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ASSESSMENT

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Nordex SE

Second Party Opinion – Green Financing Framework Assigned SQS1 Sustainability Quality Score

Summary

We have assigned an SQS1 Sustainability Quality Score (excellent) to Nordex SE's (Nordex) green financing framework dated 30 March 2023. The company has established its use-of-proceeds framework to finance projects across one eligible green category. Nordex has described the main characteristics of the green financing instruments within a formalized framework that covers the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (including the June 2022 Appendix 1), and the Loan Market Association, the Asia Pacific Loan Market Association and the Loan Syndications & Trading Association's (LMA/APLMA/LSTA) Green Loan Principles (GLP) 2023, and Nordex has also incoporated MIS-identified best practices for all four components. Furthermore, the framework demonstrates a high contribution to sustainability.

Sustainability quality score

SQS1

SQS5 Weak | SQS4 Intermediate | SQS3 Good | SQS2 Very good | SQS1 Excellent

Alignment with principles

USE OF PROCEEDS

Overall alignment

Not aligned | Partially aligned | Aligned | Best practices

FACTORS	ALIGNMENT
Use of proceeds	
Evaluation and selection	
Management of proceeds	
Reporting	

Contribution to sustainability

Overall contribution

Poor | Limited | Moderate | Significant | High

Expected impact
Relevance and magnitude

ADJUSTMENTS	
ESG risk management	No adjustment
Coherence	No adjustment

Scope

We have provided a Second Party Opinion (SPO) on the green credentials of the Nordex Group's green financing framework, including the framework's alignment with the ICMA's GBP 2021 (including the June 2022 Appendix 1) and the LMA/APLMA/LSTA's GLP 2023. Under its framework, the company plans to finance projects comprising one green category, as outlined in Appendix 2 of this report.

Our assessment is based on the last updated version of Nordex's framework dated 30 March 2023, and our opinion reflects our point-in-time assessment of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our [Framework to Provide Second Party Opinions on Sustainable Debt](), published in October 2022.

Issuer profile

Headquartered in Rostock, Germany, Nordex SE (Nordex) is one of the world's leading suppliers of onshore wind turbine generators. In addition to the development, manufacture, distribution and installation of onshore wind turbines, the company offers the maintenance and servicing of wind turbines over their entire operating life. The products and services are offered for use in heavy, moderate and light wind locations worldwide. As of March 2023, the Nordex Group has installed around 44 gigawatts (GW) of wind power capacity in more than 40 markets. The company currently employs around 8,600 people. Since April 2001, the company has been listed on the Frankfurt Stock Exchange.

Nordex's sustainability strategy for 2022-25 encompasses the environmental, social and governance (ESG) aspects focusing on seven strategic areas. In terms of environmental topics, the company is committed to achieving climate neutrality for its Scope 1 and 2 greenhouse gas (GHG) emissions by 2023, achieving zero production waste to landfill, and reducing hazardous materials and minimizing their hazard potential by 2025. Nordex reports that its wind turbines were responsible for avoided emissions of around 58.9 $MtCO_2e$ and around 6.68 GW of installed renewable capacity in 2021.

Strengths

» The eligible category will follow the substantial contribution criteria of the EU Taxonomy Climate Delegated Act for climate change mitigation

» Eligible assets and projects address environmental challenges that are highly relevant for the issuer and its sector

» The environmental benefits are measurable

» Monitoring of continued compliance of selected projects throughout the life of any instrument issued under the framework

» External verification of the allocation of funds and the reported benefits

Challenges

» The expected share of refinancing may not be disclosed prior to issuance for all instruments issued under the framework

Alignment with principles

Nordex's green financing framework is aligned with the four core components of the ICMA's GBP 2021 (including the June 2022 Appendix 1) and the LMA/APLMA/LSTA's GLP 2023, and incorporates MIS-identified best practices for all four components:

- [x] Green Bond Principles (GBP)
- [ ] Social Bond Principles (SBP)
- [x] Green Loan Principles (GLP)
- [ ] Social Loan Principles (SLP)
- [ ] Sustainability-Linked Bond Principles (SLBP)
- [ ] Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned	Partially aligned	Aligned	Best practices ▼

Clarity of the eligible categories – BEST PRACTICES

Nordex has clearly communicated the nature of the expenditures and detailed the eligibility criteria for the single eligible category. The location of projects has been broadly defined as anywhere the Nordex Group has operations (over 40 countries). The company has specified that the projects to be financed will comply with the substantial contribution criteria contained in the EU Taxonomy Climate Delegated Act, thus constituting a reference to stringent, internationally recognized technical thresholds.

