

# SECOND PARTY OPINION

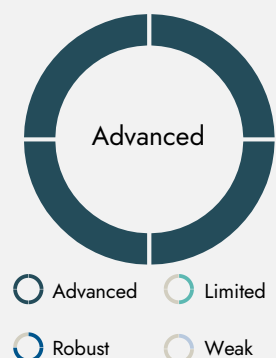
on the sustainability of Southern California Edison's Green Recovery Funding Bonds

V.E considers that Southern California Edison's Green Recovery Funding Bonds are aligned with the four core components of the ICMA's Green Bond Principles 2021 ("GBP").



## Issuance

Contribution to Sustainability:



	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

### SDG Mapping



### Characteristics of the Bond

Green Projects Categories	⇒ Climate change adaptation
Project Locations	California, United States
Existence of Framework	Information in the Bond's offering documentation
Share of Refinancing	100%
Look-back Period	August 2019

## Issuer

### Controversial Activities

The Issuer appears to be involved in two of the 17 controversial activities screened under our methodology:

- |   |   |   |   |
|---|---|---|---|
| <input type="checkbox"/> Alcohol              | <input checked="" type="checkbox"/> Fossil fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography                |
| <input type="checkbox"/> Animal welfare       | <input type="checkbox"/> Coal                             | <input type="checkbox"/> Human embryonic stem cells | <input type="checkbox"/> Reproductive medicine      |
| <input type="checkbox"/> Cannabis             | <input type="checkbox"/> Gambling                         | <input type="checkbox"/> Military                   | <input type="checkbox"/> Tobacco                    |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Genetic engineering              | <input checked="" type="checkbox"/> Nuclear power   | <input type="checkbox"/> Unconventional oil and gas |
| <input type="checkbox"/> Civilian firearms    |   |   |   |

### ESG Controversies

Number of Controversies	6
Frequency	Frequent
Severity	High
Responsiveness	Proactive

## Coherence

Coherent
Partially coherent
Not coherent

V.E considers that the contemplated Bond is coherent with Southern California Edison's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

## Key Findings

### Contextualization:

In the second quarter of 2021, Southern California Edison (SCE) borrowed \$1.2 billion under a green term loan due in May 2022. This green term loan was structured in accordance with the Green Loan Principles set forth by the Asian Pacific Loan Market Association (APLMA), Loan Market Association (LMA), and Loan Syndications and Trading Association (LSTA). SCE used the proceeds to repay all outstanding indebtedness under SCE's 364-day revolving credit agreement and term loan credit agreement, both entered into during March 2020, and to finance certain capital projects related to wildfire mitigation. The Issuance of the Green Recovery Funding Bonds (the "Bonds") under review for this SPO will refinance a portion of these capital projects as legislatively authorized under California Assembly Bill (AB) 1054 on wildfire mitigation capital expenditures. The issuance of these securitized Bonds was approved by the California Public Utilities Commission's (CPUC) Financing Order in October 2021<sup>1</sup>.

V.E considers that SCE's Bonds are aligned with the four core components of the GBP 2021.

### Use of Proceeds - aligned with the GBP

- The Eligible Projects are clearly defined and detailed. The Issuer has communicated the nature of the expenditures, the eligibility criteria and the location of the projects.
- The Environmental Objective is clearly defined, relevant for all of the Eligible Projects and set in coherence with sustainability objectives defined in international standards.
- The expected Environmental Benefit is clear and precise, considered relevant, measurable and will be quantified for all of the Eligible Projects in the reporting.
- The Issuer has committed to transparently communicate the share of refinancing for this Issuance (100% refinancing). The look-back period for the refinanced Eligible Projects is from August 2019.

### Evaluation and Selection - aligned with the GBP

- The process for Project Evaluation and Selection has been clearly defined by the Issuer. It is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The process will be publicly disclosed in the herewith SPO.
- The Eligibility Criteria (selection and exclusion) for project selection have been clearly defined by the Issuer for all Eligible Projects.
- The process to identify and manage potential material environmental and social risks associated with Eligible Projects is publicly disclosed in this SPO. The process is considered robust and it combines monitoring, identification and corrective measures for all categories.

### Management of Proceeds - aligned with the GBP

- The process for the allocation and management of the proceeds is clearly defined and is publicly disclosed in the herewith SPO and in the Bond Prospectus.
- The net proceeds of the Bonds will be allocated immediately (100% refinancing).
- Net Proceeds of the Bonds will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.

