



TÉCNICAS REUNIDAS & THE ENERGY TRANSITION – A PROJECT EVALUATION FRAMEWORK

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EXECUTIVE SUMMARY

Técnicas Reunidas, the Energy Transition & the Paris Agreement

Técnicas Reunidas (TR) provides engineering, procurement and construction (EPC) of industrial and power generation plants, with the oil and gas sector (O&G) as its core business. TR is involved in the development of projects across the energy value chain and several industrial segments.

TR is now pursuing a strategy on the Energy Transition (ET) – the shift from fossil-based to zero-carbon energy sources to reduce energy-related CO₂ emissions and limit climate change.

Técnicas Reunidas is therefore seeking to increase its involvement in projects with a clear positive impact on decarbonization and sustainability.

It aims to play a role in the global effort towards a net-zero carbon energy supply by working closely with its stakeholders to implement solutions and technologies that contribute to the Paris Agreement’s climate change mitigation objective.

Meeting the Paris Agreement objective will require significant investment into projects that contribute to the ET. TR therefore aims to develop such projects to help carry out its climate and business strategic vision.

A Project Evaluation Framework for Técnicas Reunidas

Within the above ET context, Técnicas Reunidas engaged Enea Consulting – a strategy consultancy advancing energy and climate solutions – to assist with assessing TR projects in terms of their alignment with ET goals, as well as developing a methodology framework TR could then use to evaluate such projects.

The methodology developed, which includes primary and secondary decision points that lead into an eventual classification of projects into four categories with respect to their contribution to the ET, was then tested on seven projects from TR’s current project portfolio and pipeline.

Main Objectives for the Framework

TR aims to develop and obtain financing for projects that will contribute positively to the ET and help it carry out its climate and business strategic vision over the coming years.

Currently, while certain projects can clearly be labelled as “green” based on existing climate transition frameworks, there is no established framework to determine whether other types of projects can be labelled as “contributing to the ET”, especially for EPC activities. As such, a comprehensive, robust, and novel methodology needed to be developed to evaluate the “ET eligibility” of TR’s projects.

Such a methodology would enable TR to objectively assess the extent to which a project contributes to the ET through the robust evaluation of specific technical, environmental, and social criteria.

The project evaluations that apply this methodology are intended to provide sufficient information to help TR decide which projects to include in its ET strategy going forward. They aim to produce objective, fact-based and strong arguments for those projects to be carried forward. They will also help TR orient its overall project portfolio and apply a rigorous approach in prioritizing projects that contribute positively to the ET.

Energy Transition Strategy and Financing

TR is separately in the process of defining its ET financing framework, the backbone upon which it can build its strategy to contribute to a net-zero carbon energy supply. The project evaluation methodology explained in this document is an essential part of the financing framework as it helps to identify the projects – in both its backlog and future project pipeline – that contribute to the ET.

The framework aims to define the types of projects that could be considered “ET eligible”, providing information that might ultimately support transition financing of certain projects.

It is intended to provide the required information to meet lenders’ and investors’ expectations on the types of projects that might be eligible to access different types of transition financing instruments.

It was developed in line with the International Energy Agency’s (IEA) Sustainable Development Scenario (SDS), a pillar of TR’s corporate climate transition strategy, and is based on criteria drawn from existing transition frameworks. Two key frameworks in particular were leveraged in the development of TR’s evaluation methodology: the EU Sustainable Finance Taxonomy and the European Investment Bank (EIB) Energy Lending Policy. These policies, while Europe-based, can be used to analyse activities in any context around the world.

Energy Transition Categories for Projects

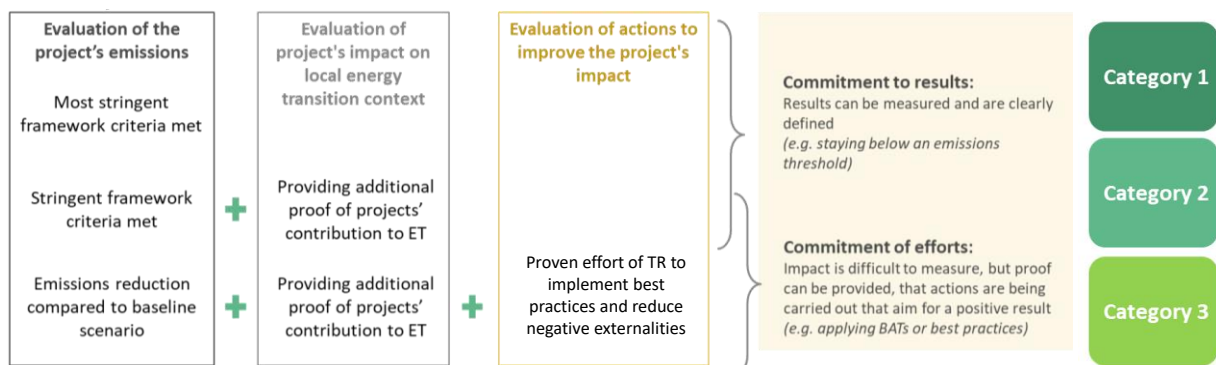
Four project categories were defined to classify TR projects based on the extent to which they contribute to the ET:

- ▶ **Category 1:** Projects considered to clearly contribute to the ET by existing frameworks
- ▶ **Category 2:** Projects contributing to the ET according to emissions metrics
- ▶ **Category 3:** Projects contributing to ET to a certain degree, and minimizing negative externalities
- ▶ **Category 4:** No relevant contribution to the ET

To carry out the respective project evaluations, decision trees were developed that systematically apply screening criteria to evaluate a project’s impact on emissions and other environmental and social factors.

