

# Office National des Chemins de Fer – Railways National Office (ONCF)

## PRE-ISSUANCE VERIFICATION LETTER

### LOW CARBON LAND TRANSPORT CRITERIA OF THE CLIMATE BONDS STANDARD

**Type of engagement:** Assurance Engagement

**Period engagement was carried out:** June 17, 2022

**Approved verifier:** Sustainalytics

**Contact address for engagement:** De Entrée 35-37 – 1101 BH, P.O. Box 22703 – 1100 DE, Amsterdam, The Netherlands

**Pre-Issuance Engagement Leader:** Cristhian Veintimilla, [cristhian.veintimilla@sustainalytics.com](mailto:cristhian.veintimilla@sustainalytics.com), (+31) 20 205 02 09

**Pre-Issuance Engagement Support:** Zoe Wittmann, [zoe.wittmann@morningstar.com](mailto:zoe.wittmann@morningstar.com)

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### Scope and Objectives

Office National des Chemins de Fer – Railways National Office (“ONCF”, the “Company” or the “Issuer”) has engaged Sustainalytics to review and verify that its green bonds meet the requirements of the Low Carbon Land Transport Criteria of the Climate Bonds Standard.<sup>1</sup>

ONCF is Morocco’s national railway operator, a state-owned company under the management of the Ministry of Transport and Logistics. ONCF employs around 7,040 people and is responsible for all passenger and freight traffic on the national railway network of over 3,800 km line length, and for building and maintaining the rail infrastructure in Morocco.

Under the ONCF Green Bond Framework (the “Framework”), ONCF intends to issue green bonds to finance or refinance eligible projects linked to electrified and low-carbon rail infrastructure for passenger and freight transport. With the green bond issuance, ONCF aims at providing faster train lines for passengers and freight, while reducing GHG emissions. ONCF is committed to reduce its GHG emissions by 17% by 2030, compared to a 2015 baseline.

### Climate Bonds Standard Criteria

Pre-issuance requirements under Version 3.0:<sup>2</sup>

- Low Carbon Land Transport<sup>3</sup>
  - Fully electrified public passenger transport infrastructure
  - Fully electrified freight transport infrastructure
  - Rail transport rolling stock for wholly electrified train lines
  - Low-carbon transport infrastructure

### Issuing Entity’s Responsibility

ONCF was responsible for providing information and documents relating to:

- The details concerning the selection process for the Nominated Projects
- The details of the Nominated Projects
- The management systems for internal processes and controls for Nominated Projects, including: tracking of proceeds, managing unallocated proceeds and Earmarking funds to Nominated Projects
- The details of commitments for reporting prior to issuance, including: investment areas, management of unallocated proceeds and frequency of periodic Assurance Engagements

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<sup>1</sup> Climate Bonds Standard, “Low Carbon Land Transport Criteria under the Climate Bonds Standard”, (2019), at: [https://www.climatebonds.net/files/files/CBI%20Transport%20Criteria%20document\\_Apr2021.pdf](https://www.climatebonds.net/files/files/CBI%20Transport%20Criteria%20document_Apr2021.pdf).

<sup>2</sup> Climate Bonds Standard, “Climate Bonds Standard Version 3.0.”, (2019), at: <https://www.climatebonds.net/files/files/climate-bonds-standard-v3-20191210.pdf>.

<sup>3</sup> ONCF has confirmed to Sustainalytics to exclude transport dedicated to fossil fuels from the Framework.

### **Independence and Quality Control**

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of ONCF's green bonds, issued to finance and refinance eligible projects related to low-carbon rail transport, and provided an independent opinion informing ONCF as to the conformance of the green bonds with the Pre-Issuance requirements and Low Carbon Land Transport Criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by ONCF with respect to the Nominated Projects & Assets. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by ONCF.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

### **Verifier's Responsibility**

The work undertaken as part of this engagement included conversations with relevant ONCF employees and review of relevant documentation to confirm the green bond's conformance with the Climate Bonds Certification Pre-Issuance Requirements, which include:

- Conformance of ONCF's green bond with the Climate Bonds Standard Version 3.0;
- Conformance with the Low Carbon Transport Technical Criteria;
- Conformance with the Internal Processes & Controls requirements;
- Conformance with Reporting Prior to Issuance requirements

### **Basis of the Opinion**

Sustainalytics conducted the verification in accordance with the Climate Bonds Standard Version 3.0 and with International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information.

