

Consortio Transmantaro S.A.'s \$200 Million Proposed Senior Unsecured Green Notes

Transaction Overview

Consortio Transmantaro S.A. (CTM or the company) is dedicated to the construction, operation, and maintenance of power transmission networks and system development in Peru, with around 4,261 kilometers (km) of transmission line circuits in operations in 500, 220, and 138 kilovots (kV). CTM plans to issue \$200 million of senior unsecured notes in September 2020. CTM will use the proceeds to refinance and finance the construction of the Nueva Yanango-Nueva Huánuco and Mantaro-Nueva Yanango-Carapongo transmission lines ('Coya-Yana' or 'the Project') and associated substations. This will allow the dispatch of renewable energy (hydro) into Peru's National Interconnected Electric Power System (Sistema Electrico Interconectado Nacional or SEIN), which will result in lower carbon-intensive based fuel volumes used and consequently, substantial emissions savings. The notes will mature in 2034.

Entity:	Consortio Transmantaro S.A.
Subsector:	Power/Renewables/Transmission
Location (HQ):	Peru
Financing value:	\$200 million
Amount evaluated:	100%
Evaluation date:	Sept. 8, 2020
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Green Evaluation Overview

Transaction's transparency

- Use of proceeds reporting
- Reporting comprehensiveness

Transaction's governance

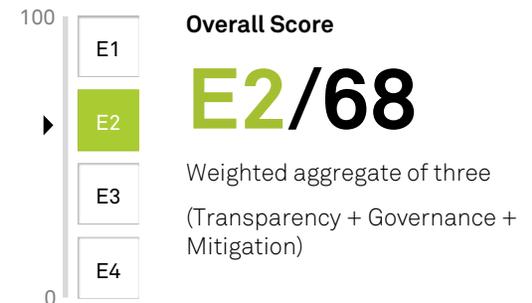
- Management of proceeds
- Impact assessment structure

Mitigation

Sector → Net benefit ranking → Hierarchy adjustments

73

78



Green Evaluation

Project description

CTM will use the proceeds from the \$200 million proposed senior unsecured notes to construct 723 km of transmission lines that will allow the dispatch of hydropower into the Peruvian grid. More precisely, the transmission lines will include:

- The 500 kV Mantaro-Nueva Yanango-Carapongo interconnection, 331.7 km long and related substations that run from the city of Huancavelica in the center of the country to Junin department, also in the center of Peru and;
- The 500 kV Nueva Yanango-Nueva Huánuco interconnection, 391.3 km long with the Huánuco substations that will connect Junin with Peru's capital city, Lima.

These transmission lines will connect three operational hydroelectric power plants, Cerro del Aguila, Chaglla, and Yanango, with an installed capacity of 568 megawatts (MW), 456 MW, and 43 MW, respectively. The plants currently dispatch the generated electricity through existing transmission lines of 220kV and 138kV. However, the start of operations of a 500kV transmission line will allow the dispatch of more power to the south of the country (Lima) due to the larger capacity of the line.

As a result, we expect that the increase of electricity coming from renewable sources located in the center of the country will reduce the dependency on gas and diesel-based power plants located in Chilca's district 70 km from Lima and, leading to substantial emissions savings.

Scoring summary

This transaction achieves a Green Evaluation score of E2 on our scale of E1 (highest) to E4 (lowest), and overall score of 68. The evaluation reflects a mitigation score of 68, which is largely supported by proceeds allocated to key infrastructure necessary to increase the transportation of renewable energy to the capital city and most populated area in the country. These projects support the provision of low carbon electricity, helping to offset Peru's high carbon intensity grid. The mitigation score is further supported by the role that these technologies play in the transition to a low carbon economy. The E2

score also reflects the strong governance (78) and transparency (73) frameworks.