<sup>1</sup> California Public Utilities Commission (CPUC). [Financing Order Authorizing Southern California Edison Company's Second Issuance of Recovery Bonds Pursuant to Assembly Bill 1054](#).

- The Issuer has committed to nominally match the amount issued by the Bonds with the expenditures incurred in the Eligible Projects.
- The Issuer reports these funds will be fully used to refinance the expenses of the Eligible Projects, which have already been incurred, and that there is no divestment possible.

#### Reporting - aligned with the GBP

- The Issuer has committed to report on the use of proceeds within one year of the issuance. The report will be publicly available until Bond maturity. If the report is externally verified, this verification will also be made publicly available.
- The reporting will cover relevant information related to the allocation of Bond proceeds and the expected environmental benefits of the projects.
- The reporting methodology and assumptions used to report on the environmental benefits of the Eligible Projects will be publicly disclosed.
- An external auditor will verify the allocation of funds to the Eligible Projects within one year of the issuance. The indicators used to report on the environmental benefits of the Eligible Projects will be verified internally.

## Contact

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# SCOPE

V.E was commissioned to provide an independent Second Party Opinion (“SPO”) on the sustainability credentials and management of the Green Bonds<sup>2</sup> (the Green Recovery Funding Bonds or the “Bonds”) to be issued by Southern California Edison (“SCE” of the “Issuer”) in compliance with the Green Bond detailing included in the corresponding bond prospectus (the “Bond Prospectus”) created to govern their issuance.

Our opinion is established according to V.E’s Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the voluntary guidelines of ICMA’s Green Bond Principles (“GBP”) - edited in June 2021.

Our opinion is built on the review of the following components:

- Issuance: we assessed the Issuance, including the coherence between the Bonds and the Issuer’s environmental commitments, the Bonds’ potential contribution to sustainability and its alignment with the four core components of the GBP 2021.
- Issuer<sup>3</sup>: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities<sup>4</sup>.

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds’ issuance, held via a telecommunications system.

We carried out our due diligence assessment from December 12, 2021 to January 21, 2022. We consider that we were provided access to all documents and interviewees we solicited. For this purpose, we made reasonable efforts to verify the accuracy of all data used as part of the assessment.

## Type of External Reviews supporting this Issuance

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

<sup>2</sup> The “Green Bond” is to be considered as the bond to be potentially issued, subject to the discretion of the Issuer. The name “Green Bond” has been decided by the Issuer: it does not imply any opinion from V.E.

<sup>3</sup> The Issuer is part of V.E rating universe. The last ESG rating was performed in 2021. In agreement with the Issuer, this Second Party Opinion does not include the 2020 assessment of its ESG performance.

<sup>4</sup> The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

# COHERENCE

Coherent
Partially coherent
Not coherent

V.E considers that the contemplated Issuance is coherent with SCE's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

Climate change has been a key factor in increasing the risk and extent of wildfires in the United States, as it enhances the drying of organic matter in forests. The number of large fires in the western United States doubled between 1984 and 2015<sup>5</sup>, and, in 2015, the area burned due to wildfires was the highest in U.S. history at 10.1 million acres while between 2008 and 2018 the number of burned area surpassed 66 million acres<sup>6</sup>.

According to a recent report from the State of California's Governor's Office, the state has faced a significant increase in the number and severity of wildfires. 15 of the 20 most destructive wildfires in the state's history have occurred since 2000, and 10 of the most destructive fires have occurred since 2015<sup>7</sup>. Part of the state's strategy to contain and build resilience against wildfires includes strengthening the ability of investor-owned utilities to adapt their systems through increased grid hardening, situational awareness capabilities, and vegetation management. The state also requires investor-owned utilities to submit updated wildfire mitigation plans (WMPs) annually and has enhanced inspections and audits related to wildfire safety standards.

Edison International is one of the largest electric utility holding companies in the U.S., providing energy and energy services through its independent companies. Edison International is the parent company of SCE, a wires-focused company with less than 20% of electricity sales coming from its own generation. SCE-owned generation assets consist predominantly of natural gas, hydroelectric and nuclear power plants. SCE does not own coal generation.

Through its main subsidiary, SCE, Edison International is focused on proactively addressing wildfire risk, cleaning the power system, helping customers make cleaner energy choices, strengthening and modernizing the grid and achieving operational and service excellence.

