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Canadian Solar Inc

Canadian Solar EMEA Green Financing Framework



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1. Introduction

Canadian Solar Inc (“**Canadian Solar**” or the “**Group**”) is one of the world’s largest solar technology, renewable energy and utility-scale solar developers, with a global-leading, rapidly expanding PV and energy storage projects pipeline.

As part of its long-standing commitment to sustainability, Canadian Solar developed the Canadian Solar EMEA Green Financing Framework (“**Green Financing Framework**”) under which Canadian Solar, or any of its subsidiaries, will issue green financing instruments including green bonds, project finance, green loans, and other eligible financial instruments to finance and/or refinance investments made in renewable power generation and/or storage assets or businesses and to support the ongoing development of clean energy technologies.

This framework is designed to be in line with the International Capital Market Association (ICMA) Green Bond Principles 2021 (“GBP”) and the Green Loan Principles (“GLP”) published by the Loan Market Association.

Canadian Solar Profile

Founded in 2001 and listed on NASDAQ since 2006, Canadian Solar is one of the world’s leading solar module manufacturers and utility-scale solar developers, with one of the world’s largest solar project and energy storage pipelines. As a top-tier solar energy company, with subsidiaries in more than 23 countries serving customers across the world. As of June 30, 2021, Canadian Solar has delivered more than 59 GW of the Company’s solar modules, of which 11.3 GW was delivered in 2020 and 16-17 GW is expected to be delivered in 2021 as per company guidance disclosed on August 12, 2021.

Canadian Solar has unparalleled expertise across the entire solar development value chain and is committed to investing in R&D to deliver the best possible value to its customers. As the No.1 Top bankable manufacturer (source: BNEF, 2020), with more than 6.1 GW of solar power plants developed, built and connected and with a late-stage pipeline of nearly 6 GW as of June 30, 2021, Canadian Solar is included within the Top 3 Global Developer Ranking for Utility-Scale Solar PV (source: GTM Research). Canadian Solar was also awarded the Best Structured Project Bond award by Environmental Finance 2018 and it received the highest rating of Green 1 from the Japan Credit Rating Agency, Ltd for the green finance framework developed to finance the publicly listed Canadian Solar investment vehicle in Japan.

Besides being one of the top solar module manufacturing and development companies in the world, Canadian Solar provides total system solutions, including inverters procurement, system kits, energy storage, EPC and O&M services.

On the battery storage side, the Company is delivering integrated battery storage solutions for utility-scale, commercial, industrial, and residential applications, with an expected 810-860 MWh of battery storage shipments in 2021 as per company guidance disclosed on August 12, 2021. Canadian Solar is building a leadership position in the battery storage market thanks to its superior product solution, competitive advantage in identifying storage market opportunities, and its understanding of power grids and markets in order to select markets and locations that maximize the value of storage.

Solar market overview and expected growth

The deployment of renewable energy has been growing at a rapid pace in recent years. As of the end of 2020, the global capacity of installed and grid-connected solar PV power reached 707 GW, representing ~22% year-on-year growth compared to 2019 (581 GW) and a compound annual growth rate (CAGR) of nearly 33% since 2010 (source: International Renewable Energy Agency or IRENA).

This exponential growth continued in 2020, with 126 GW of solar PV installations, as estimated by IRENA. To achieve the 1.5 °C Paris Agreement goal, solar PV's global installed capacity needs to reach 14,000 GW by 2050, implying approximately 440 GW of average annual installations up to 2050.

Canadian Solar's sustainability strategy

At Canadian Solar, we are committed to our corporate social responsibility. Canadian Solar is looking at connecting our corporate strategy locally to sustainable goals. To do so we are basing ourselves on the United Nation's 17 sustainable development goals, which address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice.