The decision trees distinguish two decision point levels: **primary decision points** that determine a project’s eligibility category for contributing to ET goals, and **secondary decision points** that respond to environmental and social (E&S) requirements:

Primary decision points



Secondary decision points



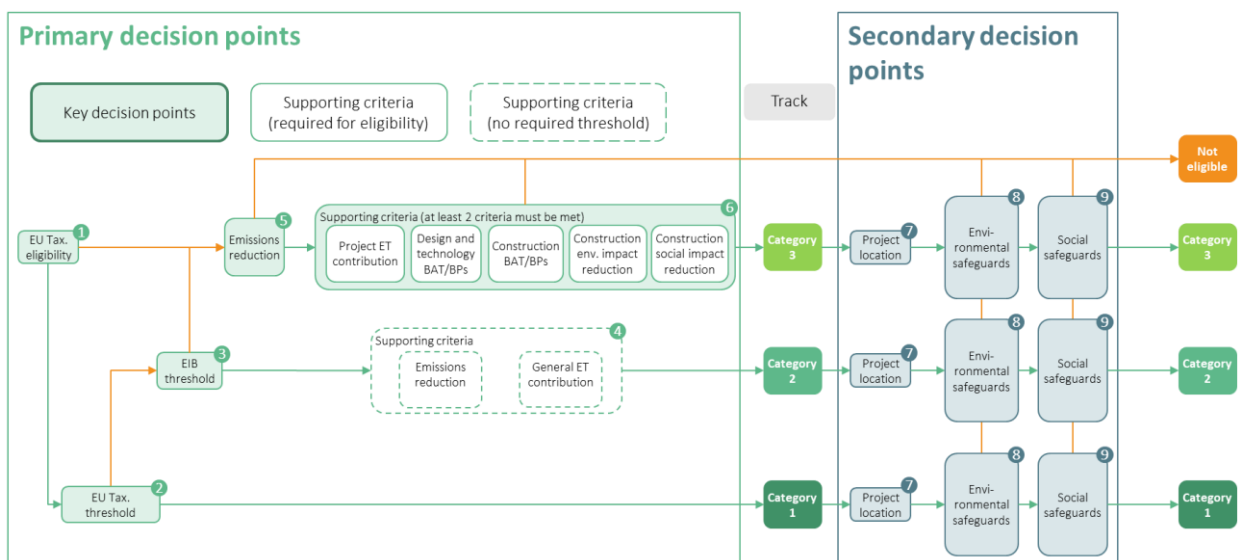
The primary decision points can be split into three types: evaluation of the project’s *GHG emissions*, evaluation of the project’s impact on the *local energy transition context* and evaluation of *actions to improve the project’s E&S impacts*.

The secondary decision points are designed to ensure that projects are aligned with international E&S standards and are especially based on the EU Taxonomy, where a “do-no-significant-harm” (DNSH) evaluation is mandatory to ensure that negative externalities are adequately considered and managed. For projects located in OECD countries it can generally be assumed that local regulation is aligned with international standards, and the focus is thus on compliance with local regulation. In non-OECD countries, international standards may not always be met by local regulation, and the evaluation is thus focused on whether the project meets relevant international standards.

This decision tree logic was then applied to develop decision trees for different project typologies. These cover key activities currently at the core of TR’s business, as well as “green” projects that have significant impact on the ET and which will intensify in the future in line with the IEA’s SDS:

- ▶ Power generation from natural gas and biomass
- ▶ Natural gas production and processing
- ▶ Biofuel production
- ▶ Hydrogen production

An example of a decision tree is shown below (in this case, for power generation):



Overview of Results and Future Application of the Methodology

Evaluations done on selected projects show that the methodology is pertinent, rational, simple and selective, in line with the main objectives of the framework.

Nevertheless, it is important to note that the criteria applied in the different decision trees will evolve over time, as emissions and other E&S targets become more stringent and as reference transition frameworks evolve as a result.

Also, TR's project evaluation methodology will require regular reviews to ensure it reflects these evolutions and employs the most up-to-date criteria. At a minimum, the methodology will need to be reviewed at least once per year, and this document will need to be updated accordingly.

These updates will also need to account for changes in TR's project pipeline and potentially new project typologies that could be evaluated. It is important to note that certain project types that are considered eligible today may not be in the future, while other technologies may be identified as substitutes that could ultimately be included in the decision trees.

The project evaluation methodology presented in this document was validated by TR, who intends to use it to orient its overall project portfolio and apply a rigorous approach in prioritizing projects that contribute positively to the ET. As part of this process, TR aims to validate the methodology with key stakeholders such as its financial partners. Ultimately, certain projects evaluated with this methodology might be considered for new types of "transition" financing instruments, such as transition bonds.

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Paris

89 rue Réaumur
75002 Paris,
France

+33 1 82 83 83 83

contact.paris@enea-consulting.com



Hong-Kong

Suite D, 6th floor,
Ho Lee commercial building
38–44d'Aguilar Street, Central,
Hong Kong

contact.hongkong@enea-consulting.com



Melbourne

Level 12, 360 Elizabeth Street
Melbourne VIC 3000,
Australia

contact.melbourne@enea-consulting.com