



NEWS RELEASE

Dec 20, 2019

[R&I Green Bond Assessment]

TESS Engineering Co., Ltd

PRIME2 Green Project Bond Trust Certificate: GA1 (Formal)

Rating and Investment Information, Inc. (R&I) has announced the following R&I Green Bond Assessment GA1 (Formal). R&I announced a preliminary assessment for this instrument on December 6, 2019. The preliminary assessment has now been converted to a formal assessment.

[DESCRIPTION OF INSTRUMENT]

INSTRUMENT NAME	PRIME2 Green Project Bond Trust Certificate
BOND TRUSTEE	Hitachi Capital Trust Corp.
SPONSOR	TESS Engineering Co., Ltd.
ISSUE AMOUNT (mn)	JPY 8,000
R&I GREEN BOND ASSESSMENT	GA1 (Formal)
ISSUE DATE	December 20, 2019
LEGAL MATURITY DATE	July 31, 2040

R&I has confirmed that the green bond is in conformity to the green bond framework developed by TESS Engineering Co., Ltd. from the perspectives of the fixed issue amount, term, etc. and assigned GA1 (Formal) to the green bond.

Details are provided in the attached press release dated December 6, 2019 regarding R&I Green Bond Assessment (GA1 (Preliminary), Second Opinion).

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R&I Green Bond Assessment is R&I's opinion regarding the extent to which the proceeds from the issuance of green bonds are used to invest in projects with environmental benefits and is not statements of fact. R&I Green Bond Assessment does not certify the environmental benefits and other qualities of the eligible projects. Hence, R&I will not be held responsible for the effectiveness of the projects, including their environmental benefits. R&I Green Bond Assessment is not the Credit Rating Business, but one of the Ancillary Businesses (businesses excluding Credit Rating Service but are ancillary to Credit Rating Activities) as set forth in Article 299, paragraph (1), item (xxviii) of the Cabinet Office Ordinance on Financial Instruments Business, etc. With respect to such business, relevant laws and regulations require measures to be implemented so that activities pertaining to such business would not unreasonably affect the Credit Rating Activities, as well as measures to prevent such business from being misperceived as the Credit Rating Business. Further, R&I does not give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing R&I Green Bond Assessment and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to R&I Green Bond Assessment (including amendment or withdrawal thereof). As a general rule, R&I issues R&I Green Bond Assessment for a fee paid by the applicant. For details, please refer to <https://www.r-i.co.jp/en/docs/policy/site.html>.



NEWS RELEASE

Dec 6, 2019

【R&I Green Bond Assessment】

TESS Engineering Co., Ltd.

**PRIME2 Green Project Bond Trust Certificate : GA1 (Preliminary)
: Second Opinion**

(The second opinion is an opinion regarding the alignment with Green Bond Principles, etc.)

Rating and Investment Information, Inc. (R&I) has announced the following R&I Green Bond Assessment (GA1 (Preliminary), Second Opinion).

【DESCRIPTION OF INSTRUMENT】

INSTRUMENT NAME	PRIME2 Green Project Bond Trust Certificate
BOND TRUSTEE	Hitachi Capital Trust Corp.
SPONSOR	TESS Engineering Co., Ltd.
ISSUE AMOUNT (mn)	JPY 8,000 scheduled
R&I GREEN BOND ASSESSMENT	GA1 (Preliminary)
ISSUE DATE	December 13, 2019 scheduled
LEGAL MATURITY DATE	July 31, 2040 scheduled

【Summary】

TESS Engineering Co., Ltd. (hereinafter referred to as “TESS”) is an engineering company which specializes in “energy saving and environmental measures” for utility services. It has extensive track records including constructing 583 solar power generation systems (with total power generation capacity of 616 MW) as of the end of September 2019. It possesses a high level of expertise across the solar power generation business, acting as EPC and O&M service providers (remote monitoring operation, etc.) in many projects.

TESS has established a green bond framework that provides practical guidelines for four standards of Green Bond Principles, etc. which concern the use of proceeds, process for project evaluation and selection, management of proceeds, and reporting, and now considers issuing a green bond (trust certificate) through a power producer SPC to raise funds to acquire completed solar power plants in accordance with the framework.

The issuance of the green bond takes the project finance scheme where a project is conducted through a dedicated special purpose company. Since the green bond under assessment is backed by the project, in assessing the green bond framework and green bond, R&I evaluated TESS, a sponsor that effectively leads the execution and operation of the project, as an issuer of the green bond in substance.

【R&I Green Bond Assessment】

R&I has judged, in accordance with R&I Green Bond Assessment Methodology, that the proceeds from the green bond would be invested into projects with significant environmental benefits, and assigned GA1 (preliminary) to the green bond. This is a preliminary assessment and will be reassessed after the final confirmation of bond issuance details.

【Second Opinion on the alignment with Green Bond Principles, etc.】

R&I has also provided a second opinion that the green bond framework is aligned with Green Bond Principles 2018¹.