As a global leading renewable energy company, Canadian Solar aims to power the world with solar energy and to create a cleaner Earth for future generations. The total electricity generated by the 55 GW of cumulative solar modules shipped until December 2021 over the past 20 years is equivalent to displacing approximately 139 million tons of CO₂ emissions or powering over 14 million households. Our green house emissions (GHG) intensity for every MW produced (including outsourced energy and emissions from the logistics of sourcing raw materials) for all our global manufacturing operations, are reduced from 182 tCO₂eq/MW in 2018 to 145 tCO₂eq/MW in 2020 (-7.3% CAGR). The Group forecasts further reductions in terms of GHG in forthcoming years, expecting to achieve 126 tCO₂eq/MW GHG in 2021 (-13.1% compared to 2020) and 92 tCO₂eq/MW in 2025 (-36.6% compared to 2020). As of December 31, 2020, we had 13,969 employees, including 12,774 full-time employees and 1,195 trainees, and other part-time employees. Of this, 13,444 worked for CSI Solar and 525 worked for the Company's Global Energy business. Canadian Solar is committed to providing competitive benefit plans and training programs for employees, focused on developing technical and

professional skills, including areas such as project development, asset management, PPA, storage, or project finance, while building a culture of equity, diversity, and inclusion.

Canadian Solar has contributed to society through initiatives to revitalize local communities, providing them with disaster aid and making strategic investments to promote equal employment opportunities, discrimination-free workplaces, and universal access to electricity:

- ❖ When the Kumamoto earthquakes occurred in April 2016, construction of the CS Mashiki-machi Power Plant, which was being undertaken by CSP in Mashiki Town, Kumamoto, was suspended because the construction workers were residents of the town. CSP also provided the town with solar-power-rechargeable LED lights as relief goods. The Company offered consolatory donations to the Marumori-machi Town Government.
- ❖ Canadian Solar constructed the Daisen Canadian Garden and donated it to the Daisencho Town Government in commemoration of the completion of the CS Daisencho Power Plant and as part of its contribution to local communities. In addition, the Company repaired the Hima Jinja Shrine in the same town and made other significant donations.
- ❖ In 2019, Canadian Solar donated solar modules for a new solar power plant at the Evans Medical Center at Kirma, Lungi, Sierra Leone. The solar power system will help improve the quality of medical care in the region.
- ❖ The Company's teams initiated a campaign to procure and donate medical supplies to hospitals across the world treating COVID-19 patients. For example, in Spain, 100,000 masks were sent to the southern Andalucía government, while it also donated high-resolution multi-parameter monitors to the La Paz hospital in Madrid. In Italy, 6,000 masks were donated to the Red Cross and a monetary donation was made to the Luigi Sacco hospital, which was one of the public hospitals at the epicenter of a COVID outbreak. In Germany, colleagues in the Munich office physically delivered 14,000 masks to the München Klinik Schwabing hospital. The Company also donated 60,000 medical masks to the Ministry of Health in Ontario, Canada.
- ❖ Canadian Solar is partnering with the BlackOak Collective, an association to promote employment and career development of Black Americans through mentorship, institutional knowledge sharing, and employment and members of the Society of Entrepreneurs & Ecology (SEE), an environmental conservation NGO in China dedicated to restoring the ecologies of deserts and major water bodies.

- ❖ In 2020, the Company invested in SolarWorX, a Berlin-based start-up developing off-grid solar plus storage solutions for Africa.

Canadian Solar Inc., together with its subsidiary entities, is committed to complying with anti-modern slavery laws and regulations in every jurisdiction in which it conducts business, including compliance with disclosure obligations under applicable legislation, and to acting ethically and with integrity in all its business dealings and relationships. Consequently, Canadian Solar is committed to ensuring that modern slavery does not take place anywhere in its business, including through its supply chain.

As a responsible company with a global footprint, Canadian Solar supports the goal of the Dodd-Frank Act of preventing armed groups in the Democratic Republic of the Congo and adjoining countries from benefitting from the sourcing of Conflict Minerals from that region. Such groups are believed to be responsible for serious human rights abuses, and Canadian Solar stands strongly against such abuses.

