Green Evaluation

Consorcio Transmantaro S.A.’s $400 Million Senior Unsecured Green Notes

Transaction Overview
Consorcio Transmantaro S.A. (CTM or the company) plans to issue US$400 million of senior unsecured notes in April 2019. CTM will use the majority of the proceeds to refinance existing debt associated with a portfolio of transmission lines that allowed the connection of green energies (mainly hydro and wind) to Peru’s National Interconnected Electric Power System (Sistema Eléctrico Interconectado Nacional or SEIN). The remaining proceeds will fund the construction of two additional transmission lines that will continue expanding the introduction of renewables into the energy grid. The notes will mature in 2034.

Green Evaluation Overview

Transaction's Transparency
- Use of proceeds reporting
- Reporting comprehensiveness

Transaction's Governance
- Management of proceeds
- Impact assessment structure

Mitigation
<table>
<thead>
<tr>
<th>Sector</th>
<th>Net Benefit Ranking</th>
<th>Hierarchy Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewables</td>
<td>Large hydro in tropical area</td>
<td>Carbon</td>
</tr>
<tr>
<td>Renewables</td>
<td>Wind</td>
<td>Carbon</td>
</tr>
</tbody>
</table>

Adaptation
NA

Entity: Consorcio Transmantaro S.A.
Location (HQ): Peru
Financing value: $400 million
Amount evaluated: 100%
Evaluation date: April 5, 2019
Contacts:
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@spglobal.com

Overall Score
Weighted aggregate of three (Transparency + Governance + Mitigation)
E2/62
Project Description

CTM expects to issue US$400 million senior unsecured notes. It will use the bulk of proceeds to cancel three bank loans that were previously applied to the construction of five specific assets. The remainder will fund the development of additional facilities that will allow the dispatch of new renewable energy. More precisely, funds will be allocated as follows:

- $204 million will be applied for the repayment of 89% of Banco de Credito del Peru’s credit agreement. The company originally applied funds from this loan to the construction of the 220 kV Machupicchu Abancay Cotaruse Transmission Line (421 Km), the 500 kV Mantaro-Montalvo Transmission Line, (900 Km) and the 220 kV Friaspata-Mollepata Transmission Line (92 Km). All these projects allow the transmission of energy generated by four hydro facilities (Machupicchu, Santa Teresa, El Mantaro and Cerro del Aguilal with an aggregate capacity of around 1,700 MW and by an onshore wind park with a total capacity of 152 MW. The remaining 11% of the loan will be cancelled simultaneously, but with cash held at the corporate level (instead of with proceeds from the issuance) given that the projects financed were not green eligible.

- $87.6 million will be allocated to the prepayment of the senior unsecured loan from Banco Internacional del Peru S.A.A. This facility financed the 500 kV Trujillo Chiclayo Transmission Line (325 Km long) that connected the Cupisnique wind power plant.

- $35 million to prepay a senior unsecured loan from Scotiabank Peru S.A.A. Proceeds from the loan were used to partially finance the Mantaro-Nueva Yanango-Carapongo Interconnection and the Nueva Yanango-Nueva Huánuco Interconnection that, as in the other cases, connectsexclusively renewable capacity.

- Lastly, the remainder will be used to finalize the 500 kV Mantaro-Nueva Yanango-Carapongo and 500 kV Nueva Yanango-Nueva Huánuco Transmission Line. These facilities will allow the transmission of hydro generation from the center to the north of the country.

Rationale

- Proceeds from the notes will be exclusively allocated to the refinancing or funding of six transmission lines that allow the dispatch of renewable generation into the system (hydro and wind), which we expect will result in less carbon based fuels being used and thus substantial emissions savings. We have therefore analyzed them based on the mix of transported renewables.

- The financing protections, the structure governing the use of cash, and the annual reporting regime for the allocation of proceeds back the relatively strong governance score.

- Transparency assessment also reflects 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.

Key Strengths And Weaknesses

We believe the project has substantial green attributes because of its ability to transmit energy from the central region of Peru (where most of the hydro base energy is located) to the south and north that would otherwise rely on fossil fuel generation. We believe these assets are an essential contribution to the country’s major goal of transitioning to a low-carbon society.