SCE is evaluating the potential long-term impacts of temperature, precipitation, sea-level rise and wildfire hazards on their infrastructure and operations, using 10 California-endorsed Global Climate Models as the best representation of weather patterns and a conservative, high-emissions global warming scenario to ground this assessment. The Issuer also engages with the community, with a particular focus on their stakeholders in environmental and social justice (ESJ) communities, to inform the assessment<sup>8</sup>. SCE has committed to submit its first climate adaptation vulnerability assessment to the California Public Utilities Commission (CPUC) in May 2022. Future climate projections are also being integrated into long-range planning as SCE works to achieve objectives outlined in Pathway 2045. In the short term, SCE has reportedly implemented different measures to adapt its system to the threat of climate change-driven wildfires.

In 2020, SCE submitted a Wildfire Mitigation Plan (WMP) covering a three year period to the Office of Energy Infrastructure Safety (OEIS). The WMP outlined SCE's wildfire mitigation activities from 2020 to 2022. SCE updates its WMP on an annual basis; once in 2021 and will again in 2022, to incorporate lessons learned and updated mitigation strategies. Each year, OEIS reviews SCE's plan (or update to plan), and upon approval, submits the plan to the CPUC for ratification. SCE has met or exceeded a majority of its mitigation deployment goals for calendar year 2020 and 2021.

Edison International recently launched its Sustainable Financing Framework, under which it committed to finance several environmental and social projects, including green Eligible Projects under its Climate Change Adaptation category.

<sup>5</sup> [Wildfires and Climate Change | Center for Climate and Energy Solutions \(c2es.org\)](https://www.c2es.org/wildfires-and-climate-change/)

<sup>6</sup> [Wildfires and Acres | National Interagency Fire Center](https://www.nifc.gov/wildfires-and-acres/)

<sup>7</sup> [Report of Governor Newsom's Strike Force on Addressing Wildfire Risk and Achieving Safe, Reliable, Affordable Energy that Meets California's Clean Energy Goals](https://www.sos.ca.gov/newsroom/2018/06/20/Report-of-Governor-Newsom's-Strike-Force-on-Addressing-Wildfire-Risk-and-Achieving-Safe-Reliable-Affordable-Energy-that-Meets-California's-Clean-Energy-Goals)

<sup>8</sup> [2020 Edison International Sustainability Report](https://www.edisoninternational.com/sustainability/2020-Edison-International-Sustainability-Report)



SCE's Sustainable Financing Framework received a SPO from V.E in June 2021, which considered the Framework to be aligned with the ICMA's GBP and SBP.

# ISSUANCE

SCE has described the main characteristics of the Bonds within the Bond Prospectus and internal documentation that covers the four core components of the GBP 2021, including the 2021 General Rate Case (GRC) Amended Testimony on Wildfire Management (documents provided to V.E on December 12, 2021). The Issuer has committed to make this SPO publicly accessible on SCE's website, in line with good market practices.

## Alignment with the Green Bond Principles

### Use of Proceeds



The net proceeds of the Bonds will exclusively finance or refinance, in part or in full, projects falling under the Green Project Category ("Eligible Projects"), as indicated in Table 1.

- The Eligible Projects are clearly defined and detailed. The Issuer has communicated the nature of the expenditures, the eligibility criteria and the location of the projects.
- The Environmental Objective is clearly defined, relevant for all of the Eligible Projects and set in coherence with sustainability objectives defined in international standards.
- The expected Environmental Benefit is clear and precise, considered relevant, measurable and will be quantified for all of the Eligible Projects in the reporting.
- The Issuer has committed to transparently communicate the share of refinancing for this Issuance (100% refinancing). The look-back period for the refinanced Eligible Projects is from August 2019.

#### BEST PRACTICES

- ⇒ Content, eligibility and exclusion criteria are clear and in line with international standards for all Eligible Projects.
- ⇒ The Issuer has transparently communicated that the share of refinancing is 100%.

Table 1. V.E's analysis of Eligible Categories, Sustainability Objectives and Expected Benefits as presented in the Issuer's Bond documentation.