Clarity of the environmental or social objectives – BEST PRACTICES

Nordex has clearly outlined the environmental objectives associated with its eligible category. The objective is climate change mitigation. The eligible category is relevant in relation to the respective environmental objective it aims to contribute to. The framework has referenced relevant United Nations' (UN) Sustainable Development Goals (SDGs) and associated targets, as well as environmental objectives in the EU Taxonomy in its articulation of eligible category objectives.

Clarity of the expected benefits – BEST PRACTICES

Nordex has clearly identified environmental benefits for its single eligible category. These benefits are measurable and will be quantified in the reporting. In case of refinancing, the issuer defined a maximum look-back period of 24 months before the issuance, and the company commits to disclosing the share of refinancing prior to issuance in the transaction documentation, where feasible.

Best practices identified

» Eligibility criteria are clearly defined for all project categories

» Objectives set are defined, relevant and coherent for all project categories

» Relevant benefits are identified for all project categories

» Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting

» Commitment to transparently communicate the share of proceeds used for refinancing, where feasible

» Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection

Not aligned	Partially aligned	Aligned	Best practices ▼

Transparency and quality of process for defining eligible projects – BEST PRACTICES

Nordex has established a clear process for verifying the selection of, approving allocations for, and monitoring eligible projects, formalized in its publicly available framework. A Green Finance Working Group (GFWG) will be established, consisting of representatives from the Finance & Treasury department and the Sustainable Management department. The GFWG is responsible for reviewing expenditures in terms of their alignment with the eligibility criteria defined in the Use of Proceeds and monitoring the compliance of the existing allocation of proceeds on a biannual basis throughout the lifetime of the respective financial instrument. The GFWG is supported by external consultants to ensure a correct and unified interpretation of the regulatory requirements of the EU Taxonomy Climate Delegated Act.

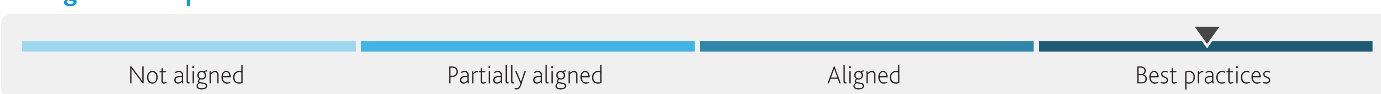
Environmental and social risk mitigation process – BEST PRACTICES

The environmental and social risk mitigation processes applied are publicly disclosed via formalized policies and guidelines. Significant environmental and social risks are assessed against various international standards and agreements, such as ISO certifications, and various internal policies, such as the company's Human Rights Policy, or its Code of Conduct for Contractors and Suppliers. The process for identifying potential controversies for financed projects and the associated reallocation of proceeds are part of the responsibilities of the GFWG.

Best practices identified

- The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed
- The process for project evaluation and selection is traceable
- Material environmental and social risks for most project categories are identified
- Presence of corrective measures to address environmental and social risks across projects
- ESG controversies are monitored

Management of proceeds



Allocation and tracking of proceeds – BEST PRACTICES

For the management of proceeds, the company will establish a Green Financing Register in which proceeds raised via issuances under this framework will be earmarked against the pool of eligible expenditures in accordance with the green financing framework. The Finance & Treasury department is responsible for setting up a dedicated tracking process to monitor and account for the allocation of proceeds. The balance of the eligible proceeds will be adjusted at least annually, and Nordex commits to fully allocating net proceeds within 24 months of issuance.

Management of unallocated proceeds – BEST PRACTICES

Per the company's general liquidity guidelines, unallocated proceeds will be held in cash or cash equivalents until they can be allocated to eligible green projects, as publicly disclosed in the framework. The issuer has stated in internal documentation that temporary placements will not include GHG-intensive or controversial activities. In the event that a project is postponed, canceled or otherwise becomes ineligible, it will be replaced with a new eligible project.