The vast majority of the energy transmitted through the portfolio of assets involved in this transaction is hydroelectric based, which tend to achieve higher net benefit rankings 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 all connected hydro facilities are large scale and situated in what we consider a tropical area, the environmental impact score is lower after our hierarchy adjustment given significant environmental hazards.

CTM has a defined selection criteria based on a set of objectives that emphasized environmental sustainability. The group’s 2030 Strategic Plan specifically states that the development of those projects that will contribute to 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 ARS 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 group’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.

Scoring Summary

This transaction achieves a Green Evaluation score of E2 on our scale of E1 (highest) to E4 (lowest) and an overall score of 62. The evaluation reflects primarily a Mitigation score of 62, which is largely supported by proceeds allocated to key transportation infrastructure necessary to transport renewable energy to the market. The score also contemplates our view of Peru as a country with a relatively low-medium carbon intensity grid coupled with our hierarchy adjustment that reflects the role these technologies play in the transition to a low carbon economy. The E2 score also reflects the strong Governance (78) and Transparency (78) frameworks.
verification until the construction process ends, as it happened in the past with the bank loan facilities.

Lastly, 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 its annual report typically released late in the first quarter or 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 the Peruvian Ministry of Environment and with specific international regulations (including the Equator Principles). Lastly, CTM has a Corporate Sustainability Assessment from Dow Jones Sustainability Index.

### Sector level scores

<table>
<thead>
<tr>
<th>Sector</th>
<th>Location</th>
<th>Technology</th>
<th>Use of Proceeds (US$m)</th>
<th>Use of Proceeds treatment</th>
<th>Net Benefit Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Energy</td>
<td>Peru</td>
<td>Onshore Wind Power Generation</td>
<td>22.8</td>
<td>Proxy</td>
<td>41</td>
</tr>
<tr>
<td>Green Energy</td>
<td>Peru</td>
<td>Large Hydroelectric in tropical area</td>
<td>377.2</td>
<td>Proxy</td>
<td>77</td>
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## Carbon

**Green Evaluation Process**

<table>
<thead>
<tr>
<th>Technology</th>
<th>Baseline Carbon Intensity</th>
<th>Net Benefit Ranking</th>
<th>Carbon Hierarchy Adjustment</th>
<th>Environmental Impact Score</th>
<th>Proceeds (US$ mil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind power</td>
<td>High</td>
<td>41</td>
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<td>85</td>
<td>22.8</td>
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<tr>
<td>Solar power</td>
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<td>Small hydro</td>
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<tr>
<td>Large hydro (non-tropical areas)</td>
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<tr>
<td>Energy management and control</td>
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<td>Unspecified</td>
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<tr>
<td>Green transport without fossil fuel combustion</td>
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<td>Green buildings – new build</td>
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<td>Energy efficient projects (industrial and appliance efficiencies)</td>
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<td>Green transport with fossil fuel combustion</td>
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<tr>
<td>Green buildings refurbishment</td>
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<td>Nuclear</td>
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<tr>
<td>Large hydro in tropical areas</td>
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<td>77</td>
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<td>61</td>
<td>377.2</td>
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<tr>
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<td>Coal to natural gas</td>
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<td>Cleaner fuel production</td>
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<tr>
<td>Cleaner use of coal</td>
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**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**

- Improvement of fossil-fueled activities’ environmental efficiency

**Overall Score**

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

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78 Transparency
78 Governance
62 Mitigation

**E2/62** Overall Score
Our Green Evaluation Approach

Weighted aggregate of three:

- Transparency
- Governance
- Mitigation

or

- Adaptation

= Green Evaluation

Common approach used amongst opinion providers

- Transparency
  - Use of proceeds reporting
  - Reporting comprehensiveness

- Governance
  - Management of proceeds
  - Impact Assessment Structure

Unique to S&P Global Ratings

- Mitigation
  - Buildings, industrial efficiencies, energy infrastructure, transport, and water

- Adaptation
  - Resilience capex such as flood defenses, asset protection etc.

- Net Benefit Ranking
  - eKPI’s: Carbon, Waste, Water Use

- Cost Benefit Ranking
  - Resilience benefit ratio: Estimate of reduction in damages if event occurs

- Hierarchy Applied

- Environmental Impact

- Resilience Level

- Mitigation Score

- Adaptation Score

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

eKPI – Environmental Key Performance Indicator
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