Canadian Solar has been named as one of the Best 50 Corporate Citizens in Canada. The ranking is conducted by Corporate Knights, a specialized media and investment research firm. The ranking is meant to be representative of business sustainability in the current socio-economic context. The methodology KPIs included the management of resources, financials, employees, and clean revenue. The ranking shows Canadian Solar has strived to implement emission reductions in production and management. Canadian Solar will continue to create green energy and clean revenue for its customers, partners and stakeholders.

Principles of the Green Financing Framework

The ICMA Green Bond Principles and the Green Loan Principles by the Loan Market Association are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Financing market by clarifying the approach for issuing a Green Financing. Canadian Solar Green Financing Framework follows the GBPs and GLP, which provides guidelines in four key areas:

1. Use of proceeds;
2. Process for project evaluation and selection;
3. Management of proceeds;
4. Reporting.

Considering the foregoing, and with the objective of assuring transparency, the following general guidelines will be followed:

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- Green Financing instruments should not be considered fungible with other financing instruments that are not aligned with the 4 core components of the Green Bond Principles and Green Loan Principles.
 - Each eligible asset or project can be allocated to one or several Green Financing instruments within Canadian Solar's scope. Canadian Solar will implement a control system to assure coordination in assets allocation and avoid double counting.
 - When a Green Financing instrument is matured, allocated eligible projects can be refinanced and re-allocated into new Green Financing instruments.
 - If an asset reaches the end of its lifetime, or definitively stops operations during the period of financing, the company commits to substitute that asset with an alternative eligible asset.
 - If a project no longer meets the Framework, the funds will be reallocated to another Eligible Green Project.

2. Use of proceeds

The net proceeds obtained from Canadian Solar's green financing instruments will be used to finance or refinance, with a look-back period of 5 years, Eligible Green Projects across EMEA region and/or other OECD countries, in the Renewable Energy Generation category. The goal is to allocate funds for the development and/or the acquisition of the permits necessary to build solar energy and storage facilities, and to fund the construction, maintenance, refurbishment and/or repowering of those solar energy and energy storage facilities.

Eligibility Criteria: Renewable Energy

Canadian Solar's business and management is inherently aligned with the Green Bond and Green Loan Principles relevant to the eligibility category of Renewable Energy. Based on Canadian Solar's current pipeline, the Group has identified the following Eligible Green Projects outlined below by regions.

Eligible Projects						
Country	N° Projects	MWp (PV)	MWh (Storage)	NTP	COD	Use of Proceeds
Spain	>10	877	804	2022-2024	2023-2025	<ul style="list-style-type: none"> ❖ Identify, study and analyze the feasibility to develop or acquire PV/Storage projects under development or in later stages; ❖ Perform permit applications to grant the licenses for building and operate PV/Storage projects; ❖ Perform other development activities, including payments to advisors and other third parties to secure the permits to build and operate PV/Storage projects; ❖ Construction of new PV/Storage projects and/or acquisition of operational assets; ❖ Other related costs necessary to operate and maintain PV/Storage projects.
Italy	>35	1,056	135	2021-2024	2022-2025	
UK	>15	1,548	1,048	2021-2025	2022-2026	
Other	>60	3,051	0	2022-2025	2023-2025	
Total	>120	6,532	1,987			

In addition to the pipeline described above, the Group may analyze other opportunities in which the net proceeds obtained from the green financing instruments might be allocated within the category of renewable energy and storage investments.