Best practices identified

- Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- Short allocation period, for example typically less than 24 months
- Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting

Not aligned | Partially aligned | Aligned | Best practices

Transparency of reporting – BEST PRACTICES

Nordex will report annually on the bonds issued under its framework, and this reporting will be made publicly available. Such reporting will occur until the maturity of the respective instruments and in case of any significant changes to the allocation of proceeds. The reporting is exhaustive and includes the description of financed projects, expected sustainable benefits, the amount allocated across eligible expenditures, the share of refinancing and the amount of unallocated proceeds.

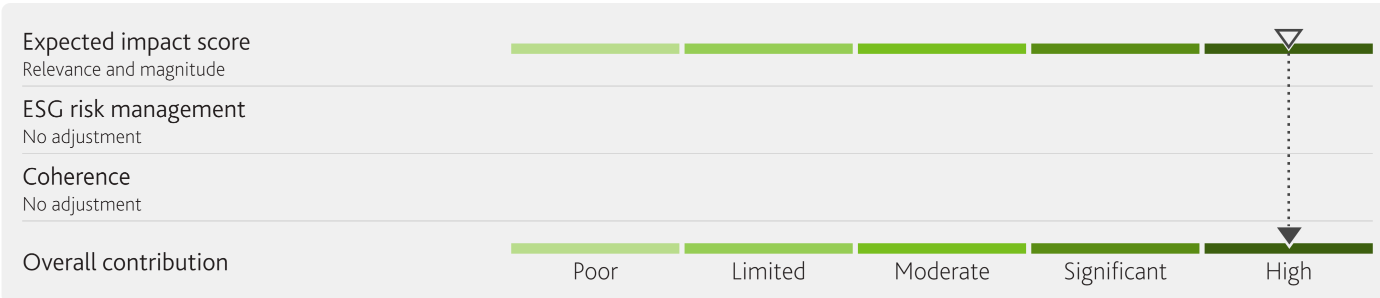
Nordex has identified relevant environmental reporting indicators for the single eligible category and has clearly disclosed these indicators in its framework. The methodologies and assumptions used to report on the environmental impact of the eligible projects will be publicly disclosed in the reporting. The company will seek independent and external verification of its proceeds allocation and impact on an annual basis until full allocation and in case of significant changes to the allocation of proceeds. The verification will be performed by a qualified external reviewer.

Best practices identified

- Reporting until full bond maturity or loan payback
- Reporting covers material developments and issues related to the projects or assets
- Reporting on allocation of proceeds and benefits done at least at eligible category level
- Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes
- Independent impact assessment on environmental benefits by a qualified third-party reviewer at least until full allocation and in case of material changes and/or case studies to report on the social impact/benefits

Contribution to sustainability

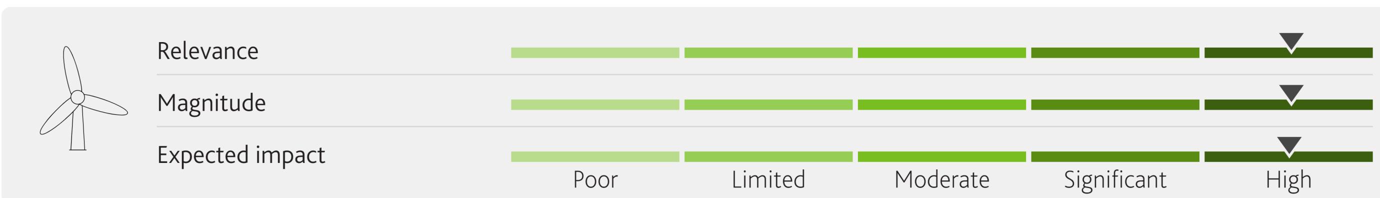
The framework demonstrates a high expected contribution to sustainability.



Expected impact

The expected impact of the eligible project category on the environmental objectives is high. A detailed assessment of the single eligible category is provided below.

