

ASSESSMENT

8 May 2019

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Consorcio Transmantaro S.A.

Green Bond Assessment

Summary Analysis



Summary opinion

A GB2 (Very Good) grade is assigned to the \$400 million senior unsecured notes due 2034, proposed by Consorcio Transmantaro S.A. (CTM) and expected to be issued in April 2019.

Key considerations in our assessment include:

- » The organizational commitment to sustainability and comprehensive environmental strategy
- » Use of proceeds towards renewable energy
- » Weaknesses in impact reporting practices

Factor	Factor Weights	Score	Weighted Score
Organization	15%	2	0.30
Use of Proceeds	40%	2	0.80
Disclosure on the Use of Proceeds	10%	3	0.30
Management of Proceeds	15%	1	0.15
Ongoing Reporting and Disclosure	20%	2	0.40
Weighted Score			1.95

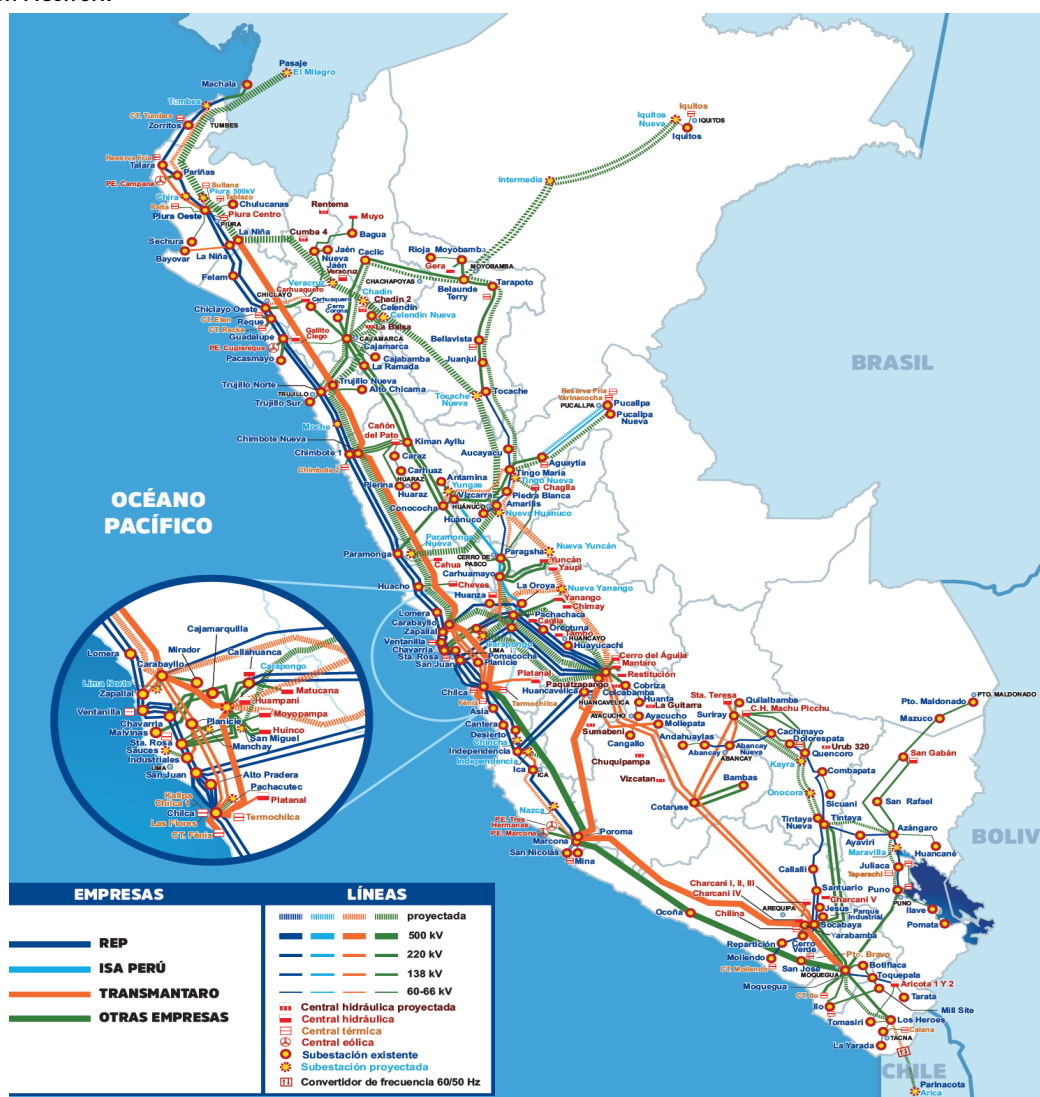
The transaction's weighted score, using the green bond scorecard, is 1.95. This, in turn, corresponds to a GB2 grade.