Sustainalytics planned and performed the verification by obtaining evidence and other information and explanations that Sustainalytics considers necessary to give limited assurance that ONCF's green bond meets the requirements of the Climate Bonds Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that ONCF will ensure compliance with Climate Bonds Standards requirements.

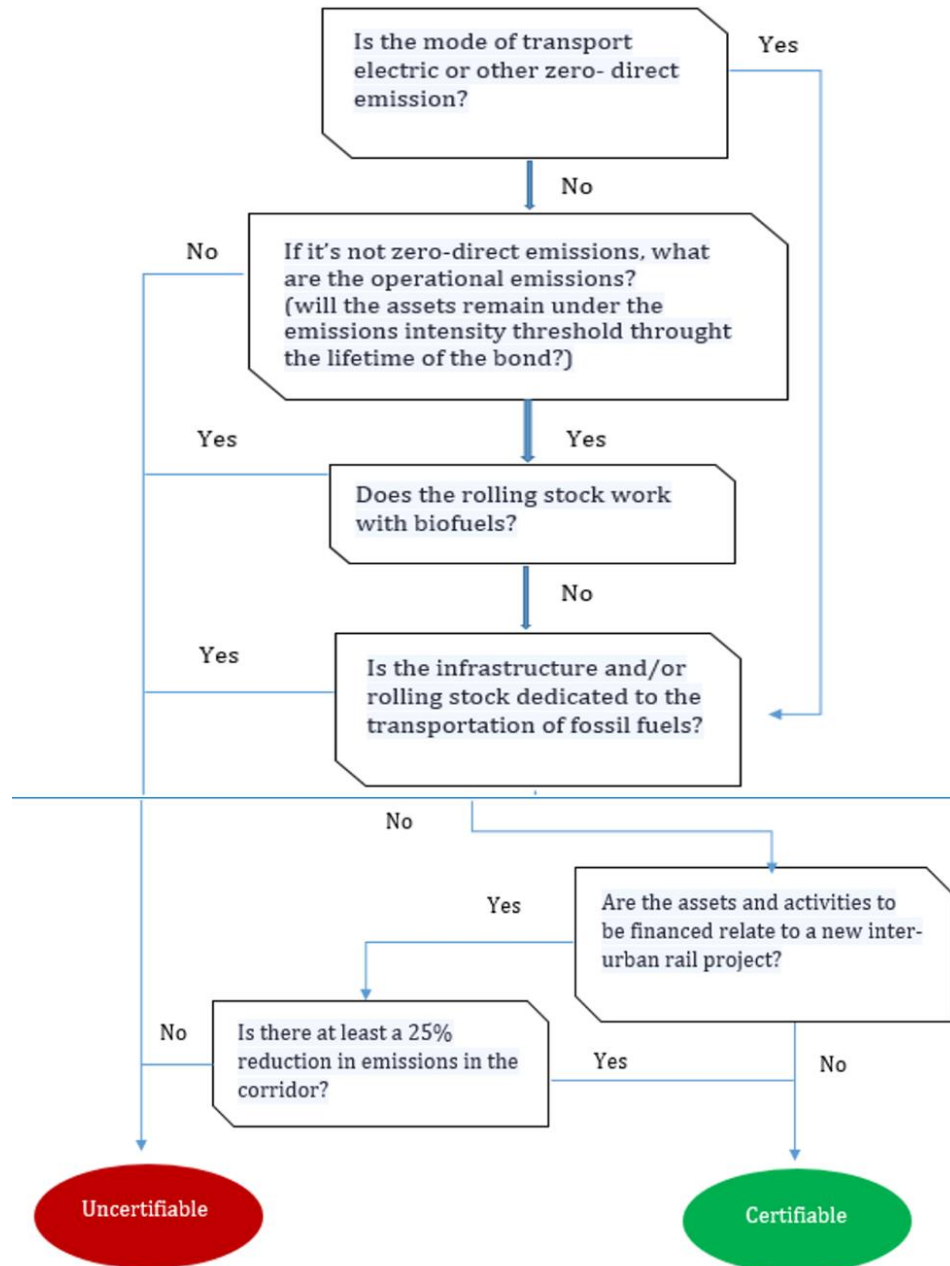
### **Conclusion**

ONCF intends to finance and refinance zero-carbon and low-carbon rail infrastructure for passenger and freight transport, and rail transport rolling stock for electrified train lines. Hence, the Company will support the decarbonization of Morocco's transport sector.

Based on the limited assurance procedures conducted for ONCF's green bond under the Low Carbon Transportation criteria of the Climate Bonds Standard, nothing has come to Sustainalytics' attention that causes us to believe that, in all material aspects, ONCF's green bond is not in conformance with the Low Carbon Transportation of the Climate Bonds Standards' Pre-Issuance Requirements.

## Schedule 1: Green Rail Project Selection Process and Detailed Overview of Nominated Green Rail Project

### Process for Green Financing of a Rail Project<sup>4</sup>



### ONCF's Nominated Green Rail Project

Details of the Nominated Green Rail Project which constitutes the refinancing for an existing wholly electrified inter-urban passenger line as of 2022 are provided below:<sup>5</sup>

<sup>4</sup> ONCF has shared the Process for Green Financing of a Rail Project in its Green Bond Framework.

<sup>5</sup> ONCF has disclosed to Sustainalytics that the proceeds from the Green Bond will be utilized for the refinancing of a loan signed in July 2017, which will mature in 2022.

ONCF’s green rail project relates to the sub-category of fully electrified public passenger transport infrastructure falling under the Low Carbon Transport Criteria of the Climate Bonds Standard. The approximate total value of green assets is USD 100.49 million.

**Table 1. List of Nominated Projects and Assets**

<b>Project Category</b>	<b>Green Rail Project</b>	<b>Description of Project</b>	<b>Market Value (USD million)</b>	<b>Market Value (MAD billion)</b>	<b>Amount dedicated to Green Bonds (USD million)</b>	<b>Amount dedicated to Green Bonds (MAD billion)</b>
Fully electrified public passenger transport infrastructure	Kenitra-Tangier Line	Wholly electrified existing high-speed train line for passenger transport between the cities of Kenitra and Tangier in Northern Morocco	2,120.38	21.1	100.49	1