Renewable energy



The relevance of this category is high. Power generation is the world's largest emitter of CO_2. An acceleration of the energy transition toward renewable energies is crucial to limit the rise in the average global temperature to well below 2°C, and ideally 1.5°C above pre-industrial levels to meet the objectives of the Paris Agreement. Consequently, the IEA expects the demand for renewable energy to continue to grow[1] and the share of renewables to increase in the pursuit to decarbonize the global energy generation. Although there is limited visibility into the exact geographic locations of the projects and the electricity mix in the particular country, currently, there is no saturation of renewable energy projects in most of the potential markets where these projects could be located, based on the company's planned and historical investments.

The magnitude of this category is high. Eligible expenditures relate to the development, production and maintenance of state-of-the-art onshore wind turbines in various locations around the world. Wind is an emissions-free source of energy and wind turbines have a relatively small environmental footprint with very limited locked-in emissions. By following the EU Climate Delegated Act's substantial contribution screening criteria, the category follows one of the most stringent standards available to contribute to the claimed objective in the context of the projects. Models from Nordex's Delta4000 series were found to have very low GHG emissions over their lifetime in externally assured life cycle assessments (LCAs) with average expected emissions of less than 6.5 gCO_2e/kWh for turbines financed under this category, as indicated by the publicly available environmental product declarations[2]. Although there could be some short-term negative impacts during the construction and operational phases (e.g., pollution and energy usage during construction, waste), increasing the capacity of renewable energy installed is likely to entail a structurally positive and sustainable impact in terms of CO_2e emissions avoidance and climate change mitigation.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. Eligible projects are aligned with the Nordex Group's internal guidelines, policies and risk management procedures, as well as the applicable social and environmental standards and regulations. The company is actively involved in developing industry standards for dismantling wind turbines and performs LCAs to evaluate the environmental footprint of its products. Standardized Environmental Aspects and Impacts Assessments are conducted in accordance with the standards set by ISO 14001 to ensure the minimization of impacts on biodiversity during the different stages of the projects. All wind turbines are produced in accordance with the requirements of the European Union Machinery Directive and all applicable national regulations, such as the German Equipment and Product Safety Act. Also, production locations can vary, and so can the applicable national regulations. Products are regularly assessed by specialized functional departments to facilitate product health and safety. Nordex has established key performance indicators to measure and control waste generation, which are audited against the ISO 14001 standard. In 2021, the company established a Human Rights Policy and a Diversity and Inclusion Policy, and it follows the OECD Guidelines for Multinational Enterprises. Suppliers must comply with the Code of Conduct for Contractors and Suppliers throughout their entire business relationship with Nordex.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. The projects to be financed under the framework correspond to the key activities of the company of increasing the share of renewable energies in the global energy mix in cooperation with its customers. Furthermore, they align with the sustainability priorities of Nordex, as defined in its sustainability strategy, which entail the achievement of climate neutrality. In addition, Nordex contributes to collective efforts toward a low-carbon economy as a member of various international and industry-specific associations (e.g., Global Wind Energy Council, Global Alliance for Sustainable Energy, etc.).

Appendix 1 - Mapping the eligible category to the United Nations' Sustainable Development Goals

The single eligible category included in Nordex's green financing framework is likely to contribute to two of the UN's SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	Renewable Energy	7.2: Increase substantially the share of renewable energy in the global energy mix
GOAL 13: Climate Action		13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The mapping of the UN's SDGs in this SPO considers the eligible project category and associated sustainability objectives/benefits documented in the issuer's green financing framework, as well as resources and guidelines from public institutions, such as the ICMA's SDG Mapping Guidance and the UN's SDG targets and indicators.

Appendix 2 - Single eligible category in Nordex's green financing framework

Eligible Project Category	Description	Sustainability Objectives	Impact Reporting Metrics
Renewable Energy	- Electricity generation from wind power - Installation, maintenance, and repair of renewable energy technologies	Climate Change Mitigation	- CO_2e emissions avoidance (tonnes of CO_2 eq.) - Capacity of renewable energy installed in MW/GW

Moody's related publications

Second Party Opinion analytical framework:

» Framework to Provide Second Party Opinions on Sustainable Debt, October 2022

Topic page:

» ESG Credit and Sustainable Finance

Endnotes

1 IEA: Renewable Energy Market Update, May 2022.

2 Environmental Product Declarations (Delta4000 N149/4.0-4.5, N155/5.X and N163/5.X)

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