ELIGIBLE CATEGORY	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	PORTFOLIO OF ELIGIBLE PROJECTS	V.E'S ANALYSIS
Climate Change Adaptation	<p>Expenditures related to minimizing the impacts on customers that result from elevated wildfire risk and its impact on the service assets and the areas in which the Issuer operates through adaptive measures, which may include:</p> <ul style="list-style-type: none"> <li>- Infrastructure hardening (e.g., replacement of overhead bare conductor with covered conductor or underground conductor, installation of fast-acting fuses to reduce electrical currents during instances of a downed wire)</li> <li>- Investments in technology and community resiliency programs to minimize the frequency and impact of service disruptions</li> <li>- Improved fire situational awareness (e.g., information support systems, such as climate observation and early warning systems).</li> </ul>	<p><u>Climate change adaptation</u></p> <p>Increasing resilience to climate change</p>	<p>As reported in the internal documentation, the Issuance includes the following expenditures:</p> <ul style="list-style-type: none"> <li>- <u>High Fire Risk Inspections &amp; Remediation activities</u>: Remediation improvements identified through inspections conducted in 2019 on all overhead transmission, distribution and generation equipment located in high fire risk areas and structures identified by advanced risk models. This considers ground inspections by field crews and aerial inspections using drones and helicopters are conducted to obtain a 360-degree view of SCE's equipment for any needed maintenance, repair or replacement.</li> <li>- <u>Grid design &amp; system hardening</u>: The improvement of existing and the installation of new devices and technologies to reduce the likelihood that SCE's electrical system.</li> <li>- <u>Situational awareness</u>: Financing of a Situational Awareness Center which houses meteorologists to provide weather forecasts and analytics. SCE also financed the installation of new weather stations to refine its weather forecasting and modeling capabilities.</li> <li>- <u>Public Safety Power Shutoffs (PSPS)</u>: This includes financing of Incident Management Teams (IMT), PSPS Customer Support and Community Resilience Equipment Incentives Programs. SCE also financed the operation of Line Patrols and Community Outreach Vehicles.</li> </ul>	<p>The Eligible Category has been clearly defined in the Bond Prospectus. The Issuer has communicated to V.E the exact list of Eligible Projects to be financed with the Green Recovery Funding Bonds, including their nature and location. V.E confirms that the Eligible Projects are in line with the ICMA definitions of green projects.</p> <p>The Environmental Objective is clearly defined and relevant for all of the Eligible Projects. It is set in coherence with sustainability objectives defined in international standards.</p> <p>The expected Environmental Benefit is clear, considered relevant, measurable and will be quantified for all of the Eligible Projects in the reporting.</p>



### SDG Contribution

The Eligible Category is likely to contribute to 2 of the United Nations' Sustainable Development Goals ("SDGs"), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Climate Change Adaptation		9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
		13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

## Evaluation and Selection of Eligible Projects



- The process for Project Evaluation and Selection has been clearly defined by the Issuer. It is considered well-structured. The roles and responsibilities are clear and include relevant internal expertise. The process will be publicly disclosed in the herewith SPO.
- The Eligibility Criteria (selection and exclusion) for project selection have been clearly defined by the Issuer for all Eligible Projects.
- The process to identify and manage potential material environmental and social risks associated with Eligible Projects is publicly disclosed in this SPO. The process is considered robust and it combines monitoring, identification and corrective measures for all categories.

### Process for Project Evaluation and Selection

In the second quarter of 2021, SCE borrowed \$1.2 billion under a green term loan agreement due in May 2022. This green term loan was structured in accordance with the Green Loan Principles set forth by APLMA, LMA, and LSTA. SCE used the proceeds to repay all outstanding indebtedness under SCE's 364-day revolving credit agreement and term loan credit agreement, both entered into during March 2020, and to finance certain capital projects related to wildfire mitigation. The Issuance under review for this SPO will partially refinance these capital projects as described in AB 1054, as authorized under California's Wildfire Financing Law and CPUC Financing Order and as detailed in the Bond Prospectus.

- Eligible Projects were selected to comply with AB 1054 requirements for SCE to separately debt finance the fire risk mitigation capital expenditures included in the electrical corporations' approved WMPs.
- On October 21, 2021, the CPUC issued a second financing order authorizing SCE to finance approximately \$518 million of AB 1054 Excluded Capital Expenditures approved in the 2021 General Rate Case (GRC) and \$17 million of prudently incurred financing costs through the issuance of securitized bonds.
- The main departments and divisions of the Issuer involved in the development and execution of the Eligible Projects include the Treasury and Operational Finance teams. These teams ensure that Eligible Projects comply with the Eligibility Criteria and the fire risk mitigation capital expenditures included in the Issuer's approved WMPs.