Note that R&I has confirmed that the green bond scheduled to be issued is going to be in conformity to the said framework from the perspectives of issue amount and term, details of eligible projects, assets and investment schedule, etc.

【Rationale】

- The proceeds from the green bond will be used to acquire completed solar power plants developed by TESS. The power plants are located in 10 sites in Chiba, Ibaraki, Fukuoka, Miyazaki, Kumamoto, and Kagoshima (see “Locations of the 10 Sites” included below), and TESS acts as EPC and O&M service providers in all of those plants. The use of the proceeds is renewable energy projects that are expected to put less burden (CO2 emission reduction effect) on the environment. Also with due consideration to environmental impact associated with the development, among other things, paid, R&I has judged that the project is with significant environmental benefits.
- The selection of an eligible project for the green bond goes through an organizational selection process which is driven by Business Development Department which develops a project plan and makes a proposal, after discussing with Engineering Division and others, for an approval by Management Committee. The project is also in compliance with TESS’ management philosophy as well as the environmental policy, etc. which conforms with ISO14001.
- The total amount of the project exceeds the proceeds from the issuance of the green bond. With regards to the timing of the allocation of the proceeds, they are expected to be allocated immediately after the issuance to acquire solar power plants in three sites, with the remainder to be allocated generally within a year.
- Unallocated proceeds will be managed using a dedicated deposit account of the project SPC. Withdrawals will be strictly managed and allowed only when conditions precedent (CP) are satisfied. Investors will be periodically updated with the progress of the project, while being sought approval of and reported on the allocation of the proceeds as needed.
- With regards to reporting, the status of the proceeds allocation and reduced CO2 emissions for the project will be disclosed once a year on TESS’ websites.
- TESS has been engaging in engineering businesses specializing in “energy saving and environmental measures” for utility services since its establishment in 1979. It possesses rich experiences and a high level of expertise across the solar power generation business in which the proceeds are to be used.

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¹ The 2018 edition of the Green Bond Principles (GBP) formulated and administered by the International Capital Market Association (ICMA).

■ Outline of Sponsor (TESS Engineering Co., Ltd.)

TESS Engineering (TESS) was established in 1979 and is an engineering company which specializes in “energy saving and environmental measures” for utility services. Capitalizing on its experiences in having worked on co-generation systems which are distributed power sources for facilities that consume a large quantity of energy including plants, hotels and hospitals as energy saving measures after the oil crises, it has been engaging in the construction of solar power generation systems by offering a “hybrid solar power co-generation system” which combines a co-generation system with solar power generation since 1990’s.

TESS expanded into the businesses of constructing and installing solar power generation systems following the start of the Feed-in Tariff System (FIT System) in 2012. Owning solar power plants on its own and entering into power generation and retail businesses led it to gain track records of 583 solar power generation systems in operation (with total power generation capacity of 616 MW) in Japan as of the end of September 2019. It possesses a high level of expertise across the solar power generation business, acting as EPC, O&M, and remote monitoring service providers in many projects.

While working to solve clients’ energy issues with its corporate philosophy of “Priority on Clients and Satisfaction to Clients” in mind, TESS strives to make its corporate activity sustainable by setting its environmental policy of “contributing to prevention of global warming and preservation of environment through co-generation system which is our core business, as well as any kind of environmental/energy saving system,” and executing quality/environmental management systems.

As part of such initiatives, TESS established a green bond framework and now considers issuing a green bond under the framework.

■ Outline of Green Bond Framework (TESS Green Bond)

At the issue of its green bond, TESS has prepared a green bond framework that constitutes issuer's practical guidelines for the four standards of Green Bond Principles including use of proceeds, process for project evaluation and selection, management of proceeds, and reporting. The outline of the framework is as follows:

1. Use of Proceeds

- The proceeds from the green bond will be allocated to projects that satisfy the following selection criteria.

Project Category	Business description
Renewable energy	PV power plants

- Eligible projects are renewable energy projects (solar power plants) developed by TESS as EPC itself. It is assumed that they will include biomass and wind power generation projects in the future.
- Since the financing will be done by the project finance scheme, the proceeds will be allocated to expenditure for a power producer SPC.
- The power producer SPC will issue a green bond, etc. and will not convert the underlying green assets.
- Potentially negative environmental impacts associated with solar power generation business generally include the destruction of/negative impacts to ecosystems, discharge of turbid water, and light pollution and impairment of landscape, as well as noise/vibrations emitted from related facilities, as a result of large-scale land development. TESS' development of a power plant is in conformity with environmental laws, regulations and ordinances concerning the forest development and environmental conservation, etc. TESS also conducts a meeting to explain to nearby residents to address negative aspects of environmental and social impact.

2. Process for Project Evaluation and Selection

- As a company specializing in energy saving and renewable energy, TESS has a business policy of expanding its businesses revolving around three pillars of “stable energy supply,” “promotion of energy saving,” and “diffusion of renewable energy” toward the realization of “Total Energy Saving & Solution” which it is also named after. In addition, it formulated the corporate philosophy of “Priority on Clients and Satisfaction to Clients” and the quality/environmental policy which conforms with ISO14001.

