

Second Party Opinion

Beijing Environment Sanitation Engineering Group Co. Ltd. Green Financing Framework

Sept. 15, 2021

Beijing Environment Sanitation Engineering Group Co. Ltd. (BESG) is an environmental services company based in Beijing, China. It is wholly owned by the Beijing municipal government. The company's main business is environmental sanitation, including waste treatment. It also engages in waste recycling and sanitation equipment manufacturing.

In our view, the Beijing Environment Sanitation Engineering Group Co. Ltd. Green Financing Framework, published in September 2021, is aligned with:

- ✓ Green Bond Principles (GBP), ICMA, 2021
- ✓ Green Loan Principles (GLP), LMA/LSTA/APLMA 2021

Issuer's Sustainability Objectives

BESG's sustainability strategy focuses on solid waste reduction, recycling and detoxification, and the maintenance of dedicated research and development capabilities.

The company sees itself as a key enabler of China's aspiration to promote low-carbon consumption and sustainable development. For instance, China's 14th Five-Year Plan for Development on Urban and Rural Domestic Waste Classification and Treatment Facilities states that the country's urban and rural waste incineration capacity should reach 800,000 tons/day.

BESG has developed a green financing framework to raise funds that will have positive environmental impact in line with its sustainability strategy.

PRIMARY ANALYST

Bertrand Jabouley
Singapore
+65 6239 6303
bertrand.jabouley@spglobal.com

SECONDARY ANALYST

Congyun Zhou
Hong Kong
+852 2533 3576
colton.zhou@spglobal.com

RESEARCH CONTRIBUTOR

Neha Goil
Mumbai
CRISIL Global Analytical Center, an
S&P affiliate, Mumbai

Second Party Opinion Summary

Use of proceeds

Alignment  Beijing Environment Sanitation Engineering Group Co. Ltd.'s green financing framework is aligned with this component of the GBP and GLP.

Score Satisfactory **Strong** Advanced

The company commits to utilizing the net proceeds of the financing instruments issued under the framework exclusively to fund clearly defined eligible green assets, which relate to some of the United Nations' Sustainability Development Goals (SDGs).

Process for project selection and evaluation

Alignment  Beijing Environment Sanitation Engineering Group Co. Ltd.'s green financing framework is aligned with this component of the GBP and GLP.

Score **Satisfactory** Strong Advanced

The company's framework outlines the process to ensure selected projects are all eligible, while identifying and managing perceived and associated environmental and social risks. Dedicated management and finance committees, comprising of all executive directors and members from different functional areas, select and evaluate eligible projects.

Management of proceeds

Alignment  Beijing Environment Sanitation Engineering Group Co. Ltd.'s green financing framework is aligned with this component of the GBP and GLP.

BESG will deposit the net proceeds from financing instruments in its general account and maintain a register to monitor their use. The company commits to replace swiftly any project becoming ineligible. Pending allocation or reallocation, the company will hold the net proceeds in short-term instruments such as cash or cash equivalents, as per its liquidity guidelines.

Reporting

Alignment  Beijing Environment Sanitation Engineering Group Co. Ltd.'s green financing framework is aligned with this component of GBP and GLP.

Score **Satisfactory** Strong Advanced

BESG will disclose annually the allocation of funds across eligible projects and selected environmental key performance indicators, which will be published in its sustainability report, and/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.

 BESG's green financing framework is aligned with this component of the GBP and GLP.

Commitments score

Satisfactory

Strong

Advanced

We consider BESG's overall use of proceeds commitments to be strong.

The company's framework aligns with the Principles as BESG commits to allocating net proceeds of financing under its framework exclusively to eligible green projects. The framework lists six eligible categories: renewable energy, energy efficiency, sustainable water and wastewater management, pollution prevention and control, clean transportation, and environmentally sustainable management of living natural resources and land use. These align with the GBP and GLP. The company clearly describes each category and relates them to at least one sustainability objective. For example, renewable energy contributes to affordable and clean energy by ensuring universal access to affordable, reliable, and modern energy services by 2030 (SDG 7.1).

