

Green Framework Alignment Opinion

Georgian Railway Green Bond Framework

May. 26, 2021

Green Bond Framework Overview

In our view, the Georgian Railway (GR) green bond framework, published May 26, 2021, is aligned with the four components of the Green Bond Principles 2018 (GBP). Georgian Railway, based in Tbilisi, is the country's only railway operator. It provides freight and passenger railway transportation services, terminal services, and railway infrastructure development, and connects to Georgian ports on the Black Sea as well as rail systems in Armenia, Azerbaijan, and Turkey. The objectives of GR's green bond framework correspond to its sustainability commitments of minimizing and mitigating the environmental effects caused by its activities, as well as improving the overall environmental performance of the country's transportation sector. Projects financed under the framework will further support the electrification, modernization, and extension of the country's railway infrastructure.

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Framework Alignment Overview



1. Use of proceeds

The GR green bond framework is aligned with this component of the GBP because the company commits to using an amount equivalent to the net proceeds of bonds issued under the framework to finance or refinance eligible green projects under the category of "clean transportation". This category is recognized by the GBP.



2. Process for project evaluation and selection

The framework is aligned with this component of the GBP because the framework outlines the process used to assess whether the projects considered are eligible under the "clean transportation" category. The company's corporate and economic departments will be responsible for evaluating projects under the eligibility and exclusion criteria, and annual monitoring for continued eligibility.



3. Management of proceeds

The framework is aligned with this component of the GBP because it clearly states that allocation and expenditures for eligible projects will be tracked using an internal register.



4. Reporting

The framework is aligned with this GBP component because the company will publish a Green Bond Allocation and Impact report annually on its website until full-proceeds allocation and in the event of a material change.

Issuer Sustainability Objectives

As a part of its focus on sustainable development and supporting national environmental objectives, GR works to minimize and mitigate the environmental effects of its activities and improve the overall environmental performance of the transportation sector in Georgia. The company intends to contribute to the Paris Agreement objectives by facilitating the transition from the most carbon-intensive transport modes, such as cars and planes, to rail transport; the potential benefits are significant given that the International Energy Agency estimates 23% of energy-based CO₂ emissions comes from the transportation sector. Georgia's rail system has been fully electrified since the 1990s, so fossil fuels are only used directly for some auxiliary assets. The company has established policies and procedures for several environmental concerns, as well as workforce benefits and operational safety.

The issuer has developed a green bond framework to help finance projects that contribute to its sustainability goals. Financed projects will be dedicated to the modernization and expansion of railway infrastructure and supporting assets. Potential environmental benefits including reducing electricity consumption as well as improving transportation speed and customer service for both freight and passenger activities. According to GR, additional benefits of financed projects include increased safety for passengers, reduced air and noise pollution from the electrification of the network, and reduced traffic congestion in Tbilisi.

Framework Description

1. Use of proceeds

The GBP stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green projects. According to the GBP, eligible projects will seek to achieve at least one of five environmental objectives, including: 1) climate change mitigation, 2) climate change adaptation, 3) natural resource conservation, 4) biodiversity conservation, and 5) pollution prevention and control.



GR commits to allocate an amount equivalent to the net proceeds of the green bond issued to finance eligible green projects in clean transportation. These projects will contribute to the construction, modernization, maintenance, and extension of new and existing zero direct emission electric railway lines, and the acquisition and maintenance of supporting infrastructure and assets. Clean transportation is one of the project categories identified in the GBP.

2. Process for project evaluation and selection

To align with the second component of the GBP, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects, including exclusionary criteria if applicable, and the overall sustainability objectives that underpin the selection process.



GR's Corporate and Economic Department will be responsible for evaluating projects based on their alignment with the eligibility criteria described above. The framework also states that these departments will be responsible for annually reviewing the continued eligibility of financed projects; any projects no longer deemed eligible will be replaced as soon as an eligible replacement is identified.

The company specifies that the following activities will be excluded from the green bond's financing: fossil fuel energy; fossil fuel reliant transport; nuclear energy; alcohol; and defense.

3. Management of proceeds



The GBP require a seeker of finance to monitor the net proceeds of all outstanding green bond transactions, which includes appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible green projects. The GBP also require a seeker of finance to disclose to investors the types of temporary placement they intend to use for unallocated proceeds.

The framework specifies that expenditure on eligible projects will be tracked using an internal register, to ensure that an amount equivalent to the net proceeds of the green bonds is allocated in accordance with the green bond framework. The framework further specifies that it will strive to match expenditure on eligible projects with the total proceeds raised within three years after the issuance of a green bond.

Pending full allocation of the net proceeds, the unallocated proceeds will be held in temporary investments (cash, cash equivalents, and liquid marketable investments) or used to repay outstanding debt.

4. Reporting



The GBP stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental impact.

GR commits to publish an annual Green Bond Allocation and Impact report until full allocation of the net proceeds, or in the event of a material change. This report will include details of the eligible green projects and the amounts allocated to their financing; the proportional allocation of proceeds between refinancing and new projects; and the remaining balance of cash or cash equivalents to be allocated.

The annual report will also cover the aggregated environmental effects of projects financed under the framework. GR will estimate the avoided CO2 emissions associated with using rail transport as opposed to fossil fuel transport (e.g. road).

Additional Features Of The Framework

This section provides additional information on whether the framework incorporates recommended aspects of the GBP and goes beyond minimum requirements. This section does not affect our opinion of alignment with the stated principles.

GR's green bond framework implements several of the voluntary guidelines outlined in the GBP. The company's framework has the following strengths:

- GR commits to set out the proportional allocation of funds to financing and refinancing projects in its annual Green Bond Allocation and Impact report. The framework specifies that refinanced projects will be eligible if the associated expenditures were made within three years preceding the year of issuance of the green bond.
- The company commits to annually disclose the allocation of green bond proceeds to each project being financed. The framework also states that GR's external auditor will provide assurance as to the allocation of proceeds; this additional assurance is recommended by the GBP.
- The framework references the eligible projects to the EU taxonomy, specifically linking the green bond to the following taxonomy activities: passenger interurban rail transport; freight rail transport; and infrastructure for rail transport.
- The framework states that, when feasible, it will aim to align its impact reporting with the Handbook for 'Harmonized Framework for Impact Reporting', December 2020 version.
- GR also intends to include the methodology used to calculate the environmental impacts in its annual reporting.

Offsetting the above strengths are the following:

- The framework allows GR to use the proceeds of green transactions to repay outstanding debt pending full allocation of an amount equivalent to net proceeds of the transactions to eligible projects. We consider this relatively permissive, as some parties may not agree with GR that this is a "temporary" use of proceeds and outstanding debt may have been used to fund non-eligible projects. However, given the overall commitment to track allocations and to allocate an amount equivalent to the net proceeds within three years, and the extremely limited portfolio of projects that may not be eligible projects given GR's profile as an electrified rail system operator, we do not believe this is unaligned with the GBP.
- The framework does not commit to obtain external verification of reported environmental impacts.

Conclusion

Based on our assessment of the contents of GR's green bond framework, we regard the framework as being aligned with the four components of the GBP given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds to eligible green projects, as defined by the seeker of finance;
- Use clear green criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Regular reporting of environmental impacts and uses of proceeds.

Mapping To The UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set up by the United Nations in 2015 and form an agenda for achieving sustainable development by 2030. We use International Capital Market Association (ICMA) SDG mapping for this part of the report. We acknowledge that the ICMA 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.

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

Use of proceeds	SDGs
<i>Clean transportation</i>	 *11. Sustainable cities and communities

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

Green Framework Alignment Opinion

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