The traceability and verification of the selection and evaluation of the projects are ensured throughout the process:

- The Issuer reports it will screen and monitor potential purchase order-based suppliers for adverse media, politically exposed persons, and governmental sanctions lists/watchlists through its third-party reputational screening/monitoring tool. Once suppliers/third parties are screened, they are continuously monitored for as long as the supply relationship is active.
- The Issuer provided the descriptions, rationales and justifications for the programs and activities financed through its 2021 GRC Amended Testimony on Wildfire Management to the CPUC.

### Eligibility Criteria

The process relies on explicit eligibility criteria (selection and exclusion), relevant to the environmental objectives defined for the Eligible Categories.

- The selection criteria is based on the definitions in the Eligible Categories defined Table 1 in the Use of Proceeds section.
- The Issuer confirmed the refinanced Eligible Projects excluded expenditures related to:
  - Fossil fuel energy
  - Nuclear energy
  - Large hydro (i.e., hydro units with capacity greater than 30MW)

#### BEST PRACTICES

⇒ Eligibility and exclusion criteria for project selection are clearly defined and detailed for all of the Eligible Projects.

## Management of Proceeds

Not Aligned	Partially Aligned	Aligned	Best Practices
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- The process for the allocation and management of the proceeds is clearly defined and is publicly disclosed in the herewith SPO and in the Bond Prospectus.
- The net proceeds of the Bonds will be allocated immediately (100% refinancing).
- Net Proceeds of the Bonds will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- The Issuer has committed to nominally match the amount issued by the Bonds with the expenditures incurred in the Eligible Projects.
- The Issuer reports these funds will be fully used to refinance the expenses of the Eligible Projects, which have already been incurred, and that there is no divestment possible.

## Management Process

- In the second quarter of 2021, SCE borrowed \$1.2 billion under a green term loan due in May 2022. SCE used the proceeds to repay all outstanding indebtedness under SCE's 364-day revolving credit agreement and term loan credit agreement, both entered into during March 2020, and to finance certain capital projects related to wildfire mitigation.
- Upon issuance of the Bonds, the Issuer will receive and process the proceeds within the Issuer's general account.
- The net proceeds of the Bonds will be fully allocated at the time of Issuance to partially repay the existing term loan agreement.
- The Treasury team situated within the Issuer's Finance Department will manage and be responsible for ensuring that the proceeds of the Bonds' issuance match the costs of the Eligible Projects.

## Reporting

Not Aligned	Partially Aligned	Aligned	Best Practices
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- The Issuer has committed to report on the use of proceeds within one year of the issuance. The report will be publicly available until Bond maturity. If the report is externally verified, this verification will also be made publicly available.
- The reporting will cover relevant information related to the allocation of Bond proceeds and the expected environmental benefits of the projects.
- The reporting methodology and assumptions used to report on the environmental benefits of the Eligible Projects will be publicly disclosed.
- An external auditor will verify the allocation of funds to the Eligible Projects within one year of the issuance. The indicators used to report on the environmental benefits of the Eligible Projects will be verified internally.

## Indicators

The Issuer has committed to transparently communicate at the Eligible Project level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds cover all relevant information.

### REPORTING INDICATORS

- ⇒ The list of Eligible Projects (re)financed, including a brief description
- ⇒ The aggregated amount of allocated net proceeds to Eligible Projects
- ⇒ The proportion of refinancing (100%)

- Environmental benefits: The indicators selected by the Issuer to report on the environmental benefits are clear and relevant

ELIGIBLE CATEGORIES	ENVIRONMENTAL BENEFITS INDICATORS
	OUTPUTS AND OUTCOMES
Climate change Adaptation	- High fire risk area bare conductor mitigated (circuit miles of covered conductor and underground conductor).

### BEST PRACTICES

- ⇒ The indicators selected by the Issuer are exhaustive with regards to allocation reporting.
- ⇒ The reporting methodology and assumptions used to report on the environmental benefits of the Eligible Categories will be disclosed publicly.