We see it as a strength that BESG will disclose the share of financing versus refinancing in use of proceeds. The company commits to a maximum look-back period for refinanced projects of 36 months from the time of issuance. In addition, the framework does not contain projects related to fossil fuels or presenting substantial potential hazards (e.g. waste management and incineration with no energy recovery).

Process for project selection and evaluation

The Principles make optional recommendations for stronger structuring practices, which inform our commitments opinion as satisfactory, strong, or advanced. For our 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 instrument.

 BESG's green financing framework is aligned with this component of the GBP and GLP.

Commitments score

Satisfactory

Strong

Advanced

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

The company's framework aligns with the Principles as it communicates the process by which it determines how projects fit within the eligible project categories. Members from the management and finance committee, comprising of executive directors and industry experts from across BESG, are involved in the entire evaluation and decision-making chain. Members from the finance committee are responsible for evaluating the eligibility criteria of the green projects, and then presenting them to the management committee for approval.

BESG provides information on processes by which it identifies and manages perceived environmental and social risks associated with the eligible projects. The company carries out a detailed assessment of environmental benefits through environmental impact assessment (EIA) study of each eligible green project in accordance with the local requirements of each project. The results of the assessment include the identification and analysis of the different environmental factors and their impacts on the environment throughout the life cycle, as well as the description of measures needed to reduce the impact on the environment. The project is carried out only after getting the regulatory approval. The EIA includes strategies for mitigating negative environmental impacts from the eligible projects, but not for social considerations.

Second Party Opinion

While BESG is intending to measure the environmental benefits and sustainability performance of its projects, it is not disclosing any specific performance thresholds, market-based taxonomies, standards, or certifications as part of the eligibility criteria for most of the eligible project categories, thus tempering our assessment.

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 remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 BESG's green financing framework is aligned with this component of the GBP and GLP.

The company's framework aligns with the Principles as BESG will track the use of proceeds for each green transaction using internal systems on an annual basis. The company will deposit the proceeds in its general account and maintain a register to track the use of proceeds for each green bond.

If a designated project ceases to be eligible under the framework, BESG commits to reallocate the net proceeds to an alternative eligible project as soon as reasonably practicable.

Pending allocation or reallocation, BESG will manage the proceeds as per its liquidity guidelines, including short-term instruments such as cash or cash equivalents. In addition, BESG commits not to invest unallocated proceeds to any high pollution activities or any projects that conflict with the eligibility criteria under the framework.

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.

 BESG's green financing framework is aligned with this component of GBP and GLP.

Disclosure score

Satisfactory

Strong

Advanced

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

The company's framework aligns with the Principles as BESG commits to report the allocation of green bond proceeds, and the environmental impacts of the financed green projects. The company will report these elements annually until full allocation of the net proceeds in its sustainability report, and/or on its corporate website. Allocation reporting will include the amounts allocated to eligible green projects, the balance of unallocated proceeds, and the proportion of financing versus refinancing.

A strength is that BESG also commits to reporting, where possible, the impact of eligible green projects through a set of environmental indicators and to borrowing from frameworks and resources published by ICMA, such as the Harmonized Framework for Impact Reporting, where appropriate. These indicators include annual energy savings, amount of water and waste recycled/reused, and total green land area preserved or restored, among others.

Tempering our assessment is that the company does not commit to have an independent third-party verification or audit of its allocation reporting post-issuance, nor to disclose the key underlying methodology and/or assumptions used to calculate the quantitative performance measures.

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

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up 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.

BESG's Green Financing Framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Renewable Energy & Energy Efficiency	 7. Affordable and clean energy*
Pollution Prevention and Control	  3. Good health and well-being* 12. Responsible consumption and production*
Environmentally sustainable management of living natural resources and land use	 15. Life on land*
Sustainable water and wastewater management	 6. Clean water and sanitation*

Clean Transportation



**11. Sustainable
cities and
communities***

*The eligible project categories link to these SDGs 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. 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.