

Second-Party Opinion Telecom Armenia Sustainability-Linked Bond Framework

Second-Party
Opinion



Reviewed by:

MORNINGSTAR | SUSTAINALYTICS

Evaluation Summary

Sustainalytics is of the opinion that the Telecom Armenia Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2024. This assessment is based on the following:

- Selection of Key Performance Indicators** The Telecom Armenia Sustainability-Linked Bond Framework defines the following KPIs: i) KPI 1a: Absolute scope 1 and 2 GHG emissions; ii) KPI 1b: Absolute scope 3 GHG emissions (see Table 1). Sustainalytics considers the KPIs chosen to be very strong based on materiality, relevance, scope of applicability and comparability to external benchmarks.
- Calibration of Sustainability Performance Targets** Sustainalytics considers the SPTs to be aligned with Telecom Armenia's sustainability strategy. Sustainalytics further considers the SPTs to be highly ambitious based on comparison with targets set by peers and science-based trajectories.
- Bond Characteristics** Telecom Armenia will link the financial characteristics of its sustainability-linked bonds to the achievement of all SPTs and its reporting commitments. Failing to achieve all SPTs or complying with the reporting commitments will trigger a coupon adjustment or a premium payment, as applicable.
- Reporting** Telecom Armenia commits to report on an annual basis on its performance on the KPIs in its annual sustainability report, including relevant information that may affect the KPIs' progress, enabling investors to monitor the level of ambition of the SPTs.
- Verification** Telecom Armenia commits to have external reasonable assurance conducted against each SPT for each KPI at least once a year.

Evaluation Date	November 4, 2024
Issuer Location	Yerevan, Armenia

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

KPI	Baseline	Strength of KPI	SPT	Ambitiousness of SPT
KPI 1a: Absolute scope 1 and 2 GHG emissions (tCO ₂ e)	2023	Very Strong	SPT 1a: Reduce absolute scope 1 and 2 GHG emissions by 40% by 1 November 2029 from a 2023 baseline. Interim target: Reduce scope 1 and 2 GHG emissions by 20% by 1 October 2027 from a 2023 baseline.	Highly Ambitious
KPI 1b: Absolute scope 3 GHG emissions (tCO ₂ e)	2023	Very Strong	SPT 1b: Reduce absolute scope 3 GHG emissions by 40% by 1 November 2029 from a 2023 baseline. Interim target: reduce category 1 scope 3 emissions from purchased goods and services by 20% by 1 October 2027 from a 2023 baseline.	Highly Ambitious

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Scope of Work and Limitations

Telecom Armenia has engaged Sustainalytics to review the Sustainability-Linked Bond Framework dated November 2024 (the "Framework") and provide an opinion on its alignment with the Sustainability-Linked Bond Principles 2024 (SLBP).¹

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent² opinion on the alignment of the Framework with the SLBP, as administered by ICMA.

As part of this engagement, Sustainalytics exchanged information with representatives of Telecom Armenia to understand the sustainability impact of its business processes and the SPTs, as well as the reporting and verification aspects of the Framework. Telecom Armenia's representatives have confirmed that:

- (1) They understand it is the sole responsibility of issuer to ensure that the information provided is complete, accurate and up to date;
- (2) They have provided Sustainalytics with all relevant information;
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Telecom Armenia. Sustainalytics' Second-Party Opinion assesses alignment of the Framework with current market standards but does not provide any guarantee of alignment nor warrants any alignment with future versions of such standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated SPTs but does not measure progress on the KPIs. This Second-Party Opinion is valid for issuances aligned with the Framework until one of the following occurs: i) a material change to the external benchmarks against which targets were set; ii) a material corporate action (such as a material M&A or change in business activity) which has a bearing on the achievement of the SPTs or the materiality of the KPIs. Measuring and reporting on KPIs and SPTs is the responsibility of the Framework owner.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument in favour or against the truthfulness, reliability or completeness of any facts or statements and related circumstances that Telecom Armenia may have disclosed to Sustainalytics for the purpose of this Second-Party Opinion.