## Contribution to Sustainability

### Expected Impacts

The potential positive Impact of the eligible projects on environmental and social objectives is considered to be advanced.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Climate Change Adaptation	ADVANCED	Projects to be financed under this category respond to one of the key challenges for the distribution and transmission sector, physical risks of climate change. Eligible Projects include remediation improvements identified through high risk fire inspections by field crews and drones as well as grid design and system hardening which reduces the risk of SCE's electrical system to have sources of ignition, preventing wildfires. Other activities financed under this Issuance are the installation of new weather stations to monitor weather conditions which allow for more targeted power shutoffs, which also reduce the risk of wildfires, reducing at the same time the impact of lost of service for people in the service area. These projects may positively impact the company and its suppliers, as well as its customers and the general population, in addition to protecting biodiversity by reducing wildfire risks.
OVERALL ASSESSMENT	ADVANCED	

## ESG Risks Identification and Management Systems in Place at Project Level

The identification and management of the environmental, social, and governance risks associated with the Eligible Projects are considered robust.

### Environnemental Management

SCE reports all Eligible Green Projects are covered by its Environmental Management System (EMS). SCE's Environmental Management System includes an internal framework of policies, standards and programs, which helps to ensure all environmental requirements are identified and integrated into its operations and controls. This EMS covers SCE's operations, from facility and fleet operations to infrastructure improvements and site remediation. EMS processes are documented in SCE's Environmental Compliance Program Manual and are applied across 33 program areas. The program manages environmental objectives, targets and deadlines for SCE's facility operations, as well as field maintenance, construction and mitigation projects. SCE's EMS outlines roles and responsibilities for environmental compliance, including the Environmental Services Department Director, who serves as the company's Chief environmental compliance program leader.

SCE has an Environmental Leadership Council, a cross-functional, executive-level group responsible for evaluating environmental policies and procedures and providing guidance to ensure consistent implementation of these policies. Among other topics, the council evaluates noncompliance incidents and trends, sharing best practices and directing improvement opportunities across the enterprise. SCE maintains a reporting system to document conformance with environmental processes, results of environmental inspections and releases of hazardous materials. Quarterly compliance reports are shared with the Environmental Leadership Council. In addition, the EMS includes trainings and awareness programs.

The Issuer reports there were more than 23,000 employee training course enrollments in 2020 across all company employees. Trainings cover material handling, spill awareness, hazardous waste management and dozens of other topics relevant to employees' security and pollution prevention and control.

### Eco-design

SCE reports exploring different opportunities to promote the circular economy by reselling or donating material and assets. Where these options do not exist, SCE evaluates the material for recycling or disposal. When materials are at the end of their useful lives, SCE follows all federal, state and local laws and regulations to determine how they will be reused, recycled, resold or disposed. Finally, the Issuer reports that SCE's assets determined to be no longer useful or required are dispositioned in accordance with SCE's Disposition of Company Assets procedure. Construction project and maintenance and repair activity remnants are dispositioned per SCE's Disposition of Company Assets procedure. An area for improvement is formalizing a strategy towards a circular economy, including assessing the recycling potential of the assets, selecting the assets according to the reparability features, etc.

### Biodiversity

SCE's Environmental Services Department facilitates project environmental reviews and compliance across the company. This includes managing environmental permits and submitting reports to regulatory agencies annually, as well as reviewing the potential impacts of infrastructure construction and maintenance projects. In 2020, SCE reportedly conducted environmental reviews of over 41,000 transmission, distribution, and generation infrastructure projects and more than 160,000 vegetation management projects to identify and avoid or minimize impacts to sensitive habitats, archaeological sites, and other protected resources. Project controls and mitigation measures are then put in place and managed throughout the life of the project through field verification and on-site project management.

To address wildfires, one of the key risks for the company, SCE has filed a WMP which aims to protect biodiversity, natural habitat and cultural resources. The Issuer reports approximately 40% of SCE's utility corridors are in areas that support threatened or endangered wildlife or plants and have become de facto wildlife corridors in many areas due to the surrounding urban development. The Issuer is committed to protecting special status species, their habitats,

ecosystems, and cultural resources where they operate. The Issuer reports to have surveyed more than 6,000 acres of United States Forest Service lands for cultural resources to identify and avoid these resources when conducting wildfire mitigation projects. These efforts protect and preserve cultural and tribal resources while supporting fire-hardening activities and are part of larger programmatic permitting initiatives to streamline the environmental compliance process. SCE has also protected, enhanced, or restored nearly 5,200 acres of land throughout its service area, conducting habitat restoration and mitigation consistent with professional standards and methodologies, with oversight by federal, state and local agencies. SCE's Environmental Resources Management division works with consultants and environmental experts, including over 100 non-profit partners, to identify species and habitat resources, analyze potential effects, develop best management practices and conduct restoration efforts across its operational footprint. SCE participates in multi-stakeholder collaboration groups, such as the California Biodiversity Initiative and the San Gabriel Mountains Community Collaborative, which are designed to improve biodiversity. Finally, the SCE's Environmental Services Department is available to respond to emergencies. When a wildfire occurs in SCE's service area, biologists and water quality specialists are called out along with crews to ensure impacts to endangered species and their habitats are avoided or reduced, as well as to ensure the correct permits are acquired to work in the area.