Profile

Consortio Transmantaro S.A. (CTM) is a corporation organized under the laws of Peru and engaged in the construction, operation, and maintenance of power transmission systems in Peru. The business is primarily focused on the transmission of high-voltage electric power through the power transmission system as well as the construction, operation and maintenance of power transmission lines. The CTM Transmission Network, has a total length of 4,261 Km (approximately 2,647 mi) of power transmission line circuits, 21 substations, the capacity to transmit 500, 220 and 138 kV and a transformation capacity of 6,993 MVA (with a reserve of 2,003 MVA). The company is also constructing an additional 841.77 Km (approximately 523 mi) of power transmission line circuits with a capacity to transmit 500 kV and 220 kV, which are expected to become fully operational by November 2021.

Exhibit 1

CTM Transmission Network



Source: CTM

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Transaction Summary

In April 2019, CTM proposed to issue \$400 million senior unsecured notes due 2034. The expected net proceeds will be directed towards refinancing existing bank debt, the proceeds of which were utilized to construct several projects currently in operation, as well as to finance projects currently under construction that are expected to be completed in 2021.

Strengths and Weaknesses

Strengths	Weaknesses
Most proceeds allocated to qualifying projects consistent with Green Bond Principles	Roughly 7.5% of net proceeds allocated to refinance non-qualifying projects
The organizational commitment to sustainability and comprehensive environmental strategy	The company is still in the process of determining how expected and actual environmental benefits of the specific projects will be quantified and reported
Independent auditor report around the use of funds	

Organization



The assessment reflects the Company's commitment to sustainability and comprehensive environmental strategy, including setting of company-wide goals and measurement of performance relative to targets. In order to contribute to climate change mitigation, since 2011 the company has been 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. They also implemented strategies to reduce the carbon footprint of their power transmission business. In addition to projects aimed at extending the reach and efficiency of renewable energy and other company-wide initiatives (such as green buildings and telecommuting), the Company is working with local communities to develop a reforestation and biodiversity conservation plan in the areas in which they operate that would allow them to receive carbon credits. Their 2030 strategy aims to reduce emissions by 8 million tons of CO₂ equivalents, which translates into 450,000 tons of CO₂ per year per subsidiary.

CTM publishes an Annual Corporate Carbon Footprint report, which calculates the carbon emissions from the company's various activities, details the methodology used, compares company annual performance to prior period and other companies in the sector, and makes recommendations for improvement. CTM also publishes Annual Environmental Management Report, which details the activities carried out during the period, related to environmental conservation and compliance with national environmental regulations.

For the purposes of green bond issuance, CTM's eligible green projects include projects and expenditures that relate to (i) installation of electricity transmission lines to facilitate the connection of renewable energy sources to the general network, and/or (ii) energy efficiency improvements to transmission infrastructure including smart grid projects, smart sensors, and automation systems. In order to qualify as green, projects must also conform to the internal technical engineering specifications related to environmental management.

Factor 1: Organization (15%)	Yes	No
Environmental governance and organization structure appear to be effective	●	
Policies and procedures enable rigorous review and decision making process	●	
Qualified and experienced personnel and/or reliance on qualified third parties	●	
Explicit and comprehensive criteria for investment selection, including measurable impact results		●
External evaluations for decision making in line with project characteristics	●	
Factor Score	2	

Use of Proceeds



The assessment is driven by our expectation that the net proceeds of the notes will be used primarily for investments that comply with ICMA's Green Bond Principles, namely renewable energy projects.