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¹ The Sustainability-Linked Bond Principles are administered by the International Capital Market Association and are available at:

<https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/>

² When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. In addition, analyst compensation is not directly tied to specific commercial outcomes.

Introduction

Team Telecom Armenia OJSC (“Telecom Armenia” or the “Company”) is a publicly listed telecommunications company headquartered in Yerevan, Armenia. The Company provides mobile and fixed-line telephony, broadband internet and digital television services to retail clients and businesses in Armenia. Formerly known as VEON Armenia, the Company rebranded after being acquired by the TEAM Group in 2020. Telecom Armenia employs 1,900 personnel and serves 1 million mobile and 300,000 fixed communication subscribers.

Telecom Armenia intends to issue sustainability-linked bonds whose financial characteristics, such as coupon rate or premium payment, are tied to the achievement of sustainability performance targets for two KPIs related to the Company’s scope 1, 2 and 3 GHG emissions.

Telecom Armenia has engaged Sustainalytics to review the Framework and provide an opinion on the alignment of the Framework with the Sustainability-Linked Bond Principles 2024. The Framework will be published in a separate document.³

Telecom Armenia has defined the following KPIs and SPTs:

Table 1: KPI Definitions

KPI	Definition
KPI 1a: Absolute scope 1 and 2 GHG emissions (tCO ₂ e)	KPI 1a represents absolute scope 1 and 2 GHG emissions, measured in tonnes of CO ₂ equivalent and calculated following the GHG Protocol Standard. ⁴ KPI 1a covers direct emissions from Telecom Armenia’s own and controlled operations (mobile phone base stations, retail shops, automated telephone stations, office buildings, warehouse and vehicle parks) and indirect emissions from the consumption of purchased electricity, heat, steam and cooling at the Company’s facilities.
KPI 1b: Absolute scope 3 GHG emissions (tCO ₂ e)	KPI 1b is defined as Telecom Armenia’s absolute scope 3 GHG emissions, expressed in tonnes of CO ₂ equivalent and measured in line with the GHG Protocol Standard. ⁵ KPI 1b covers indirect emissions from Telecom Armenia’s value chain and includes the following four categories as specified under the GHG Protocol: category 1 (purchased goods and services), category 3 (fuel- and energy-related activities), category 5 (waste generated in operations) and category 11 (use of sold products).

Table 2: SPTs and Past Performance

KPI	2023 (baseline)	SPT 2029
KPI 1a: Absolute scope 1 and 2 GHG emissions (tCO ₂ e)	19,559.1	SPT 1a: Reduce absolute scope 1 and 2 GHG emissions by 40% by 1 November 2029 from a 2023 baseline. Interim target: Reduce absolute scope 1 and 2 GHG emissions by 20% by 1 October 2027 from a 2023 baseline.
KPI 1b: Absolute scope 3 GHG emissions (tCO ₂ e)	15,880.2	SPT 1b: Reduce absolute scope 3 GHG emissions by 40% by 1 November 2029 from a 2023 baseline. Interim target: Reduce category 1 scope 3 emissions from purchased goods and services by 20% by 1 October 2027 from a 2023 baseline.

³ The Team Telecom Armenia Sustainability-Linked Bond Framework will be available at: <https://www.telecomarmenia.am/en/sustainable-development/>

⁴ Greenhouse Gas Protocol, “A Corporate Accounting and Reporting Standard Revised Edition”, at: <https://ghgprotocol.org/corporate-standard>

⁵ Ibid.

Sustainalytics' Opinion

Section 1: Alignment with the Sustainability-Linked Bond Principles

Sustainalytics is of the opinion that the Sustainability-Linked Bond Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2024.