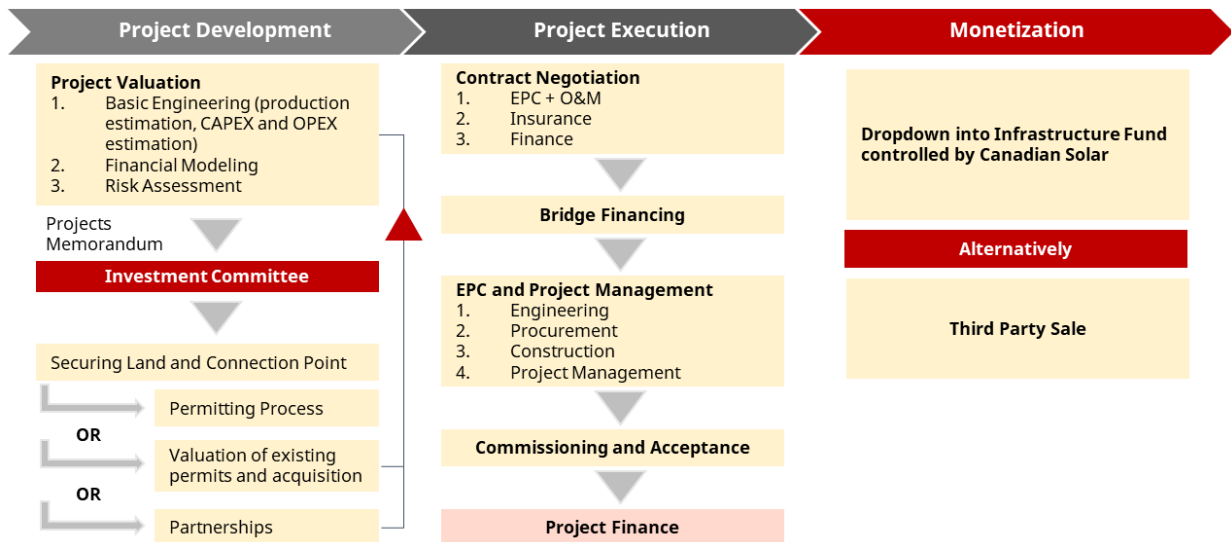
All Eligible Green Projects are deemed to provide environmental benefits that contribute to:

- (i) avoiding CO2 emissions;
- (ii) connecting renewable energy production units to the general network; or
- (iii) improving networks in terms of demand-side management, balancing services, energy efficiency and access to electricity. These benefits will be assessed and, where feasible, quantified by Canadian Solar annually in the corresponding reporting, if required.

3. Process for project evaluation and selection

Canadian Solar internal processes for evaluating and selecting projects are managed by the regional teams, led by the Business Development department which is supported by several other departments/functions including, among others, the Legal Department, EPC Department, Project & Structured Finance Department, M&A Department, PPA & Energy trading Department and Tax Department. As such, eligibility of projects will be evaluated based on several criteria, including legal, social, environmental and governance compliance, together with financial performance and legal, technical and operational feasibility.

Once a project is identified and assessed as economically and environmentally viable by the regional team, this is presented to the Risk & Investment Management Department (hereinafter, "**RIM**") and to the Investment Committee, (hereinafter, "**IC committee**"), which is formed by a panel of senior executives with extensive industry experience. Once a project is presented to RIM and IC committee, they provide their feedback approving, disapproving, or approving with conditions the relevant project and related investment. The decisions made by the IC committee are documented and meetings held are recorded and filed. RIM department is in charge of follow up the project development activities to secure that the guidance and conditions (if any) provided by the IC committee are fulfilled in a timely manner.



4. Management of proceeds

Canadian Solar's Project & Structured Finance department will manage the first stage, which is to secure that the relevant financial arrangements comply with the financial, legal, and governance guidelines of the Group and the relevant local regulations. Once the financial settlements are in place, the Finance Department and the Asset Management department will manage the treasury allocated for the Eligible Green Projects and perform the follow-up activities related to the control, monitoring, reporting, accountancy and tax matters for each project and market active in, making sure that each project is aligned with the relevant budget.