Out of expected net proceeds, a portion will be directed towards refinancing existing bank debt, which as of December 30, 2018 had an outstanding balance of roughly \$350 million. The proceeds of the existing bank debt were utilized to construct several projects currently in operation: Trujillo -- Chiclayo (TRUCHI) completed in May 2014, Machupicchu -- Cotaruse (MACO) completed in August 2015, Mantaro -- Montalvo (MAMO) completed in November 2017, Planicie -- Industriales completed in August 2017, Friaspata -- Mollepata (FRIMO) completed in August 2018, and Orcotuna completed in November 2017.

Planicie-Industriales and Orcotuna do not qualify as green under CTM's criteria, and roughly \$30 million of the existing bank debt had been utilized for construction of these projects. Our GB2 assessment reflects this.

The remaining projects that were funded with the existing bank debt qualified as green. MAMO and FRIMO projects facilitated the connection of the Cerro del Aguila Hydroelectric Plant and the wind power plants in SE Poroma to the southern part of Peru, allowing for those areas to rely on renewable energy sources instead of local coal and diesel. MACO and TRUCHI projects increased reliability and efficiency of the Santa Teresa Hydroelectric Plant and Cupisnique Wind Power Plant, respectively.

The remaining proceeds not used to refinance the existing bank debt will be directed to finance projects currently under construction, namely Nueva Yanango-Nueva Huánuco y Subestaciones Asociadas and Mantaro-Nueva Yanango-Carapongo y Subestaciones Asociadas (YANA-COYA), as well as other qualifying green projects. The YANA-COYA projects, which are expected to be completed in 2021, will further extend the reach and efficiency of power generated at Cerro del Aguila, as well as Yanago and Chaglla hydroelectric plants.

Factor 2: Use of Proceeds	Yes	No
>90% - 95% of proceeds allocated to eligible project categories that are determined based on the issuer's adopted policies and the categories established under the Green Bond Principles that will be further informed by one or more robust and widely recognized green bond frameworks or taxonomies that qualify eligible projects, including any applicable regulatory guidelines.	●	
Factor Score	2	

Disclosure on the Use of Proceeds



Until full allocation of the net proceeds from the offering, CTM will prepare an Annual Green Bond Report which will provide details of (i) the amount of net proceeds allocated to the green projects, (ii) project descriptions (iii) expected impact metrics, if available, (iv) the amount of net proceeds not yet allocated and (v) management expectations as to future allocations.

Our assessment reflects our understanding of the nature of projects refinanced by note proceeds and their expected qualitative environmental benefits, which are described above. We note, however, that the Company did not rely on second party reviews or other external certifications to assess these benefits, and is still in process of determining how expected and actual environmental benefits

of the specific projects (e.g. carbon emissions reduced as a result of displacing non-renewable energy sources) will be quantified and reported. These weaknesses are reflected in our GB2 assessment.

Factor 3: Disclosure on the Use of Proceeds	Yes	No
Description of green projects, including portfolio level descriptions, actual or intended	•	
Adequacy of funding and/or strategies to complete projects	•	
Quantitative and/or qualitative descriptions for targeted environmental results	•	
Methods and criteria, both quantitative and qualitative, for calculating performance against targeted environmental results		•
Issuer relies on external assurances: Second Party reviews, audits and/or third party certifications		•
Factor Score	3	

Management of Proceeds



Our assessment also reflects our understanding of CTM's policies and procedures around proceeds management. All projects described above received (or are expected to receive) project cost reports audited by Deloitte. We also note that management committed to segregating green bond proceeds from its regular operating accounts, with any temporarily unused balances invested in cash and cash equivalents. Until full allocation of the net proceeds from the offering, the issuer will prepare Annual Green Bond Reports which will provide details on cash usage and remaining balances and will be accompanied by a report from an independent accountant.