Corporate Philosophy

Priority on Clients and Satisfaction to Clients

Corporate philosophy of TESS Engineering is «Priority on Clients and Satisfaction to Clients»

We solve various energy issues clients face, by way of forming reliable working organization with skilled engineers and rich experiences of more than 1,000 job track records on environmental and energy saving systems. We will do our best to become such company as clients being always satisfied with our services.

Management Philosophy of the TESS Group

◆“Priority on Clients and Satisfaction to Clients”

We place the first priority on solving various energy issues clients face, by working as the Group as a whole, under our corporate philosophy of “Priority on Clients and Satisfaction to Clients.” Further, we will meet the expectations of the stakeholders by seeking to achieve long-term growth while fulfilling social responsibilities through our businesses.

Quality/Environmental Policy

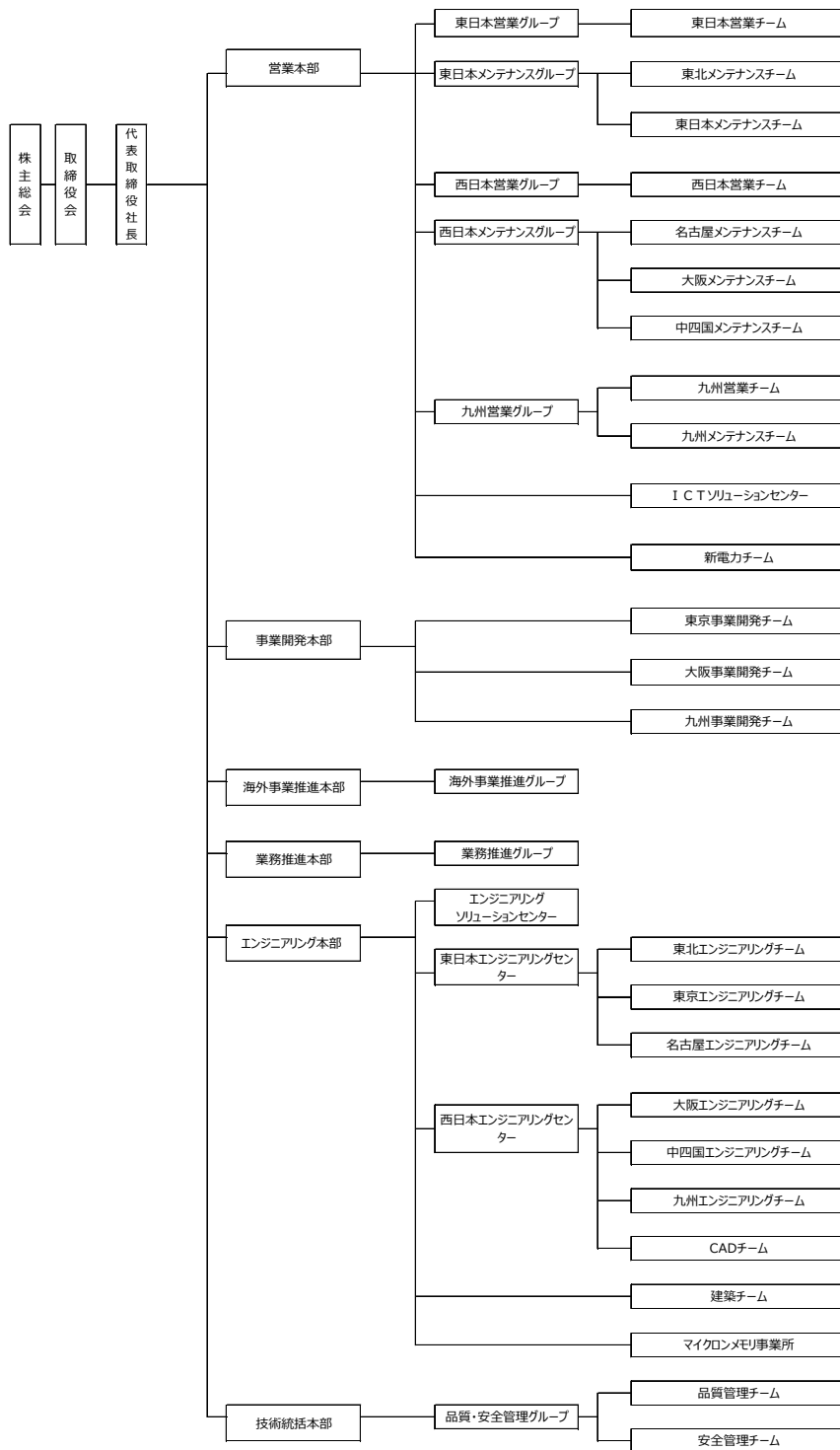
TESS Engineering is posting "Priority on Clients and Satisfaction to Clients" as corporate philosophy. Quality/Environmental Policy has been established as part of activities which substantiate the management philosophy to contribute solving various issues clients have.

