017 • NSP Policy for Project Evaluation and Selection, October 2018.
Management of Proceeds	<ul style="list-style-type: none"> • Interview with Norman Kapambalala (General Manager Accounting Services) • Microsoft Dynamics NAV Financial Accounting System • NSP Treasury Operations Management • NSP Process for Management of Funds from Green Bond, October 2018
Reporting	<ul style="list-style-type: none"> • SEC/QR8/Financial Statement • NSP Internal Reporting Policy

5. OVERVIEW OF ISSUER

The green bond will be issued by NSP-SPV Powercorp Plc, which is wholly-owned by North South Power Company Ltd.

NSP-SPV Powercorp Plc was incorporated in Nigeria in 2017 as a public limited company. NSP-SPV Powercorp Plc is wholly owned by North South Power Company Limited and its purpose is to issue green bonds.

6. OUR OPINION

Based on the work performed both on and off-site, the following sections contain a summary of our findings. All of our conclusions have been supported by the evidence provided in Table 4-2 as well as statements made in the Green Bond Framework.

6.1. Use of Proceeds

Green Bond proceeds will be used to (re)finance new and existing green projects deemed eligible by the issuer. The Issuer focuses on renewable energy projects, namely hydro and solar PV. These projects clearly provide environmental benefits, specifically the generation of clean energy, contributing to the decarbonisation of Nigeria's energy sector. The project to be refinanced by the first Green Bond to be issued will be the 600 MW Shiroro Hydroelectric power plant, which is described in greater detail in the below section.

The 600 MW Hydro-electric power plant clearly provides a range of environmental benefits. Specifically, it provides clean energy, meeting 8% of Nigeria's power demand, as well as abating a considerable amount of GHG emissions.

The issuer intends to raise a bond to both refinance the existing debt for this project, and refurbish the existing four turbines, increasing their capacity from 150 MW to between 165 and 180 MW each. For the first Green Bond issuance, there is only one single asset to be refinanced, and hence the bond's use of proceeds are solely for this project. Approximately 64% of the first Green Bond to be issued, will be used to refinance the existing debt and the remaining 36% will be used for the refurbishment of the turbines.

All proceeds from the first Green Bond will be used to refinance) a renewable energy projects, which is deemed eligible as defined by the GBP.

In conclusion, it is our opinion, that the Green Bond Framework fully complies with the Use of Proceeds component of the GBP.

6.2. Process for Project Evaluation and Selection

The issuer has a policy in place, which describes the process, by which it is determined, whether projects are eligible under the GBP. All projects are thoroughly analysed by the Issuer's Technical and Commercial department, determining a project's eligibility under the GBP, based on the respective technical specification. This policy also states, which project categories are ineligible. In this case, the first Green Bond will refinance a Hydro-electric power plant, which clearly falls within the Renewable Energy category of the GBP.

The Project Evaluation and Selection Policy clearly presents the methodology, by which eligible projects are identified. The Environmental & Social policy, as well as the Environmental Benefits of the project document clearly identify any potential material social and environmental risks associated with the project. It also documents, how these are to be managed.

Within the Green Bond Framework, the departments responsible for the various areas (e.g. technical feasibility, environmental impact assessment) are well documented and a diagram demonstrating the project evaluation and selection process has been presented. Specifically, one of the key objectives listed is assessing potential environmental risks emanating from power generation.

The Environmental & Social policy provides a clear description of the issuer's overarching objectives with regards to environmental sustainability. The triennial environmental auditing system comprises of an NSP ESIA screening process, which was developed by the Federal Ministry of Environment and which allows a robust and comprehensive environmental risk analysis. This has been certified by the Federal Ministry of Environment, as demonstrated by a certificate issued on the 29th September 2016.

In conclusion, it is our opinion, that the Green Bond Framework fully complies with the Process for Project Evaluation and Selection component of the GBP.

6.3. Management of Proceeds

The net proceeds from the bond will be credited to an ESCROW account, which will ensure, that the funds are completely ring-fenced, and therefore there is no possibility of contamination. Within the fund management policy, the issuer has clearly documented the internal process used for the management of proceeds.

For any unallocated proceeds, the issuer has clear criteria in place for the temporary placement of those and to ensure that the temporary placement of those funds comply with the requirements of the GBP. These have been documented in the Issuer's Treasury Operations Management document.

The issuer intends to engage a third party on an annual basis, to ensure, that the internal tracking method is adequate to ensure, that the allocation of funds is fully transparent. This annual report will disclose the amount of proceeds allocated and the balance of unallocated proceeds.

In conclusion, it is our opinion, that the Green Bond Framework fully complies with the Management of Proceeds component of the GBP.

6.4. Reporting

The issuer's accounting system will enable readily and up to date information to be available regarding the allocation of funds. Within the issuer's internal reporting policy, it is stated, that the annual report will cover at least the following aspects:

- List of projects, to which green bond proceeds have been allocated
- Brief description of each project
- Amounts allocated
- Expected impacts of these projects

In conclusion, it is our opinion, that the Green Bond Framework fully complies with the Reporting component of the GBP.

6.4.1. Impact Assessment

Within the issuer's annual report, the following performance indicators will be addressed:

- Annual GHG emissions mitigated (t CO₂e)
- Annual renewable energy generated (MWh)
- Annual GHG emissions intensity (tCO₂e/kWh);
- Capacity of renewable energy plant(s) constructed or rehabilitated in MW

- Capacity of renewable energy plant(s) constructed or rehabilitated (MW);
- Annual renewable energy generation (MWh);

7. ALIGNMENT WITH SUSTAINABLE DEVELOPMENT GOALS

The Eligible Projects selected to be (re-)financed with this Green Bond are supportive of various SDGs:

	
	<p>SDG 7 aims to increase access to affordable, reliable, sustainable and modern energy for everyone. It is supported by an increasing share of renewable energies, improved energy efficiency and expansion of infrastructure.</p> <p>Using the proceeds of the proposed bond for the project(s) as described within the Bond Framework, will support various targets of this SDG.</p>
	<p>SDG 8 promotes sustained, inclusive and sustainable economic growth combined with decent work. Its main targets are increasing GDPs in developing countries, higher levels of economic productivity as well as achieving full and productive employment throughout society.</p> <p>Using the proceeds of the proposed bond for the project(s) as described within the Bond Framework, will support various targets of this SDG.</p>
	<p>SDG 9 targets resilient infrastructure, promotes industrialization and innovation. It facilitates sustainable and resilient infrastructure development, technology transfer, access to information, leading to sustainable industrialization.</p> <p>Using the proceeds of the proposed bond for the project(s) as described within the Bond Framework, will support various targets of this SDG.</p>
	<p>SDG 12 will look to transform human consumption and production patterns, targeting sustainable development. It includes sustainable management of natural resources, reducing waste, life cycle thinking, impact assessment and integrating sustainable practices into business and consumer decision-making.</p> <p>Using the proceeds of the proposed bond for the project(s) as described within the Bond Framework, will support various targets of this SDG.</p>
	<p>SDG 13 aims to take urgent action to combat climate change and its related impacts. It fosters the integration of climate change measures into national policies as well as strategy development, raises awareness among businesses and consumers, increases capacity for climate change mitigation measures as well as providing capital.</p> <p>Using the proceeds of the proposed bond for the project(s) as described within the Bond Framework, will support various targets of this SDG.</p>