## Schedule 2A: Pre-Issuance General Requirements

Sustainalytics has conducted this verification using the following Pre-Issuance Requirements under Climate Bonds Standard Version 3.0:

<p>1. Use of Proceeds</p>	<p>1.1 The Issuer shall document the Nominated Projects &amp; Assets which are proposed to be associated with the Bond and which have been assessed as likely to be Eligible Projects &amp; Assets. The Issuer shall establish a list of Nominated Projects &amp; Assets which can be kept up-to-date during the term of the Bond.</p> <p>1.2 The expected Net Proceeds of the Bond shall be no greater than the Issuer's total investment exposure to the proposed Nominated Projects &amp; Assets, or the relevant proportion of the total Market Value of the proposed Nominated Projects &amp; Assets which are owned or funded by the Issuer.</p> <p>1.3 Nominated Projects &amp; Assets shall not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments (such as social bonds or SDG bonds) unless it is demonstrated by the Issuer that:</p> <p>1.3.1 distinct portions of the Nominated Projects &amp; Assets are being funded by different Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments; or,</p> <p>1.3.2 the existing Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument is being refinanced via another Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument.</p>
<p>2. Process for Evaluation and Selection of Projects &amp; Assets</p>	<p>2.1 The Issuer shall establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects &amp; Assets. The decision-making process shall include, without limitation:</p> <p>2.1.1 A statement on the climate-related objectives of the Bond;</p> <p>2.1.2 How the climate-related objectives of the Bond are positioned within the context of the Issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability;</p> <p>2.1.3 The Issuer's rationale for issuing the Bond;</p> <p>2.1.4 A process to determine whether the Nominated Projects &amp; Assets meet the eligibility requirements specified in Part C of the Climate Bonds Standard.</p> <p><i>Note to 2.1: A wide variety of climate-related objectives are possible. These can vary from increasing the installed capacity of low carbon assets, such as solar power facilities, to having a specific objective focused on the operations or indirect effects of the projects &amp; assets, such as emissions reductions.</i></p> <p><i>The climate-related objectives of the Bond, as stated by the Issuer, have implications for the reporting requirements under the Climate Bonds Standard. See Clauses 2.3, 5.2, 5.8, 6.1.1 and 8.4.</i></p> <p>2.2 The Issuer should include under Clause 2.1 further aspects of the decision-making process, including:</p>

