

Second Party Opinion

## Augstsprieguma tīkls AS' Green Bond Framework

Oct. 6, 2021

Augstsprieguma tīkls AS (AST) is a government-owned, independent electricity transmission system operator (TSO) that operates and develops electric power transmission in Latvia. AST has about 5,600 kilometers (km) of transmission lines that transmit approximately 8,700 gigawatt hours (GWh) of electricity through Latvia.

In our view, AST's green bond framework, published in October 2021, is aligned with:

 Green Bond Principles, ICMA, 2021

### Issuer's Sustainability Objectives

As a government-owned electricity TSO, AST plays an important role in establishing a secure, sustainable, and efficient transmission network in Latvia. AST's strategy is to contribute to eight of the U.N.'s sustainable development goals (SDGs) as it works toward achieving Latvia's objective of becoming carbon neutral by 2050.

AST's sustainability objectives include developing energy- and cost-efficient infrastructure, especially for renewable electricity; deliver a continuous, efficient, and affordable energy transmission service; promote industry innovation development (such as systems digitalization); and introducing measures that help mitigate climate change. As a medium priority, AST is working toward responsible consumption and ensuring a minimal impact on the environment while ensuring sustainable working conditions within the company and across the value chain.

AST's projects--such as the Latvia-Estonia Third Interconnection project and its initiative to ultimately disconnect from Russia's and Belarus' fossil-intensive power sector--are aimed at ensuring a more reliable, green power supply as it connects with the EU's electricity market. Similarly, higher voltage lines via the Kurzeme Ring transmission project should increase grid strength and reliability, while promoting wind renewable capacity. Through its green bond framework, AST aims to raise funds that will directly contribute to its objective of ensuring the security of energy supply for Latvia.

**PRIMARY CONTACT**

**Anna Liubachyna**  
London  
+442-0717-60494  
anna.liubachyna@  
spglobal.com

**RESEARCH CONTRIBUTOR**

**Debadrita Mukherjee**  
Gurgaon  
CRISIL Global Analytical Center

## Second Party Opinion Summary

### Use of proceeds

**Alignment**  AST's green bond framework is aligned with this component of the Green Bond Principles.

**Score** **Satisfactory** Strong Advanced

AST commits to utilizing the net proceeds of the financing instruments issued under the framework to fund eligible green assets. The company provides a clear description of eligible green projects.

### Process for project selection and evaluation

**Alignment**  AST's green bond framework is aligned with this component of the Green Bond Principles.

**Score** **Satisfactory** Strong Advanced

AST outlines in its green bond framework the process for selecting green eligible projects. The framework specifies that a member of AST's board is responsible for approving a list of eligible green projects every quarter. The quality management department, together with the Treasury department, will recommend and update the list of eligible projects. AST specifies it has procedures in place to manage environmental and social risks related to eligible projects.

### Management of proceeds

**Alignment**  AST's green bond framework is aligned with this component of the Green Bond Principles.

The green bond framework states that the net proceeds of the issuance will be credited to a designated sub-account to be tracked appropriately. AST monitors the use of proceeds on a regular basis. The framework specifies that unallocated proceeds will be placed in a liquidity reserve as a temporary measure.

### Reporting

**Alignment**  AST's green bond framework is aligned with this component of the Green Bond Principles.

**Score** **Satisfactory** Strong Advanced

AST commits to reporting the allocation of proceeds across the eligible projects until full allocation on the portfolio level. Impact reporting will be conducted where possible. AST will publish a green bond report with all relevant information on an annual basis, and this will be available as a part of an annual report, sustainability report, or on its website.

## Framework Assessment

### Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our commitments opinion as satisfactory, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 AST's green bond framework is aligned with this component of the Green Bond Principles.

### Commitments score

**Satisfactory**

Strong

Advanced

We consider AST's overall use of proceeds commitments to be satisfactory.

We believe AST's framework aligns with the Principles because it commits to allocating all net proceeds toward financing and refinancing of eligible green projects. The framework identifies three eligible green project categories, namely, (i) renewable energy, (ii) energy efficiency, and (iii) quality, security, and resilience of electricity transmission infrastructure, to which the primary objectives of the selected projects must align.

The eligible projects include the Latvia-Estonia third interconnection, the Kurzeme Ring project, the EU synchronization project, and update of transmission lines and substations. In our view, these projects support efficient infrastructure, allowing AST to connect future renewable energy generation capacity (namely wind), reduce and eventually eliminate the need for fossil fuel to support additional energy demand, and provide better stability in AST's operations. Therefore, we believe these projects contribute to pollution prevention and control, as well as climate-change mitigation environmental objectives.

In addition, each year, AST will disclose the proportion of proceeds allocated to refinanced projects as part of its sustainability and annual reports, available on its website, which we view as a strength.

However, the framework does not specify any look-back period for refinanced projects.

### Process for project selection and evaluation

The Principles make optional recommendations for stronger structuring practices, which informs our commitments opinion as satisfactory, strong, or advanced. For process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance.

 AST's green bond framework is aligned with this component of the Green Bond Principles.

### Commitments score

**Satisfactory**

Strong

Advanced

We consider AST's overall process for project selection and evaluation commitments to be satisfactory.

AST's green bond framework provides a description of the process for project selection and evaluation as per the principles' requirements. The quality management department together with the Treasury department will analyze and recommend projects that comply with the stated criteria on a quarterly basis. A member of the board approves the final list of eligible green projects. The treasurer and treasury department will maintain an updated list of eligible green projects. The framework further specifies that the proceeds will not be used for energy generation through fossil fuel or nuclear sources.