We will practice Quality/Environmental Management System to achieve earth-friendly business activities based on "Quality/Environmental Policy" below and endeavor to continuously improve it.

1. We place value on that communication with client is important, and propose products and services to comply with customers' requirement.
2. We observe the laws and legal rules/requirements applied to our business activities.
3. We promote to achieve goals and objectives set for quality/environmental activities by participation of all the staff members.
4. We endeavor to realize strengthening business structure and enhancing company's value by practicing PDCA at every scene of business activity.
5. We contribute prevention of global warming and preservation of environment through co-generation system which is our core business, as well as any kind of environmental/energy saving system.
6. This policy will be fully disseminated to our executives and employees and become available for general public.



- TESS engages in business activities which help realize a sustainable society, being mindful of the global environment, through the diffusion of renewal energy in conformity with the corporate philosophy as well as the environmental policy which is in line with ISO14001.
- Projects which have been selected as eligible for the green bond, etc. are renewable energy. It has selected those that are in line with TESS' philosophy and policies as well as its actual business activities.
- Renewable energy projects are not only expected to bring considerable environmental benefits (CO2 reduction effect) but also developed/run with consideration given to potentially negative environmental/social impacts.
- The selection of a project goes through a process which is driven by Business Development Department which develops a project plan and makes a proposal, after discussing with Engineering Division and other relevant departments, for an approval by the Management Committee (as well as the Board of Directors of TESS Holdings Co., Ltd., its holding company).
- The organization chart of TESS is shown below.



3. Management of Proceeds

- The proceeds from the green bond, etc. will be managed using a dedicated account of the power producer SPC in accordance with the provisions of the finance and project agreements, and allocated for those green projects only.
- Withdrawals of the proceeds will be strictly managed and allowed only when conditions precedent (CP) under the project finance agreement are satisfied. Unallocated proceeds are intended to be managed in deposit.
- Investors will be periodically updated with the progress of the projects, while being sought each time approval of and reported on the allocation of the proceeds as needed.

4. Reporting

- TESS plans to provide reporting for the green bond, etc. on its website once a year.
- Key contents of the reporting are i) fund allocation status reporting, and ii) impact reporting (incl. performance).
 - i) plans to report the allocation status to the projects until the funds are fully allocated.
 - ii) is meant to disclose the amounts of annual power generation and CO2 reduction of the projects.
- The reporting will be presented as below.

Project no.	Project allocation amount	Project allocation %	Eligible project			1st year power generation (kWh/year)	CO ₂ reduction effect (t-CO ₂ /year)
No.1	•	[●]%	Renewable Energy	Solar	Selling	1,471,971	510.8
No.2	•	[●]%	Renewable Energy	Solar	Selling	1,446,756	502.0
No.3	•	[●]%	Renewable Energy	Solar	Under construction	2,567,714	891.0
No.4	•	[●]%	Renewable Energy	Solar	Under construction	2,348,284	814.9
No.5	•	[●]%	Renewable Energy	Solar	Under construction	1,514,312	525.5
No.6	•	[●]%	Renewable Energy	Solar	Under construction	1,568,700	544.3
No.7	•	[●]%	Renewable Energy	Solar	Under construction	1,422,588	493.6
No.8	•	[●]%	Renewable Energy	Solar	Under construction	3,282,269	1,138.9
No.9	•	[●]%	Renewable Energy	Solar	Under construction	7,964,210	2,763.6
No.10	•	[●]%	Renewable Energy	Solar	Under construction	3,008,743	1,044.0
Total amount of the issued bond		[●] billion yen					

■ Evaluation on Green Bond Framework (Second Opinion)

In line with R&I Green Bond Assessment Methodology, R&I evaluated if the green bond framework prepared by TESS is in conformity to Green Bond Principles 2018 (hereinafter collectively referred to as Green Bond Principles, etc.).

1. Use of Proceeds

For green bond proceeds to be used to invest in projects with environmental benefits, the eligible projects in which the funds are invested must be identified as being environmentally beneficial.

Main basis for evaluation

- Details of the framework
- Confirmation of the contents of the projects eligible for the green bond

Evaluation

- Under the framework the proceeds will be used to acquire solar power plants developed by TESS.
- The eligible projects in the transaction are renewable energy (solar power generation projects) with eligible green assets from which sufficient environmental benefits (CO2 reduction effect) are expected.
- R&I confirmed through interviews and in writing, etc. regarding TESS' review criteria for the eligible projects as to (1) whether sufficient environmental benefits can be expected from those projects, and (2) whether consideration is given to potentially negative environmental impacts during the development and in operation.
- From the perspective of (1), in light of the confirmation of TESS' track record of the development of solar power plants, development policy, and O&M system, etc. R&I judged that sufficient environmental benefits (CO2 reduction effect) can be expected as eligible projects for the green bond.
- From the viewpoint of (2), R&I confirmed it has taken steps which are conscious of the surrounding environment, including obtaining necessary permits and licenses during the development/operation, and judged that due consideration is given to potentially negative environmental impacts.