Rationale

- Proceeds from the notes will be exclusively allocated to the construction of new transmission lines, which would allow increasing the dispatch of hydro generated energy into the system. This, in our view, will result in lesser usage of carbon based fuels, and consequently, substantial emissions savings. We have therefore analyzed the project based on the kind of energy transported, resulting in a mitigation score of 68.
- The financing protections, the governance structure, the use of proceeds, and the annual reporting regime for the allocation of proceeds support the relatively strong governance score of 78.
- The project's transparency score benefits from the commitment of CTM to report on an annual basis the carbon footprint and in general, gas emissions savings for these specific assets involved in the financing.
- The transmission lines and substations have been designed to be resilient during their expected lifetime to a range of climate-related hazards, including increased average and extreme temperatures, precipitation (including locally generated 'huaicos'), and landslides. The issuer has taken proactive steps to reduce risk from these hazards, such as reinforcing foundations and drainage systems, so that they can supply electricity under a range of scenarios. In addition, the underlying assets pertaining to this transaction are geographically diverse, which we believe may hedge the portfolio against localized climate risks. This view does not impact the Green Evaluation score
- These factors result in the final Green Evaluation of E2/68.

Key strengths and weaknesses

We believe the project has substantial green attributes because of its ability to increase energy transmission from the central region of Peru (where most of the hydro-power is located) to the south, which would otherwise rely on fossil fuel generation. We believe these assets are an essential contribution to the country's public policy goal of transitioning to a low carbon economy.

All of the energy transmitted through the two assets involved in this transaction is hydro-electric based, which tend to achieve higher net benefit ranking when compared with other renewable peers, such as wind due to higher capacity factors and longer asset lives. In this particular case, however, considering that most of the connected hydro facilities are large scale and located in what we consider as a tropical area, the environmental impact score is lower after our hierarchy adjustment, given significant environmental hazards, such as extreme rains or huaiicos.

CTM has a defined selection criteria based on a set of objectives that emphasized environmental sustainability. The company's 2030 Strategic Plan specifically states that the development of those projects that will continue mitigating the impact of climate change are priority. Therefore, all existing and new projects have been focusing on measuring the carbon footprint of their business in accordance with the guidelines set out by ISO 14064 and the AR5 Report issued by the Intergovernmental Panel on Climate Change. The criteria also states the relevance of the development and application of new initiatives to promote the environmentally sustainable operation of the company's business, the usage of new technologies to enhance the reliability and quality of service of its transmission infrastructure to achieve higher availability rates and lower levels of energy losses, and develop new monitoring and control systems using digital technology.

The management has a process in place to ensure proceeds of the notes are exclusively to develop the construction of Coya-Yana transmission lines, through the creation of a separate subaccount for the project. The framework will ensure reporting of allocations and

benefits from third-party verification until the construction process ends, as was the case in the past with the previous \$400 million issuance, as also, the bank loan facilities.

Finally, the company has committed to reporting various environmental key performance indicators (eKPIs) on an annual basis for all assets involved in this issuance, including, but not limited to, energy losses for transmission and distribution, fuel and water consumption, and tons of CO2 and GHGs avoided. We expect the results to be included in CTM's annual report, typically released late in the first quarter or the beginning of the second. We view this – and the fact that the methodology for the calculation of impacts will be disclosed – as positive in our assessment. Moreover, we expect the company to continue complying with all requirements from Peru's Ministry of Environment and with specific international regulations (including the Equator Principles). Finally, CTM has a Corporate Sustainability Assessment from Dow Jones Sustainability Index and has obtained the rating of 04 stars (the highest) in the platform "Carbon Footprint Peru", that the Ministry of the Environment launched to recognize the efforts of public and private organizations in their fight against climate change and the reduction of their GHG emissions. As a result, CTM became the first company in the country to obtain this qualification thanks to the measurement, verification, reduction and compensation of its carbon footprint in 2016-2018. In addition, the company reduced CO2 tons to 3,227 in 2019 from 4,548.17 in 2017, which shows the effectiveness of its actions in favor of the environment through the implementation of eco-efficiency projects.

