

Post-Issuance Second Party Opinion

ISA Green Bond Issuance



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 **SITAWI**
FINANÇASdoBEM

About SITAWI

SITAWI is a Latin American organization that mobilizes capital for positive environmental and social impact. We develop financial solutions for social impact and advise the financial sector to incorporate ESG issues in strategy, risk management and investment analysis. We are one of the top 5 ESG research providers for investors according to Extel Independent Research in Responsible Investment - IRRRI 2019 and the first Latin American organization to assess the green credentials of bonds.

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I. Scope

The aim of this post-issuance report is to confirm the opinion on the alignment with the Green Bond Principles of the first green bond issued by **Interconexión Eléctrica S.A. E.S.P. - ISA** on August 12, 2020. The proceeds from the issuance are being used for financing and reimbursement of costs related to the implementation of two electricity transmission projects.

SITAWI has applied its internal method, which is aligned with the Green Bond Principles (GBP)¹ the International Finance Corporation Performance Standards (IFC Performance Standards) and other internationally recognized sustainability standards.

SITAWI's opinion is based on:

- Issuance characteristics and the process for allocating proceeds to the green projects established during the pre-issuance assessment;
- Assessment of current and future environmental and social impacts generated by the company and the projects.

This assessment used information and documents provided by ISA, some of them confidential, in addition to desk research. This process was carried out between July and August 2021.

The evaluation process consisted of:

- Planning the assessment;
- Conducting the assessment, including client preparation and evidence gathering;
- Preparing the conclusion;
- Preparing of the second party opinion report.

This post-issuance report updates the information from the pre-issuance that was finalized by SITAWI in July 2020, which has attested the green credentials of the bond. The former assessment report was publicly disclosed on ISA's website.

SITAWI had access to all documents and staff requested and was able to provide an opinion with a reasonable level of assurance regarding completeness, accuracy and reliability.

The assessment process was conducted in accordance with relevant general principles and professional standards of independent auditing and in line with the International Standard on Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), International Standard on Quality Control (ISQC 1, 2009) and Code of Ethics for Professional Accountants of the International *Ethic Standards Board for Accountants* (IESBA, 2019).

¹ <http://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GBP-2016-Final-16-June-2016.pdf>

II. Opinion

Based on the assessment performed, we reaffirm that **Interconexión Eléctrica S.A. E.S.P. - ISA** issuance remains aligned with the Green Bond Principles and keep the characteristics necessary to be labelled as a Green Bond.

This opinion is based on the following assessments:

- **Allocation of proceeds**
 - a. The eligible projects and assets that are being funded by the green bond issuance are power transmission lines and substations, which have been specified during the pre-issuance phase;
 - b. The CECO and COCU projects have not received funds from other green, climate or sustainable bond issuances. The net proceeds of the current issuance are not greater than the total CAPEX of the eligible projects and assets;
 - c. The proceeds from the issuance have been held ring-fenced in a separate account for the exclusive use of funding the eligible projects and assets;
 - d. 100% of the proceeds have already been allocated to the CECO and COCU projects, which are scheduled to start operating in December 2021 and April 2023, respectively;
 - e. The Issuer maintains a commitment to report annually to investors and to the public the allocation of funds in the eligible projects, as well as their environmental and climate benefits.

- **Impacts of the projects**
 - a. The projects generate environmental benefits through the transmission of renewable energy and through the reduction of energy losses by improving the quality of the infrastructure of Colombia's National Interconnected System (SIN);
 - b. We identified that the projects can contribute to the achievement of SDG 7 (affordable and clean energy), 8 (decent work and economic growth) and 13 (climate action);
 - c. ISA has adopted effective measures to mitigate local impacts caused by the implementation of transmission lines;
 - d. During the pre-issuance, the issuer has published on its website information about the projects financed by the green bond, as well as the environmental externalities and impacts;
 - e. Therefore, we consider that the issuer is still capable of managing and mitigating environmental and social risks of the eligible projects and assets.

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Statement of Responsibility

SITAWI is not a shareholder, subsidiary, customer, supplier of ISA nor of any of its subsidiaries. Therefore, it can provide an independent opinion.

The analyses contained in this opinion are based on confidential documents provided by the Issuer. We cannot attest to their completeness, accuracy or reliability. Therefore, SITAWI cannot be held responsible for the use of the information contained in this opinion.

We also emphasize that the opinions provided in this report are not recommendations for investment in bonds and securities, nor are they intended to attest the profitability or liquidity of the bond.

III. Allocation of Proceeds

The proceeds from ISA's Green Bond issuance were allocated to financing and reimbursement of costs related to power transmission infrastructure projects.