For the reasons stated above, R&I has judged the use of proceeds under the framework is in conformity to Green Bond Principles etc.

2. Process for Project Evaluation and Selection

For green bond proceeds to be used to invest in projects with environmental benefits, the issuer's rationale and process regarding the selection of eligible projects must be clear and reasonable.

Main basis for evaluation

- Details of the framework
- TESS' corporate philosophy and environmental policy

Evaluation

- The eligible projects are in compliance with TESS' management philosophy as well as the environmental policy which conforms with ISO14001.
- The eligible projects are expected to have sufficient environmental benefits and due consideration is given to potentially negative environmental and social impacts.
- The assessment and selection of a project goes through an organizational process which is driven by Business Development Department which develops a project plan and makes a proposal, after discussing with Engineering Division and other relevant departments, for an approval by the Management Committee (as well as the Board of Directors of TESS Holdings Co., Ltd., its holding company).

For the reasons stated above, R&I has judged the process for project evaluation and selection under the framework is in conformity to Green Bond Principles etc.

3. Management of Proceeds

For the green bond proceeds to be used to invest in projects with environmental benefits, the proceeds must be allocated to eligible projects, and must not be invested in projects other than eligible projects.

Main basis for evaluation

- Details of the framework

Evaluation

- The proceeds from the green bond, etc. will be managed using a dedicated account of the power producer SPC and allocated for those green projects only. Therefore, the proceeds from the relevant green bond, etc. will not be commingled with those for other projects.
- Withdrawals of the proceeds will be strictly managed and allowed only when conditions precedent (CP) under the relevant project finance agreement are satisfied.
- Unallocated funds will be managed in deposit which is short-term liquid assets.
- The progresses of the projects and the fund allocation status will be managed appropriately with investors given necessary reporting as needed.

For the reasons stated above, R&I has judged that the policy for management of proceeds under the framework is in conformity to Green Bond Principles etc.

4. Reporting

To ensure that green bond proceeds are used to invest in projects with environmental benefits, the issuer is expected to provide details on the eligible projects, the timing of investments, and the environmental benefits yielded by the projects.

Main basis for evaluation

- Confirmation of the framework details
- Confirmation of details of reporting to be disclosed

Evaluation

- The reporting of the green bond, etc. is scheduled to be made once a year on the TESS' website.
- Reporting is to include the fund allocation status reporting and impact reporting (the amounts of annual power generation and CO2 reduction) per portfolio, which are considered reasonable.

For the reasons stated above, R&I has judged that the policy for management of proceeds under the framework is in conformity to Green Bond Principles etc.

<Comprehensive Evaluation>

In line with the assessment methodology of R&I green bond assessment, R&I has judged that the framework is in conformity to Green Bond Principles etc.

This second opinion shall be applied to the green bond to be issued at this time. For subsequent issues, R&I will review the status and then release its second opinion again.

■ Evaluation Result on the Green Bond

In line with the assessment methodology of R&I Green Bond Assessment, R&I confirmed if the amount and term of the green bond and green loan (hereinafter collectively referred to as green bond) to be issued, as well as details of eligible projects and the allocation schedule, etc. thereof, are in conformity to the provisions of the framework. Also, in accordance with the details of the framework and specific measures to be taken for the green bond, R&I evaluated the extent the proceeds from the green bond are used to invest in businesses with environmental benefits.

Project finance credit rating (preliminary) has also been assigned to the eligible projects of this transaction. Judging from the project feasibilities verified prior to assigning preliminary credit rating, the eligible projects are deemed to have sufficient environmental benefits.

1. Use of Proceeds

- The eligible projects for the green bond, etc. are solar power generation projects in 10 sites. It is planned to acquire those in three sites at the time of the issuance of the green bond, with the remaining seven sites to be acquired after the start of operation. Expenditure (acquisition cost) for the power producer SPC of the solar power plants which are the eligible projects under the framework is selected as eligible, which is in compliance with the green bond framework.

< Locations of the 10 Sites >

No	Location
1	Kobayashi City, Miyazaki Prefecture
2	Iizuka City, Fukuoka Prefecture
3	Higashi-Ibaraki-gun, Ibaraki Prefecture
4	Aso City, Kumamoto Prefecture
5	Iikumuma-cho, Kanoya City, Kagoshima Prefecture
6	Furusato-cho, Kanoya City, Kagoshima Prefecture
7	Soo City, Kagoshima Prefecture
8	Aira-cho, Kanoya City, Kagoshima Prefecture
9	Ichihara City, Chiba Prefecture
10	Aso-gun, Kumamoto Prefecture

- R&I confirmed (1) whether sufficient environmental benefits can be expected from those projects, and (2) whether consideration is given to potentially negative environmental impacts during the development and in operation, in a manner similar to the assessment of the framework.
- As a result, R&I judged that the eligible projects have sufficient business potential in light of the acquisition of the project sites, details of the power generation facilities and technical reports, and O&M system, among other things, and are expected to bring environmental benefits (CO2 reduction effect). Furthermore, R&I confirmed through materials pertaining to the projects and on-site inspections that consideration is given to potentially negative environmental impacts (incl. consideration to reflected light and residents in the local communities) in carrying out the development, acquisition, and operational activities to judge that environmental impacts are considered appropriately.