An amount equal to the net proceeds of any Green Financing will be credited to Canadian Solar EMEA Capital Markets, S.A. company general account, and then will be transferred to the operating subsidiaries of Canadian Solar in charge of the Eligible Green Projects in the form of intercompany loans, equity capital or any other eligible form, with the purpose to finance or refinance the disbursements in connection with the Eligible Green Projects. The net proceeds also shall be used to refinance shareholders loans, which includes for the avoidance of doubt financial assistance in any form from affiliates and/or bank debt initially used for financing of existing or ongoing Eligible Green Projects.

All relevant information regarding the issuance of any green financing instrument dedicated to Eligible Green Projects, will be monitored, and kept in respective management tools and treasury and finance systems.

If for any reason any project is no longer eligible, Canadian Solar will use its best effort to substitute such projects as soon as practical once an appropriate substitution option has been identified and internally approved.

Canadian Solar commits on a best effort basis to reach full allocation within three years following financial close. The Group will monitor and track the net proceeds through its internal accounting system.

Pending the allocation or reallocation, Canadian Solar will invest the balance of the net proceeds, at its discretion, in cash and/or cash equivalents (money market instruments, bank accounts) and/or any other liquid financial instruments, as per the company's investment management policy.

5. Reporting

Allocation Reporting

Canadian Solar intends to report on the allocation of proceeds to its investors on an annual basis until full allocation. Allocation reporting will include the list of Eligible Green Projects funded as well as the net proceeds allocated to each project, the balance of unallocated net proceeds, and the share of proceeds used for refinancing vs. financing.

Updates going forward might contain information on the green financing evolution, including amounts allocated to Eligible Green Projects and the balance of unallocated proceeds. Where feasible, we will provide examples of investments being financed with green financing proceeds until all proceeds have been allocated.

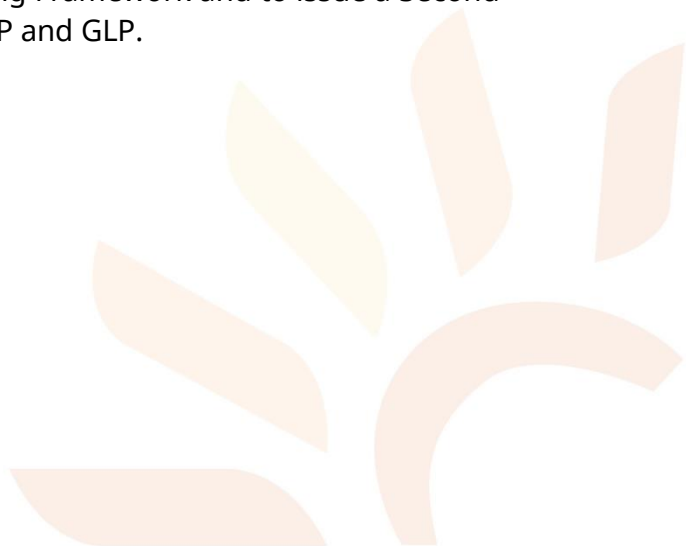
Impact Reporting

Where feasible, the report will include qualitative and quantitative impact indicators. Examples of impact indicators that may be included are:







- ❖ Total capacity of renewable energy production (MW)
- ❖ Annual renewable energy generation (MWh);
- ❖ Estimated CO2 avoided (tCO2eq).

6. External Review

Before the issuance and/or Financial Close, Canadian Solar engaged with Sustainalytics to conduct an external review of its Green Financing Framework and to issue a Second Party Opinion on it and its alignments with the GBP and GLP.



7. Appendix

Project Category	Description	Related SDG
Renewable Energy	Investment in the acquisitions, construction, operation & maintenance of electricity generation facilities that produce electricity from solar power	  
Energy storage and other energy solutions	Investment in the acquisitions, development, construction, operation & maintenance of energy storage facilities, and other energy solutions that can support and enhance the energy grid performance and resilience and provide a long-term solution for electrification of the economy	  

8. Disclaimer

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