Sector-Level Scores

Sector	Location	Technology	Use of proceeds (mil. \$)	Use of proceeds treatment	Net benefit ranking
Green Energy	Peru	Large hydroelectric in tropical area	200	Estimated	68
			200		

Carbon

Green Evaluation Process

73

Transparency

78

Governance

68

Mitigation

Weighted aggregate of three:
(Transparency + Governance + Mitigation)

E2/68

Overall Score

Technology	Baseline carbon intensity	Net benefit ranking	→ Carbon hierarchy adjustment	Environmental impact score	Proceeds (mil. \$)
	<p>High</p> <p>Peru</p>				
Wind power					
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion					
Green buildings – new build					
Unspecified					
Energy-efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
Green buildings refurbishment					
Unspecified					
Nuclear					
Large hydro in tropical areas		95			
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Fossil fuel-based cogeneration					
Unspecified					
			Systemic decarbonization		
			Significant decarbonization in sectors already aligned with a green economy		
			Alleviating emissions of existing carbon-intense industries		
			Decarbonization technologies with significant environmental hazards	68	200
			Improvement of fossil-fueled activities' environmental efficiency		

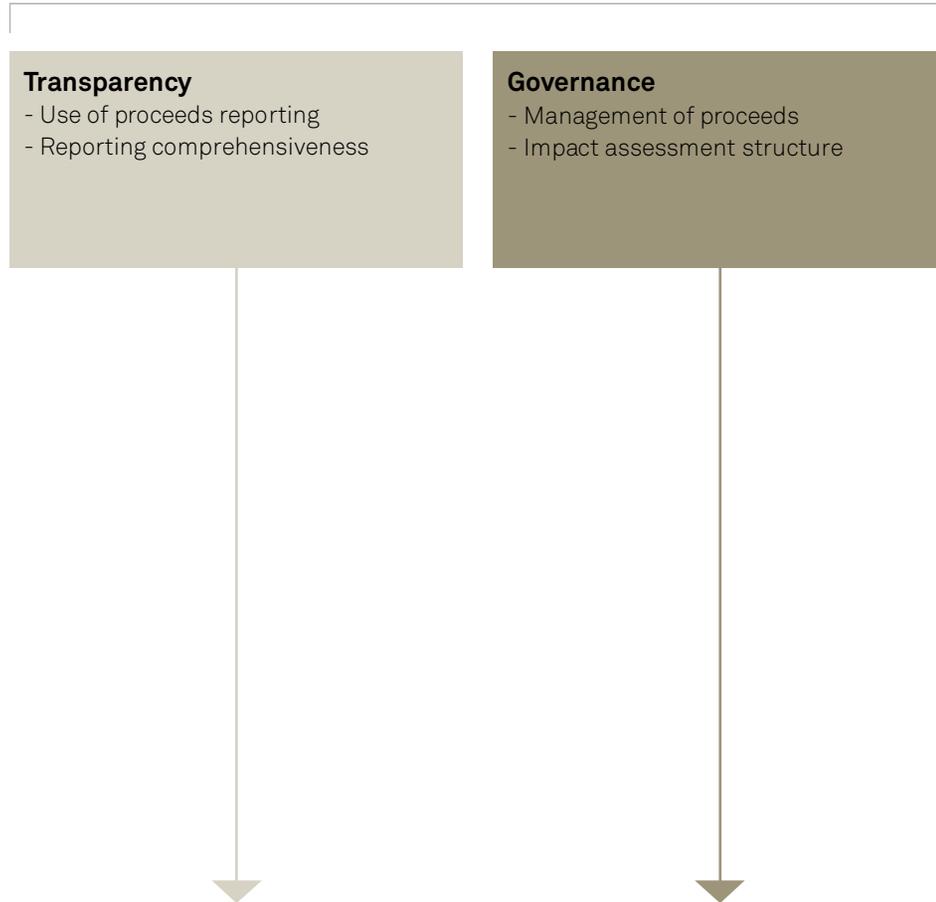
Increasing decarbonization impact

Our Green Evaluation Approach

Weighted aggregate of three:



Common approach used amongst opinion providers



Unique to S&P Global Ratings



Final Green Evaluation (E1 - E4 or R1 - R4)

eKPI--Environmental Key Performance Indicator.

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