	<p>2.2.1 related eligibility criteria, including, if applicable, exclusion criteria or any other process, applied to identify and manage potentially material environmental, social or governance risks associated with the Nominated Projects &amp; Assets;</p> <p>2.2.2 any green standards or certifications referenced in the selection of Nominated Projects &amp; Assets.</p> <p>2.3 The Issuer shall assess that all proposed Nominated Projects &amp; Assets to be associated with the Bond meet the documented objectives as stated under Clause 2.1.1 and are likely to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard.</p>
<p>3. Management of Proceeds</p>	<p>3.1 The systems, policies and processes to be used for management of the Net Proceeds shall be documented by the Issuer and disclosed to the Verifier, and shall include arrangements for the following activities:</p> <p>3.1.1 Tracking of proceeds: The Net Proceeds of the Bond can be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the Issuer in an appropriate manner and documented.</p> <p>3.1.2 Managing unallocated proceeds: The balance of unallocated Net Proceeds can be managed as per the requirements in Clause 7.3.</p> <p>3.1.3 Earmarking funds to Nominated Projects &amp; Assets: An earmarking process can be used to manage and account for funding to the Nominated Projects &amp; Assets and enables estimation of the share of the Net Proceeds being used for financing and refinancing.</p>
<p>4. Reporting</p>	<p>4.1 The Issuer shall prepare a Green Bond Framework and make it publicly available prior to Issuance or at the time of Issuance. The Green Bond Framework shall include, without limitation:</p> <p>4.1.1 Confirmation that the Bonds issued under the Green Bond Framework are aligned with the Climate Bonds Standard. This may include statements of alignment with other applicable standards, such as the EU Green Bond Standard, the ASEAN Green Bond Standard, Chinese domestic regulations, Japanese Green Bond Guidelines, etc.;</p> <p>4.1.2 A summary of the expected use of proceeds, as defined under Clause 1.1, and the expected contribution of the relevant sectors or sub-sectors to the rapid transition required to achieve the goals of the Paris Climate Agreement;</p> <p>4.1.3 A description of the decision-making process, as defined under Clause 2.1, with particular reference to the requirements in Clause 2.1.2;</p> <p>4.1.4 Information on the methodology and assumptions to be used for: confirming, where required by relevant Sector Eligibility Criteria, the characteristics or performance of Nominated Projects &amp; Assets required to conform to the relevant eligibility requirements under Part C of the Climate Bonds Standard; and any other additional impact metrics that the issuer will define.</p> <p>4.1.5 A summary of the approach to the management of unallocated Net Proceeds in accordance with Clause 3.1;</p> <p>4.1.6 The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding;</p> <p>4.1.7 The list of proposed Nominated Projects &amp; Assets associated with the Bond and the investment areas, as provided in Clause 9.1, into which the Nominated Projects &amp; Assets fall. Where there are limits on the amount of detail that can be made available about specific Nominated Projects &amp; Assets, information shall be presented on the investment areas which the Nominated Projects &amp; Assets fall into, as provided in</p>