Factor 4: Management of Proceeds	Yes	No
Bond proceeds are segregated and separately tracked on an accounting basis or via a method by which proceeds are earmarked	•	
Application of proceeds is tracked by environmental category and project type	•	
Robust process for reconciling planned investments against actual allocations	•	
Clear eligibility rules for investment of cash balances	•	
Audit by external organization or independent internal audit unit	•	
Factor Score	1	

Ongoing Reporting and Disclosure

Until full allocation of the net proceeds from the offering, the issuer will prepare an Annual Green Bond Report which will provide details of (i) the amount of net proceeds allocated to the green projects, (ii) project descriptions (iii) expected impact metrics, if available, (iv) the amount of net proceeds not yet allocated and (v) management expectations as to future allocations. Although, as noted above, CTM publishes an annual Carbon Footprint Report for its overall operations, the company is still in the process of determining how expected and actual environmental benefits of the specific projects (e.g. carbon emissions reduced as a result of displacing non-renewable energy sources) will be quantified and reported. This weakness is reflected in our GB2 assessment.

Factor 5: Ongoing Reporting and Disclosure	Yes	No
Reporting and disclosure post issuance provides/to be provided detailed and timely status updates on projects	•	
Ongoing annual reporting is expected over the life of the bond	•	
Disclosures provide granular detail on the nature of the investments and their expected environmental impacts	•	
Reporting provides/to be provided a quantitative and/or qualitative assessment of the environmental impacts actually realized to-date	•	
Reporting includes/to include quantitative and/or qualitative explanation of how the realized environmental impacts compare to projections at the time the bonds were sold		•
Factor Score	2	

Moody's Green Bond Assessment (GBA)

Moody's GBA represents a forward-looking, transaction-oriented opinion on the relative effectiveness of the issuer's approach to managing, administering, allocating proceeds to and reporting on environmental projects financed with green bond proceeds. GBAs are expressed using a five-point relative scale, ranging from GB1 (Excellent) to GB5 (Poor). A GBA does not constitute a credit rating.

Moody's related publications

Methodology:

- » [Green Bonds Assessment \(GBA\)](#), 30 March 2016

Issuer research:

- » [Credit Opinion: Consorcio Transmántaro S.A.: Update following announcement of proposed \\$400 million notes](#), 8 April 2019

Green bond research:

- » [Green Bonds - Global: Global green bond issuance to hit \\$200 billion in 2019](#), 31 January 2019
- » [Green Bonds – Global: Environmental impact and reporting vary by jurisdiction and asset class](#), 4 December 2018
- » [Structured finance - Global: Green finance sprouts across structured finance sectors](#), 13 November 2018
- » [Green bonds – Global: Repeat issuers drive volume as green bond market matures](#), 12 November 2018
- » [Green Bonds – Global: Adoption of UN Sustainable Development Goals to drive demand](#), 12 November 2018
- » [Green Bonds - Global: Issuance in the first three quarters of 2018 flat compared with 2017](#), 6 November 2018
- » [Default research - Global: Default and recovery rates for project finance bank loans, 1983-2016: Green projects demonstrate lower default risk](#), 18 September 2018
- » [Green Bonds - Global: Second-quarter issuance rebounds but full-year 2018 growth likely to moderate](#), 31 July 2018
- » [Green Bonds – Sovereign: Sovereign green bond market on course for critical mass, but challenges remain](#), 9 July 2018
- » [Green Bonds – Global: Modest Q1 2018 issuance a speed bump on the road to market growth](#), 30 April 2018
- » [Green Bonds - Global: Global municipal green bond issuance will continue to rise](#), 19 March 2018
- » [Green Bonds - Global: Global green bond issuance set to eclipse \\$250 billion in 2018](#), 31 January 2018
- » [Cross-sector - Global: FAQ: The green bond market and Moody's Green Bonds Assessment](#), 29 November 2017
- » [Green Bond Assessments - Global: Issuers exhibit strong organizational frameworks but differ on disclosure](#), 19 September 2017

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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