All transmission lines are controlled by ISA and will be connected to the National Interconnected System (SIN). Table 1 presents the projects to which the green bond proceeds have been allocated.

Table 1 - Projects related to ISA's Green Bond issuance

Project	CECO	COCU
Name	Transmission Line Cerromatoso – Chinú – Copey at 500 kV	Interconnection Cuestecitas – Copey – Fundación 500/200 kV
Location	Córdoba, Sucre, Bolivar, Cesar, Magdalena	Cesar, La Guajira, Magdalena
Status	Under construction	Licensing,, EIA filing
Start date	Jun-2018	Jan-2017

ISA's green bond was issued in accordance with the terms of the Public Offer Notice, for a total amount of COP 300,000,000,000 (three hundred billion Colombian pesos). The net value of the issuance (COP 299,997,669,786) represents approximately 33% of the eligible projects' costs (COP 920,268,649,481).

The management of proceeds was carried out by ISA's financial area, through an internal system. The proceeds of the green bond have been allocated to the projects between September 2020 and July 2021. These proceeds were kept in an separate account for exclusive use of Banco de Bogotá, and their allocation was verified through bank receipts.

The allocation of funds for each project is detailed below (Table 2).

Table 2 – Allocation of Green Bond proceeds (COP 1 billion)

Project	Total project value	Net value of the issuance	% allocated to each project
CECO	412,08	245,40	72%
COCU	508,19	54,59	18%
TOTAL	920,27	299,99	100%

The Issuer published the ISA 2020 Integrated Management Report (externally audited) on its Investor Relations website. This report describes the eligible projects, link to SITAWI's Pre-Issuance Second Party Opinion, and information on the environmental benefits of the projects. The company is committed to disclose the environmental KPIs defined in the pre-issuance SPO, which includes the amount of renewable power transmitted, until the maturity of the bond.

We conclude that the total proceeds were allocated as established in the pre-issuance. The value of the issuance is not greater than the value of the eligible projects (CECO and COCU). Investors are being informed about the environmental and social impacts, including with the disclosure of this report.

IV. Impacts of the Projects

Environmental and Climate Benefits

The main environmental benefit generated by the projects is the increased volume of non-conventional renewable energy transmission (wind and solar mostly). This benefit will be demonstrated by the variation of the indicator "non-conventional renewable energy connected to the SIN of Colombia" as indicated in the respective Public Offer Notice.

At the project level, the operation of CECO allows the expansion of the system interchange limit from 1650 MW to 2300 MW resulting in an increase of 650 MW. The COCU project would avoid wind generation trapping, allowing for a 432 MW increase in the system interchange limit.

During the pre-issuance, the issuer committed to disclose:

- Status of the environmental licenses related to the projects;
- Impacts on conservation areas and resettlements.

These items were reported and assessed by SITAWI over the next section.




Management of Adverse Socio-environmental Impacts

The company identified the main environmental and social impacts of the projects as well as risk mitigation measures at the project level, according to the next tables.

CECO Project

Cerromatoso - Chinú - Copey Transmission Line at 500 kV


Project Description: <ul style="list-style-type: none"> • 500 kV transmission line, extension of 83.88 mi, between existing substations Cerromatoso and Chinú. • 500 kV transmission line, extension of 134,83 mi, between existing substations Chinú and Copey. • Improvement on power services quality in the regions of Córdoba, Sucre and Cesar. • The 22 municipalities in the area of influence are Montelíbano, Buenavista (Córdoba), Planeta Rica, Pueblo Nuevo, Ciénaga de Oro, Sahagún, Chinú, Sampués, Roble, Sincé, San Pedro, Buenavista (Sucre), Corozal, Córdoba, Zambrano, Tenerife, Plato, Sabanas de San Ángel, Nueva Granada, Ariguaní, Bosconia, El Copey. 	Departments: Córdoba, Sucre, Bolivar, Magdalena and Cesar.	Start date: Jun-2018
	Proceeds allocated: COP 245,409,400,324 (82% of the issue value).	Expected operation date: Dec - 2021