### Human Rights

The Issuer reports to have different policies and processes that support international Human Rights standards in its activities and in those of its suppliers, including its Employee Code of Conduct and Supplier Code of Conduct. SCE has implemented multiple formal mechanisms to promote a culture of open feedback, including a process that encourages reporting work environment, policy violation, and noncompliance issues through management, Human Resources, Ethics & Compliance, the Edison HelpLine, and other various channels.

The Edison HelpLine offers confidential and anonymous reporting by phone, website, and its employee mobile application. Non-represented employees (other than certain leadership positions) have access to an alternative dispute resolution process (Focus on Resolution) whereby they can request a review of a specific corrective action and related investigation to determine if the corrective action was appropriate. Represented employees have specific grievance reporting and escalation procedures as outlined in their collective bargaining agreements.

### *Indigenous rights*

SCE collaborates with local communities to identify and protect environmentally and culturally sensitive areas. The Issuer conducts environmental reviews and stakeholder engagement to identify potential biodiversity and community impacts and seeks input from residents, businesses, landowners, tribal communities, government, and other stakeholders to address and mitigate concerns.

### Health & Safety

The Issuer reports that Title 8 of the California Code of Regulations and Title 29 of the Code of Federal Regulations require that employers maintain safety standards, programs, and policies for the welfare of its employees. Consequently, SCE maintains safety standards, programs, and policies designed to mitigate risk to workers when followed. On a routine basis, SCE reviews its standards, programs and policies to help ensure they are accurate, effective and up-to-date. In addition to these safety policies and programs to keep employees, customers and the public protected, the Issuer reports working towards strengthening its safety culture, ensuring everyone who steps into its facilities or works at one of its sites in the field is protected from physical injury.

The Issuer implemented a COVID-19 project Management Organization in order to, among other COVID response, help prevent COVID-19 illness among their workforce.

Finally, SCE reports it brought third-party support to provide safety oversight of wildfire mitigation operations. The Issuer's latest reports<sup>9</sup> on its WMP include data related to wildfire safety incidents and worker safety.

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<sup>9</sup> [Wildfire Mitigation Plan & Related Documents \(sce.com\)](#)



### Responsible Management of Supply chain

The Issuer has a Supplier Code of Conduct which outlines principles and standards recognized and implemented across a range of industries. This code of conduct covers issues such as employment practices and working conditions, health, safety and environment, security and use of property, resources and information, among others.

SCE Supplier Qualification and Periodic Review Programs require the demonstration and approval of a supplier's capability including safety, technical, reputational, quality, ethics, and compliance standards before performing work. SCE's solicitation procedure establishes the evaluation criteria for the selection of suppliers. Contractual terms and conditions require that all SCE suppliers meet applicable laws, regulatory standards, and performance goals. Compliance with the EIX Supplier Code of Conduct is incorporated in supplier agreements and further addresses health, safety, environmental and reporting requirements pursuant to SCE's Environmental, Health and Safety handbook for contractors.

The Supplier Code of Conduct includes the company's HelpLine to report on any issues and non-compliance.

### Business Ethics

The Issuer has developed an integrated Compliance Management Framework with which it addresses ethics through a three-step process:

- Prevention: Identify, interpret and implement compliance requirements, ensuring employees understand their roles and responsibilities.
- Detection and response: Monitor, investigate and report on compliance processes, practices and outcomes to provide reasonable assurance that operations adhere to applicable requirements.
- Improvement: Update policies and processes and seek out best practices. The Issuer's Ethics and Compliance Code for Directors outlines how members of the Board are expected to conduct themselves. The code covers topics such as conflicts of interest, confidentiality and fair dealing.