For the reasons above, R&I deems that the extent to which the green bond proceeds are used to invest in projects with environmental benefits is especially excellent.

2. Process for Project Evaluation and Selection

- The eligible projects are in compliance with TESS' management philosophy as well as the environmental policy which conforms with ISO14001.
- The eligible projects are expected to have sufficient environmental benefits and due consideration is given to potentially negative environmental and social impacts.
- R&I confirmed that, for the green bond, etc., the projects were selected with an approval of the Management Committee after the discussions among Business Development Department and relevant departments for the projects in accordance with the framework established by the issuer.
- R&I deems that the process for project evaluation and selection is excellent since it is very clear and reasonable.

3. Management of Proceeds

- It was confirmed that the green bond, etc. would have the proceeds managed separately for the projects only pursuant to the framework established by the issuer as well as finance agreements for the transaction.
- The total amount of the projects exceeds the proceeds from the issuance of the green bond, etc. With regards to the timing of the allocation of the proceeds, they are expected to be allocated immediately after the issuance to acquire solar power plants in three sites, with the remainder to be used to acquire those in seven sites which are currently under development after the completion of construction. The allocation of the proceeds is expected to be fully completed generally within a year.
- R&I deems that the framework for managing the green bond proceeds is properly determined and especially excellent.

4. Reporting

- R&I confirmed that the green bond, etc. would have reports containing the fund allocation status and environmental benefits provided once a year in accordance with the framework established by the issuer.
- R&I deems that the reporting policy of the green bond is excellent in content and frequency.

5. Environmental activities of the issuer

The degree of the proceeds from the green bond, etc. to be invested in projects which will help solve environmental issues is thought to be affected by the issuer's attitude toward environmental activities and its track record. This is because R&I believes the more the issuer has interests in environmental activities and track record, the more likely it will allocate the proceeds to and execute projects which will help solve environmental issues.

- TESS formulated the corporate philosophy and the environmental policy which is in conformity with ISO14001 as a company specializing in renewable energy, and set as its goals making contributions to a sustainable society and low-carbon society that are mindful of the global environment through the diffusion of renewal energy.
- It has been offering energy technologies that are in need with the times, including energy-saving

technologies through co-generation systems following the oil crises in Japan, hybrid solar power co-generation systems since 1990's, and solar power plants amid calls for CO2 reduction after the introduction of the FIT System. The projects this time are also part of such efforts and considered to contribute to a sustainable, low-carbon society.

- It has extensive track records including constructing 583 or more solar power generation systems (with total power generation capacity of 616 MW) as of the end of September 2019. It possesses a high level of expertise across the solar power generation business, acting as EPC and O&M service providers (remote monitoring operation, etc.) in many projects.



Based on the above, R&I judged that TESS has an excellent attitude toward environmental activities.






<Comprehensive evaluation>

For the reasons stated above, R&I has judged that the green bond will be issued under the framework established by the issuer and is in conformity to Green Bond Principles etc.

R&I also evaluated the green bond in line with R&I Green Bond Assessment. In accordance with the comprehensive evaluation based on individual evaluation result by item, R&I has judged that the proceeds from the green bond subject to evaluation is highly likely to be used to invest in businesses with environmental benefits and assigned GA1 (preliminary) to the bond. Individual evaluation result by item is as follows:

【Assessment of each item】

Each item has been assessed on a scale of one to five, with  being the highest and  being the lowest.

Item	Assessment	Summary
Use of proceeds		The eligible projects are considered to have sufficient environmental benefits, and due consideration is given to potentially negative aspects of environmental impact. R&I deems that the extent to which the proceeds are used to invest in projects with environmental benefits is especially excellent.
Process for project evaluation and selection		R&I deems that the process for evaluating and selecting the green bond projects is excellent since it is very clear and reasonable.
Management of proceeds		R&I deems that the framework for managing the green bond proceeds is properly prepared and considered to be especially excellent.
Reporting		R&I deems that the policy for the green bond project reporting is excellent in content and frequency.
Issuer's environmental contribution activities		The issuer has in place a policy and system for environmental issues and proactively engages in environmental contribution activities through its business. R&I deems that the issuer's involvement in environmental contribution activities is excellent.