	<p>Clause 9.1, and the Issuer shall provide an explanation of why detail on Nominated Projects &amp; Assets is limited;</p> <p>4.1.8 Where a proportion of the Net Proceeds are used for refinancing, an estimate of the share of the Net Proceeds used for financing and refinancing, and the relevant Nominated Projects &amp; Assets or investment areas which may be refinanced. This may also include the expected look-back period for refinanced Nominated Projects &amp; Assets.</p> <p><i>Note: Issuers are encouraged to disclose as much information as possible with respect to Nominated Projects &amp; Assets. However, in many cases it is not possible for the Issuer to disclose detailed information about specific projects &amp; assets prior to the issuance of the Bond. This limitation may be due to confidentiality arrangements with owners of projects &amp; assets, the dynamic nature of the project portfolio, competitive considerations, or other legal provisions which limit the disclosure of detailed information.</i></p> <p>4.2 The Issuer shall include in the Disclosure Documentation:</p> <p>4.2.1 The investment areas, as provided in Clause 9.1, into which the Nominated Projects &amp; Assets fall;</p> <p>4.2.2 The intended types of temporary investment instruments for the management of unallocated Net Proceeds in accordance with Clause 7.3;</p> <p>4.2.3 The Verifier engaged by the Issuer for the mandatory verification engagements;</p> <p>4.2.4 The intended approach to providing Update Reports to reaffirm conformance with the Climate Bonds Standard while the Bond remains outstanding, including the location of the published documents;</p> <p>4.2.5 The Climate Bonds Initiative Disclaimer provided in the Certification Agreement.</p> <p><i>Note to 4.2.4: Issuers are encouraged to provide their Update Reports through existing reporting channels for the bond markets, such as the Electronic Municipal Market Access (EMMA) website for the US Municipality sector.</i></p>
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## Schedule 2B: Conformance to the Pre-Issuance Requirements

Details of ONCF's internal processes and controls as per the Pre-Issuance Requirements are provided below:

Procedure Performed	Factual Findings	Error or Exceptions Identified
1. Use of Proceeds	<p>1.1 ONCF has developed a list of proposed Nominated Projects &amp; Assets which comply with the Low Carbon Land Transport Criteria of the Climate Bonds Standard. ONCF intends to keep this list updated with all the financed and refinanced projects that fall within the scope of the ONCF Green Bond Framework. The proposed Nominated Projects and Assets include:</p> <ul style="list-style-type: none"> <li>• Fully electrified public passenger transport infrastructure</li> <li>• Fully electrified freight transport infrastructure</li> <li>• Rail transport rolling stock for wholly electrified train lines</li> <li>• Low-carbon transport infrastructure</li> </ul> <p>1.2 ONCF's management confirms that the net proceeds of the future bonds will not be greater than the total investment exposure to the proposed Nominated Projects &amp; Assets.</p> <p>1.3 ONCF's management confirms that the Nominated Projects &amp; Assets will not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instrument, green bonds, green loans or other labelled instruments unless it is demonstrated by ONCF that distinct portions of the Nominated Projects &amp; Assets are being funded by different instruments or that the existing instrument is being refinanced via another labelled instrument.</p>	None
2. Process for Evaluation and Selection of Projects & Assets	<p>2.1.1 The ONCF Green Bond Framework states that the intention of the green bonds is to finance or refinance projects that are expected to reduce carbon emissions linked to rail transport and hence, support the decarbonization of Morocco's transport sector.</p> <p>2.1.2 ONCF's environmental objectives are summarized in the ONCF Green Bond Framework.</p> <p>2.1.3 ONCF's rationale for issuing green bonds is to improve Morocco's national railway system for passenger and freight transport, provide high-speed train lines and reduce GHG emissions.</p> <p>2.1.4 The ONCF Green Bond Framework includes a process for project evaluation and selection which is performed by a dedicated Green Bonds Committee.</p> <p>2.2.1. ONCF has sufficient measures in place to manage and mitigate environmental and social risks that are commonly associated with the eligible category.</p> <p>2.2.2. The ONCF Green Bond Framework references the Climate Bonds Standard version 3 and the Low Carbon Land Transport Criteria version 2.</p> <p>2.2.3. ONCF's Green Bonds Committee consisting of representatives from the Finance and Corporate</p>	None



