Ar Rass Solar Energy Co. (Ar Rass) is a special purpose vehicle established to finance the engineering, procurement, commissioning, and operation of a photovoltaic power plant facility. Its shareholders are ACWA Power (40.1%), the State Power Investment Corp. (39.9%), and Water and Electricity Holding Co. (Badeel) (20.0%). The planned facility is located 28 kilometers (km) south of the city of Ar Rass in the Kingdom of Saudi Arabia (KSA), and its construction will last about 24 months.

The Ar Rass photovoltaic independent power plant (Ar Rass PV IPP) has a total estimated investment cost of US$450 million. It will have a contracted capacity of 700 megawatts (MW), and supply power to the Saudi Power Procurement Co. (SPCC) in a 25-year power purchase agreement (PPA).

In our view, Ar Rass Solar Energy Co.’s green loan (executed on Feb. 6, 2023) is aligned with:

- ✔️ Green Loan Principles, LMA/LSTA/APLMA, 2023 (GLP)

Issuer’s Sustainability Objectives

Ar Rass was incorporated solely to finance and develop the Ar Rass PV IPP, as part of the National Renewable Energy Program, launched by the Ministry of Energy’s Renewable Energy Project Development Office in Saudi Arabia.

The Ar Rass PV IPP project aligns with the Ministry of Energy’s sustainability goal to increase renewable sources in the country’s energy mix, with a targeted renewable power generation capacity of 58.5 gigawatts (GW) by 2030. This is part of the KSA’s Vision 2030 to reduce its cumulative carbon dioxide equivalent (CO2e) emissions by 130 million tons by 2030. This project helps reduce the country power grid’s reliance on fossil fuels, thereby contributing to climate change mitigation. It also meets the Ministry of Energy’s strategy to enhance public-private participation in developing a renewable energy manufacturing base in the KSA.

Ar Rass' bankers have structured a green loan framing how the company will fund the construction and operation of the Ar Rass PV IPP facility.
**Second Party Opinion Summary**

### Use of proceeds

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Ar Rass’ green loan is aligned with this component of the GLP.

The company will draw on the loan exclusively to finance the engineering, procurement, commissioning, and operation of the Ar Rass PV IPP. This project will avoid carbon emissions and meet the GLP’s objective of climate change mitigation. It will contribute to the development of a renewable energy manufacturing base, which is party to the Ministry of Energy's target to increase the country's renewable energy mix as part of Saudi Arabia's Vision 2030.

### Process for project evaluation and selection

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Ar Rass’ green loan is aligned with this component of the GLP.

The loan documentation requires an environmental and social impact assessment during the project design stage to identify perceived environmental and social risks. The company has formalized an action plan on environmental and social management as a result. A quarterly construction report and an annual operating report will confirm the oversight of such issues during construction and operation phases.

### Management of proceeds

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Ar Rass’ green loan is aligned with this component of the GLP.

The company is a special purpose vehicle. It has set up dedicated accounts for the tracking and disbursement of funds. The loan will be drawn down in stages throughout the construction phase. In addition, in the unlikely event that there are unallocated proceeds, the documentation includes permitted investments (in short-term instruments) for liquidity management.

### Reporting

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Ar Rass commits to reporting quarterly during the construction period. This will include information on the project’s budget and details on compliance with its environmental and social management plan. The company will prepare annual operating reports during the operation period, with details on revenue and project costs, as well as the project’s environmental performance. As is customary in project finance transactions, an independent engineer will review the construction reports, and the intercreditor agent will review the operating budget.
Second Party Opinion

Transaction Alignment Assessment

Use of proceeds
The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

✔ Ar Rass’ green loan is aligned with this component of the GLP.

Commitments score
We consider Ar Rass’ overall use of proceeds commitments to be advanced.

The company will exclusively allocate the net proceeds to finance the engineering, procurement, commissioning, and operation of the photovoltaic independent power plant facility in Ar Rass, Saudi Arabia. The financing agreement includes the opening of dedicated accounts to ensure all loan proceeds solely fund project costs and related working capital expenditures. The company expects a construction phase of about 24 months.