The framework states that the process for project selection and evaluation complies with the issuer's environmental and corporate social responsibility policies, both of which are available in AST's sustainability report. Therefore, all eligible projects will be screened through internal environmental and social risk assessment procedures and may be additionally examined by an independent external specialist.

## Second Party Opinion

However, while the framework mentions an intent to follow developments in industry standards and might refer to different standards in the future, currently it does not incorporate any taxonomies, standards, or certifications as part of the project selection process. In addition, the company does not have a defined process to identify mitigants to negative social and environmental impacts that arise from the selected projects.

### Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will continue to be dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 AST's green bond framework is aligned with this component of the Green Bond Principles.

We believe the company's framework aligns with the principles, since AST commits to transferring the proceeds of issuance under this framework into a separate sub-account for tracking purposes. Because all issuances will be tracked at the portfolio level, the company will ensure that sufficient eligible green projects are available in the portfolio and can remove or add projects when needed. In the event of any unallocated proceeds, AST will temporarily place them in liquidity reserves.

However, the framework does not specify the timeframe by which all funds should be allocated to eligible projects.

### Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as satisfactory, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 AST's green bond framework is aligned with this component of the Green Bond Principles.

### Disclosure score

Satisfactory

Strong

Advanced

We consider AST's overall reporting practices to be satisfactory.

We believe the company's framework aligns with the principles because it commits to annual reporting on allocation of proceeds and impact reporting at the portfolio level. The framework states that the yearly sustainability and annual reports will each contain a section on green bond reporting, which is to include: (i) the total amount of proceeds; (ii) share of proceeds used for financing/refinancing; (iii) share of proceeds across identified eligible green project categories, and (iv) examples of eligible green projects.

AST will report, as far as feasible, on certain quantitative environmental metrics associated with green projects, such as estimated megawatts of energy and carbon dioxide saved annually, and access to/or newly made connections to renewable generation capacity, among others.

In addition, the framework stipulates that, to further promote transparency in the management of proceeds, AST may engage an external party to verify the use of proceeds after issuance, on an annual basis.

Tempering our assessment is that AST's framework does not disclose the key underlying methodology used to calculate the quantitative performance measures. In addition, AST does not commit to having an independent third-party verification or audit of its impact reporting after issuance.

## Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), set up by the U.N. in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

AST's green bond framework intends to contribute to the following SDGs:

Use of proceeds	SDGs			
Renewable energy				
	<b>*12. Responsible consumption and production</b>	<b>13. Climate action</b>	<b>15. Life on land</b>	
Energy efficiency				
	<b>*7. Affordable and clean energy</b>	<b>*9. Industry, innovation and infrastructure</b>	<b>15. Life on land</b>	
**Quality, security, and resilience of electricity transmission infrastructure				
	<b>7. Affordable and clean energy</b>	<b>9. Industry, innovation and infrastructure</b>	<b>8. Decent work and economic growth</b>	<b>17. Partnerships for the goals</b>

\*The eligible project categories link to these SDGs in the ICMA mapping.

\*\*Quality, security and resiliency of electricity transmission infrastructure is not a distinct project category in the GBP and in the ICMA mapping.

## Second Party Opinion

Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P) receives compensation for the provision of the Sustainable Financing Opinions product (Product). S&P may also receive compensation for rating the transactions covered by the Product or for rating the issuer of the transactions covered by the Product. The purchaser of the Product may be the issuer.

The Product is not a credit rating, and does not consider credit quality or factor into our credit ratings. The Product does not consider, state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product encompasses Second Party Opinions and Transaction Evaluations. Second Party Opinions consider features of a financing transaction and/or financing framework and provide an opinion regarding alignment with certain third-party published sustainable finance principles and guidelines ("Principles"). For a list of the Principles addressed by our Second Party Opinions, see the Analytical Approach and Analytical Supplement, available at [www.spglobal.com](http://www.spglobal.com). Transaction Evaluations provide an opinion which reflects our assessment of the potential relative environmental benefit of the funded or resilience projects. The Product is a statement of opinion and is neither a verification nor a certification. The Product is a point in time evaluation reflecting the information provided to us at the time that the Product was created and published, and is not surveilled. The Product is not a research report and is not intended as such.

S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Product. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for reliance of use of information in the Product, or for the security or maintenance of any information transmitted via the Internet, or for the accuracy of the information in the Product. The Product is provided on an "AS IS" basis. S&P PARTIES MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDED BUT NOT LIMITED TO, THE ACCURACY, RESULTS, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE PRODUCT, OR FOR THE SECURITY OF THE WEBSITE FROM WHICH THE PRODUCT IS ACCESSED. S&P Parties have no responsibility to maintain or update the Product or to supply any corrections, updates or releases in connection therewith. S&P Parties have no liability for the accuracy, timeliness, reliability, performance, continued availability, completeness or delays, omissions, or interruptions in the delivery of the Product.

To the extent permitted by law, in no event shall the S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence, loss of data, cost of substitute materials, cost of capital, or claims of any third party) in connection with any use of the Product even if advised of the possibility of such damages.

S&P maintains a separation between commercial and analytic activities. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

For PRC only: Any "Sustainable Financing Opinions" or "assessment" assigned by S&P Global Ratings: (a) does not constitute a credit rating, rating, sustainable financing framework verification, certification or evaluation as required under any relevant PRC laws or regulations, and (b) is not intended for use within the PRC for any purpose which is not permitted under relevant PRC laws or regulations. For the purpose of this section, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.