		Management Directorate, Strategy, Cooperation and Quality Directorate, and those divisions concerned by the eligible projects, will verify that all proposed Nominated Projects & Assets conform to the Climate Bonds Taxonomy and Low Carbon Land Transport Criteria.	
3. Management of Proceeds	3.1.1	The ONCF Green Bond Framework outlines a process by which proceeds will be tracked.	None
	3.1.2	ONCF will manage unallocated net proceeds through temporary investments in money market instruments such as cash or cash equivalent, bank deposits and treasury bills.	
	3.1.3	The ONCF Green Bond Framework details the process ONCF will use to allocate and manage green bonds proceeds. This will enable the estimation of the share of the Net Proceeds being used for financing and refinancing.	
Reporting Prior to Issuance	4.1.1.	Bonds issued under the ONCF Green Bond Framework are intended to align with the Climate Bonds Standard.	None
	4.1.2.	The ONCF Green Bond Framework indicates that green bond proceeds will be used, as defined under Clause 1.1, and the expected contribution of the relevant sectors or sub-sectors to the rapid transition required to achieve the goals of the Paris Climate Agreement.	
	4.1.3.	The ONCF Green Bond Framework provides detail on its decision-making process, in which the Green Bonds Committee will ensure net proceeds are applied to the eligible projects.	
	4.1.4.	ONCF's Nominated Projects & Assets will conform with the Low Carbon Land Transport Criteria. ONCF may report on the following impact metrics: <ul style="list-style-type: none"> <li>• Passenger transport: estimated energy saving (GWh), estimated avoided emissions (tCO<sub>2</sub>eq), kilometers of new lines built or renovated and number of electric trains put into service.</li> <li>• Freight transport: estimated energy savings (GWh), estimated avoided emissions (tCO<sub>2</sub>eq), kilometers of new lines built or renovated and number of electric trains put into service.</li> </ul>	
	4.1.5.	ONCF will manage unallocated net proceeds in accordance with Clause 3.1	
	4.1.6.	ONCF will appoint an approved third-party verifier to confirm the bonds' conformance with the pre-issuance requirements of the Low Carbon Land Transport Criteria of the Climate Bonds Standard.	
	4.1.7.	ONCF's Nominated Projects & Assets fall under Low Carbon Land Transport Criteria. ONCF will report on the investment areas which the Nominated Projects & Assets fall into by number of proceeds allocated to eligible projects and assets, the balance of unallocated proceeds, the amount or percentage of new financing and refinancing, and nominated external reviews conducted.	

	<p>4.1.8. ONCF will provide more details regarding the amount used for financing and refinancing in the annual allocation report.</p> <p>4.2.1. ONCF's Nominated Projects &amp; Assets will conform with the Low Carbon Land Transport Criteria.</p> <p>4.2.2. The intended types of temporary investment instruments for the management of unallocated Net Proceeds are in accordance with Clause 7.3 of the Climate Bonds Standard.</p> <p>4.2.3. ONCF has confirmed that an approved third-party verifier will conduct post-issuance assurance within two years of issuance to reaffirm conformance of the bond with the Low Carbon Land Transport Criteria of the Climate Bonds Standard.</p> <p>4.2.4. ONCF will report on the allocation and impact of proceeds in an ESG report to be published on an annual basis. Moreover, ONCF intends to report to investors having subscribed to green bonds on an annual basis until the maturity of the debt instruments.</p> <p>4.2.5. Sustainalytics notes that under the terms of its certification, ONCF must include the CBI Disclaimer provided in the Certification Agreement in disclosure documentation.</p>	
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Or contact us [contact@sustainalytics.com](mailto:contact@sustainalytics.com)