The Common Terms Agreement describes the project being financed, a solar plant facility located south of Ar Rass, Saudi Arabia, consisting of 1,437,576 PV modules (28 modules per string) and 245 inverters. Given the contracted capacity of 700 MW, the sponsors have estimated the project will avoid an equivalent of 1.5 million tons CO₂e per annum compared with power source from the local grid.

Given the targeted nature of the project financing, renewable energy is the sole eligible category in the Common Terms Agreement. The project supports the systematic decarbonization of the economy and contributes to climate change mitigation. In addition, the documentation specifies the project will contribute to the Ministry of Energy's objective to increase the renewable energy capacity in Saudi Arabia to reach 58 GW. This reduces the KSA’s power grid reliance on fossil fuels, and helps the country achieve its decarbonization goal.

The transaction does not include any refinancing.

Process for project evaluation and selection
The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our assessment on the process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

✔ Ar Rass’ green loan is aligned with this component of the GLP.

Commitments score
We consider Ar Rass’ overall process for project selection and evaluation commitments to be aligned.

The PV IPP project was identified prior to the incorporation of Ar Rass Solar Energy Co. and the preparation of the loan documentation.

The project aligns with the Ministry of Energy's objective to build 58.5 GW in renewable energy capacity in Saudi Arabia by 2030. Ar Rass has engaged an independent consultant to carry out a site assessment during the project’s design stage covering geotechnical, topographical, hydrological, wind, and seismic parameters. The due diligence report also included a technology review on the capability and adequacy of the PV equipment manufacturers, as well as assessments of solar resource and energy production availability to confirm the overall project feasibility.
Second Party Opinion

Ar Rass has identified and reviewed environmental, social, health, and safety risks in an environmental and social impact assessment. The company used its findings to build an environmental and social management plan, which includes some mitigation measures to the project's negative environmental and social impacts, such as health and safety, labor and human rights, and environmental issues.

The management plan mentions the World Bank Environmental and Social Framework, the Equator Principles, and International Financial Corp. (IFC) General Performance Standards. Such references are standard in project finance. The transaction documents do not mention other eligibility criteria, such as taxonomies or performance requirements for the plant.

Management of proceeds

The Principles require disclosure of the issuer’s management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer’s commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

✔ Ar Rass’ green loan is aligned with this component of the GLP.

Ar Rass has set up dedicated accounts for the tracking and disbursement of funds.

During the construction phase, the company will produce quarterly reports on the project budget, details of anticipated drawsdowns, and related construction progress. The form of notice of the drawdown includes the proposed drawdown date, the amount to be drawn down, and the account that the advance should be credited to.

In the unlikely event that there are unallocated proceeds, Ar Rass will hold them in liquid and creditworthy instruments, including marketable debt securities, short-term financial instruments with less than six months maturity, money market funds or money market mutual funds, as per the Common Terms Agreement’s requirements.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✔ Ar Rass’ green loan is aligned with this component of the GLP.

Disclosure score

We consider Ar Rass’ overall reporting practices to be strong.

The company will produce a quarterly construction report throughout the project's construction phase. It will include details related to the construction process, an analysis of the actual expenditure compared with the budget, and the confirmation of compliance with the environmental and social management plan.

After the project is commissioned, the company will prepare an annual operating report. It will provide information on revenues and operating costs, details of operation and maintenance during the period, the confirmation of compliance with environmental and social action plan, among other items.

The financing agreement has included information on the project’s expected impact for a 25-year period, including the contracted capacity of the plant (700 MW) and the estimated carbon emissions avoided (1.5 million tons CO₂e) per year. To allow lenders to monitor the project's performance, Ar Rass will disclose the actual measurements and expected environmental
Second Party Opinion

impact. Metrics will include the anticipated (under a P50 base case) and actual amount of renewable electricity generated, as well as the estimated CO2 emissions avoided through the renewable energy generation. Reporting will also include information on the calculation methodology and assumptions behind the metrics. Ar Rass has agreed, through a board meeting, to include this information in the operating report template, which will be provided to lenders as mandated by the financing documents.

An independent external engineer will verify the allocation of proceeds based on the quarterly construction report from the company. However, Ar Rass does not commit to externally verifying or auditing its impact reporting.
Second Party Opinion

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