<p>Status of environmental licenses: Resolution 00837 of May 16, 2019 issued by the National Environmental Licensing Authority (ANLA).</p>	<p>Related SDGs:</p>
<p>Positive impacts: Employment Generation in the region during the construction stage, stimulate the economy, increase in tariff collection, improvement in the provision of electric power service and in the reliability of the SIN.</p>	  
<p>Main risks: Environmental risks include demand for natural resources where the project crosses, impacts on vegetation in the project surroundings, fragmentation of ecosystems, and loss of habitat for wildlife. Among the risks that may affect the surrounding communities, it is considered that the project route may require the resettlement of people and the construction of the project may interfere with the culture and territory of ethnic communities, as well as damage archaeological sites.</p>	
<p>Mitigation measures: To control risks, the project's ESG management, described in the ISA 2020 Integrated Management Report, considers mitigation measures for each dimension:</p> <p>Environmental: use of software (PLS CADD) to reduce interventions in protected areas, conservation areas or ecosystems with biological importance, which implied in a 71.8% reduction of intervened area; identification of eight areas with category of importance (such as the Sierra Nevada de Santa Marta biosphere reserve); identification of five endangered plant species and 35 species of minor concern to guarantee their conservation in the intervened areas; installation of 6884 flight diverters to reduce the collision of birds with the guard cables for 143 spans that represent the installation in 18.2% of the length of the transmission line; laying of cables with a drone in exclusion zones for the project or in sensitive ecosystems that are crossed.</p> <p>Communities: strategies for conservation and protection of archaeological heritage and mechanisms for the participation of the surrounding community; identification of 28 sites subject to archaeological rescue; periodic visits to the excavation area; preventive archaeology program; employment for 47 people from the municipalities in the area of influence; economic compensation for two families (nine people) who were resettled due to the project; 172 community organizations, including 25 prior consultations with the Zenú ethnic communities and four peoples of the Sierra Nevada de Santa Marta.</p> <p>Socio-environmental management: Information and Community Participation Projects (PIPC) that include 213 progress meetings with social actors in the area of influence; environmental education for the communities; generation of close to 1,255 jobs with personnel from the region; 174 Community Benefit Projects (PBC) such as construction or adaptation of road infrastructure and others; humanitarian aid (food, drinking water, hospital supplies and biosecurity elements) during the COVID-19 pandemic.</p>	

COCU Project

Interconnection Cuestecitas – Copey – Fundación 500/200 kV

<p>Project Description:</p> <ul style="list-style-type: none"> • Transmission line Copey – Cuestecitas of 500 kV, extension of 133,59 mi. • Transmission line Copey – Fundación at 220 kV, extension of 31,06 mi. • New Substation Cuestecitas of 500 kV and transformation 500/230 kV. • New Substation Cuestecitas of 220 kV and connection to the existing substation. 	<p>Departments: Cesar, La Guajira y Magdalena</p> <p>Proceeds allocated: COP 54.587.779.462 (18% (18% of the issue value)).</p>	<p>Start date: Jan-2017</p> <p>Expected date operation: Apr-2023</p>
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<ul style="list-style-type: none"> • Transmission of wind energy to be installed in the Guajira area to increase the installed capacity of the SIN generation mix. • The 17 municipalities in the area of influence are Fundación, Algarrobo, El Copey, La Paz, San Diego, Valledupar, Bosconia, El Molino, Urumita, La Jagua del Pilar, Villanueva, Hatonuevo, Barrancas, Fonseca, Distracción, Albania, San Juan del Cesar. 		
<p>Status of environmental licenses: Submitted the Environmental Impact Assessment (EIA) on July 08, 2021 with the National Environmental Licensing Authority (ANLA) as part of the environmental licensing process.</p>	<p>Related SDGs:</p>	
<p>Positive impacts: Employment generation in the region during the construction stage, stimulate the economy, increase in tariff collection, improvement in the provision of electric power service and in the reliability of the SIN.</p>		
<p>Main risks: Environmental risks include demand for natural resources where the project crosses, increased logging, impacts on vegetation over the project easement, fragmentation of ecosystems, loss of wildlife habitat.</p> <p>Among the risks that may affect neighboring communities, it is considered that the project route may require the resettlement of people, and the construction of the project may interfere with the culture and territory of ethnic communities, as well as damage archaeological sites.</p>		
<p>Mitigation measures:</p> <p>To control risks, the project's ESG management, described in the ISA 2020 Integrated Management Report, considers the following mitigation measures for each dimension:</p> <p>Environmental: logging variable strips to reduce logging intervention areas through software information processing; flight diverters to mitigate bird collisions with the conductor cables; height assessment of towers to mitigate biotic intervention; cable laying with drone to minimize impact on vegetation.</p> <p>Communities: participation of the Arhuaca indigenous community; execution of 10 archeological rescues; employment of 18 people in the area of influence; prior consultation with 13 communities, 3 of which are in process; 66 community action boards (7,970 people); boards with 8 community councils (2,000 people); boards with 8 indigenous communities (3,400 people).</p> <p>Socio-environmental management: execution of the Community Information and Participation Process (PIPC) with 66 territorial units, 5 governors' offices, 3 environmental corporations and 240 private landowners in 402 meetings.</p>		