The Board's Nominating and Governance Committee periodically reviews the code to ensure it is appropriate for the company and complies with applicable law, regulation or stock exchange listing standards. The Board also has regular Ethics and Compliance oversight training conducted by the Chief Ethics and Compliance Officer. The Employee Code of Conduct outlines the expectations the Issuer has for ethical behavior in the workplace, including with regards to the Issuer's policy on anti-corruption. To help employees access guidance on the Code of Conduct, the Issuer has developed the Ethics@Work app, available to all employees. Through this smartphone platform, employees can access the code and company policies, find useful resources and report concerns to the Employee HelpLine.

Finally, as part of the Compliance Management Framework, the company regularly screens suppliers and other third parties to identify reputational and compliance risks as well as potential instances of corruption.

# ISSUER

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## Management of ESG Controversies

As of today, Edison International<sup>10</sup> is involved in 6 ESG controversies, related to three of the six domains analyzed by V.E:

- Environment, namely "Biodiversity", "industry accidents and pollution".
- Business Behavior, namely "Customer relations".
- Community Involvement, namely "Social and economic development".

Frequency: On average the controversies are considered frequent, ranging from isolated to persistent, above the sector average.

Severity: The severity of their impacts both on the company and its stakeholders is considered overall high, ranging from minor to high, in line with the sector average.

Responsiveness: Edison International is overall proactive to the controversies, above the sector average.

## Involvement in Controversial Activities

Edison International is involved in two of the 17 controversial activities screened under our methodology:

- Minor involvement in Fossil Fuel Industry: Edison International has an estimated revenue from fossil fuels which is over 1% of total revenue. This revenue is derived from the generation of electricity from fossil fuels. The Company reports that approximately 17% of the power delivered to its subsidiary SCE customers comes from utility-owned generation in 2020. Sources of utility-owned generation include 5% natural gas, as well as 8% nuclear, 3% large hydroelectric, 1% small hydroelectric, less than 1% solar generation and a de minimis amount of diesel to serve Catalina Island, CA.
- Minor involvement in Nuclear Power: Edison International has an estimated revenue from nuclear power which is 1.5% of its total revenue. SCE was the majority owner of the 3-unit San Onofre nuclear-generating station in California, which is in shutdown and awaiting decommissioning. The Company, however, continues to sell electricity generated by the Palo Verde Nuclear Generating Station, in which SCE has a 16.8% interest. The Company reports that 8% of the power delivered to SCE's customers in 2019 came from nuclear power generation.

The Issuer appears to not be involved in any of the other 15 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

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<sup>10</sup> For the purpose of this assessment, we conducted our Controversies and controversial Activities screening for Edison International, the parent company of Southern California Edison.

# METHODOLOGY

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In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review.

## COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

## ISSUANCE

Alignment with the Green and/or Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Bond Prospectus has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2021 ("GBP"), and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

## Contribution to Sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental objectives, as well the management of the associated potential negative impacts and externalities.

### Expected positive impact of the activities on environmental objectives

The expected positive impact of activities on environmental objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity;<sup>11</sup>
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders);
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) the extent to which the activity is adopting the best available option.

### ESG risk management for eligible activities

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## ISSUER

### Issuer's ESG Performance

Scale of assessment of ESG Performance: Weak, Limited, Robust, Advanced

NB: The Issuer's level of ESG performance (i.e. commitments, processes, results of the Issuer related to ESG issues), has been assessed through a complete process of rating and benchmarking developed by V.E. The Issuers ESG performance has been assessed by V.E on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).
- Implementation: coherence of the implementation (process, means, control/reporting).
- Results: indicators, stakeholders' feedbacks and controversies.

### Management of Stakeholder Related ESG Controversies

V.E defines a controversy as public information or contradictory opinions from reliable sources that incriminate or make allegations against an issuer regarding how it handles ESG issues as defined in V.E ESG framework. Each controversy may relate to several facts or events, to their conflicting interpretations, legal procedures or non-proven claims.

V.E reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Frequency: reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Severity: the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned

at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).

- Responsiveness: ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, V.E's controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

### Involvement in Controversial Activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

## V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.

## STATEMENT ON V.E'S INDEPENDENCE AND CONFLICT-OF-INTEREST POLICY

Transparency on the relation between V.E and the Issuer: V.E has carried out one audit mission or consultancy activity for Southern California Edison. No established relation (financial or commercial) exists between V.E and Southern California Edison. V.E's conflict of interest policy is covered by the Moody's Corporation Code of Conduct.

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