The methodology for R&I Green Bond Assessment is disclosed on R&I's website.
https://www.r-i.co.jp/en/rating/products/green_bond/methodology.html

R&I Green Bond Assessment is R&I's opinion regarding the extent to which the proceeds from the issuance of green bonds are used to invest in projects with environmental benefits. In R&I Green Bond Assessment, R&I may also provide a second opinion on a green bond framework. R&I Green Bond Assessment does not certify the environmental benefits and other qualities of the eligible projects. Hence, R&I will not be held responsible for the effectiveness of the projects, including their environmental benefits. R&I Green Bond Assessment is not the Credit Rating Business, but one of the Ancillary Businesses (businesses excluding Credit Rating Service but are ancillary to Credit Rating Activities) as set forth in Article 299, paragraph (1), item (xxviii) of the Cabinet Office Ordinance on Financial Instruments Business, etc. With respect to such business, relevant laws and regulations require measures to be implemented so that activities pertaining to such business would not unreasonably affect the Credit Rating Activities, as well as measures to prevent such business from being misperceived as the Credit Rating Business.

R&I Green Bond Assessment is not, in any sense, statements of current, future, or historical fact and should not be interpreted as such, and R&I Green Bond Assessment is not a recommendation to purchase, sell, or hold any particular securities and does not constitute any form of advice regarding investment decisions or financial matters. R&I Green Bond Assessment does not address the suitability of an investment for any particular investor. R&I issues R&I Green Bond Assessment based on the assumption that each investor will investigate and evaluate the securities which they plan to purchase, sell, or hold for themselves. All investment decisions shall be made at the responsibility of the individual investor.

The information used when R&I issues R&I Green Bond Assessment is information that R&I has determined, at its own discretion, to be reliable. However, R&I does not undertake any independent verification of the accuracy or other aspects of that information. R&I makes no representation or warranty, express or implied, as to the accuracy, timeliness, adequacy, completeness, merchantability, fitness for any particular purpose, or any other matter with respect to any such information.

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【Japanese is the official language of this material and if there are any inconsistencies or discrepancies between the information written in Japanese and the information written in languages other than Japanese the information written in Japanese will take precedence.】



Green Bond / Green Bond Programme Independent External Review Form

Section 1. Basic Information

Issuer name: TESS Engineering Co., Ltd. (Sponsor)

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

Independent External Review provider's name: Rating and Investment Information, Inc. (R&I)

Completion date of this form: December 20, 2019

Publication date of review publication: December 20, 2019

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|--|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input checked="" type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

Latest update: June 2018

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Rating and Investment Information, Inc. TERRACE SQUARE, 3-22 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-0054, Japan <https://www.r-i.co.jp>

R&I Green Bond Assessment is R&I's opinion regarding the extent to which the proceeds from the issuance of green bonds are used to invest in projects with environmental benefits and is not statements of fact. R&I Green Bond Assessment does not certify the environmental benefits and other qualities of the eligible projects. Hence, R&I will not be held responsible for the effectiveness of the projects, including their environmental benefits. R&I Green Bond Assessment is not the Credit Rating Business, but one of the Ancillary Businesses (businesses excluding Credit Rating Service but are ancillary to Credit Rating Activities) as set forth in Article 299, paragraph (1), item (xxviii) of the Cabinet Office Ordinance on Financial Instruments Business, etc. With respect to such business, relevant laws and regulations require measures to be implemented so that activities pertaining to such business would not unreasonably affect the Credit Rating Activities, as well as measures to prevent such business from being misperceived as the Credit Rating Business. Further, R&I does not give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing R&I Green Bond Assessment and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to R&I Green Bond Assessment (including amendment or withdrawal thereof). As a general rule, R&I issues R&I Green Bond Assessment for a fee paid by the applicant. For details, please refer to <https://www.r-i.co.jp/en/docs/policy/site.html>.

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EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

[R&I Green Bond Assessment]

R&I has judged, in accordance with R&I Green Bond Assessment Methodology, that the proceeds from the green bond would be invested into projects with significant environmental benefits, and assigned GA1 (Fomal) to the green bond.

[Second Opinion on the alignment with Green Bond Principles, etc.]

R&I has also provided a second opinion that the green bond framework is aligned with Green Bond Principles 2018.

For details, please refer to R&I Green bond assessment report above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

< Evaluation on the Green Bond Framework >

- Under the framework the proceeds will be used to acquire solar power plants developed by TESS.
- The eligible projects in the transaction are renewable energy (solar power generation projects) with eligible green assets from which sufficient environmental benefits (CO2 reduction effect) are expected.
- R&I confirmed through interviews and in writing, etc. regarding TESS' review criteria for the eligible projects as to (1) whether sufficient environmental benefits can be expected from those projects, and (2) whether consideration is given to potentially negative environmental impacts during the development and in operation.
- From the perspective of (1), in light of the confirmation of TESS' track record of the development of solar power plants, development policy, and O&M system, etc. R&I judged that sufficient environmental benefits (CO2 reduction effect) can be expected as eligible projects for the green bond.
- From the viewpoint of (2), R&I confirmed it has taken steps which are conscious of the surrounding environment, including obtaining necessary permits and licenses during the development/operation, and judged that due consideration is given to potentially negative environmental impacts.

For the reasons stated above, R&I has judged the use of proceeds under the framework is in conformity to Green Bond Principles etc.

< Evaluation on the Green Bond >

- The eligible projects for the green bond, etc. are solar power generation projects in 10 sites. It is planned to acquire those in three sites at the time of the issuance of the green bond, with the remaining seven sites to be acquired after the start of operation. Expenditure (acquisition cost) for the power producer SPC of the solar power plants which are the eligible projects under the framework is selected as eligible, which is in compliance with the green bond framework..

- Along with the evaluation of the framework, R&I verified (1) if the eligible projects provide sufficient environmental benefits, and (2) if due consideration is given to potentially negative aspects of environmental impact at the time of development and operation.
- As a result, the eligible projects are deemed to be highly feasible and have sufficient environmental benefits (CO2 emission reduction effect) from the aspects of secured project site, details of power generation facilities, contents of technical report and the O&M system, among others. In addition, R&I has judged appropriate environmental consideration is also given through in project-related materials and on-site inspection that due consideration to a potentially negative aspect (including such as consideration of reflected light and local residents, etc.) of environmental impact being given to the project development, purchase and operation.

For the reasons above, R&I deems that the extent to which the green bond proceeds are used to invest in projects with environmental benefits is especially excellent.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings (Environmentally Responsible Building) |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

< Evaluation on the Green Bond Framework >

- The eligible projects are in compliance with TESS' management philosophy as well as the environmental policy which conforms with ISO14001.
- The eligible projects are expected to have sufficient environmental benefits and due consideration is given to potentially negative environmental and social impacts.
- The assessment and selection of a project goes through an organizational process which is driven by Business Development Department which develops a project plan and makes a proposal, after discussing with Engineering Division and other relevant departments, for an approval by the Management Committee (as well as the Board of Directors of TESS Holdings Co., Ltd., its holding company).

For the reasons stated above, R&I has judged the process for project evaluation and selection under the framework is in conformity to Green Bond Principles etc.

< Evaluation on the Green Bond >

- The eligible projects are in compliance with TESS' management philosophy as well as the environmental policy which conforms with ISO14001.
- The eligible projects are expected to have sufficient environmental benefits and due consideration is given to potentially negative environmental and social impacts.
- R&I confirmed that, for the green bond, etc., the projects were selected with an approval of the Management Committee after the discussions among Business Development Department and relevant departments for the projects in accordance with the framework established by the issuer.

R&I deems that the process for project evaluation and selection is excellent since it is very clear and reasonable.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

< Evaluation on the Green Bond Framework >

- The proceeds from the green bond, etc. will be managed using a dedicated account of the power producer SPC and allocated for those green projects only. Therefore, the proceeds from the relevant green bond, etc. will not be commingled with those for other projects.
- Withdrawals of the proceeds will be strictly managed and allowed only when conditions precedent (CP) under the relevant project finance agreement are satisfied.
- Unallocated funds will be managed in deposit which is short-term liquid assets.
- The progresses of the projects and the fund allocation status will be managed appropriately with investors given necessary reporting as needed.

For the reasons stated above, R&I has judged that the policy for management of proceeds under the framework is in conformity to Green Bond Principles etc.

< Evaluation on the Green Bond >

- It was confirmed that the green bond, etc. would have the proceeds managed separately for the projects only pursuant to the framework established by the issuer as well as finance agreements for the transaction.
- The total amount of the projects exceeds the proceeds from the issuance of the green bond, etc. With regards to the timing of the allocation of the proceeds, they are expected to be allocated immediately after the issuance to acquire solar power plants in three sites, with the remainder to be used to acquire those in seven sites which are currently under development after the completion of construction. The allocation of the proceeds is expected to be fully completed generally within a year.
- R&I deems that the framework for managing the green bond proceeds is properly determined and especially excellent.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only
- Allocation to individual disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Allocations to both existing and future investments
- Allocation to a portfolio of disbursements
- Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

< Evaluation on the Green Bond Framework >

- The reporting of the green bond, etc. is scheduled to be made once a year on the TESS' website.
- Reporting is to include the fund allocation status reporting and impact reporting (the amounts of annual power generation and CO2 reduction) per portfolio, which is considered reasonable.

For the reasons stated above, R&I has judged that the policy for management of proceeds under the framework is in conformity to Green Bond Principles etc.

< Evaluation on the Green Bond >

- R&I confirmed that the green bond, etc. would have reports containing the fund allocation status and environmental benefits provided once a year in accordance with the framework established by the issuer.
- R&I deems that the reporting policy of the green bond is excellent in content and frequency.

Use of proceeds reporting:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators (please specify): Annual |

total output of the PV power plant

Means of Disclosure

- | | |
|---|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Sponsor's website |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

The methodology for R&I Green Bond Assessment

https://www.r-i.co.jp/en/rating/products/green_bond/assessment.html

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|---|
| <input type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

1. **Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
2. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
3. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
4. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.