Selection of Key Performance Indicators

Relevance and Materiality of KPIs

In assessing the materiality and relevance of a KPI, Sustainalytics considers: i) whether the indicator speaks to a material impact of the issuer's activities on environmental or social issues; and ii) to what extent the KPI is applicable.

KPI 1a: Absolute scope 1 and 2 GHG emissions (tCO₂e) and KPI 1b: Absolute scope 3 GHG emissions (tCO₂e)

Sustainalytics notes that the KPIs collectively address the issue of Telecom Armenia's GHG emissions and has therefore, taken a combined approach to assess these KPIs. Sustainalytics considers the KPIs to be highly material and relevant given that:

- Sustainalytics' ESG Risk Rating identifies Carbon – Own Operations⁶ as a Material ESG Issue for the telecommunication services industry. Companies in the industry require uninterrupted power supply to support cables, exchanges, switches, base stations, towers and data centres.⁷
- The Sustainability Accounting Standards Board (SASB) identifies energy management as a relevant issue for the telecommunication services industry. The SASB standard for telecommunication services highlights the importance of addressing the environmental footprint of telecommunication companies, stemming mainly from their electricity consumption, which contributes to environmental externalities such as climate change.⁸
- Scope 3 emissions make up approximately 75% of all GHG emissions from the mobile telecom sector, with categories 1 (purchased goods and service), 2 (capital goods), 3 (fuel- and energy-related activities), 11 (use of sold products) and 15 (investments) accounting for approximately 90% of these scope 3 emissions.⁹
- In terms of applicability, KPI 1a covers the Company's operating emissions, which accounted for approximately 50% of Telecom Armenia's total scope 1, 2 and 3 emissions in 2023. KPI 1b covers scope 3 emissions from purchased goods and services (category 1), fuel- and energy-related activities (category 3), waste generated in operations (category 5) and use of sold products (category 11), representing approximately 81% of the Company's scope 3 emissions in 2023, or 41% of total scope 1, 2 and 3 emissions in the same year. Altogether, KPI 1a and 1b address approximately 91% of Telecom Armenia's total GHG emissions in 2023, indicating a high scope of applicability.¹⁰

KPI Characteristics

⁶ Sustainalytics' Carbon – Own Operations MEI refers to a company's management of risks related to its own operational energy use and scope 1 and 2 GHG emissions. It also includes parts of scope 3 GHG emissions.

⁷ Sustainalytics' Industry Report Telecommunication Services (2023)

⁸ SASB, "Materiality Finder, Telecommunication Services", at: [https://sasb.ifrs.org/standards/materiality-finder/find/?industry\[\]=TC-TL](https://sasb.ifrs.org/standards/materiality-finder/find/?industry[]=TC-TL)

⁹ GSMA, "Mobile Net Zero 2024 State of the Industry on Climate Action" (2024), at: <https://www.gsma.com/betterfuture/wp-content/uploads/2024/02/Mobile-Net-Zero-2024-State-of-the-Industry-on-Climate-Action-1.pdf>

¹⁰ Telecom Armenia has disclosed to Sustainalytics that scope 3 emissions from capital goods (category 2) accounted for approximately 9.3% of the Company's total scope 1, 2 and 3 emissions. These emissions are excluded from the boundary of KPI 1b.

In assessing a KPI’s characteristics, Sustainalytics considers: i) whether it uses a clear and consistent methodology; ii) whether it follows an externally recognized definition; iii) whether the KPI is a direct measure of the issuer’s performance on a material environmental or social issue;¹¹ and iv) whether the methodology can be compared against an external contextual benchmark.¹²

Sustainalytics considers Telecom Armenia’s definition and methodology to calculate KPI 1a and KPI 1b to be clear, and notes that the Company started calculating its scope 1 and 2 emissions in 2022 and scope 3 emissions in 2023. Both KPIs follow the GHG Protocol’s Corporate Reporting Standards as the externally defined methodology. Furthermore, Sustainalytics notes that the KPIs support benchmarking against an external science-based decarbonization trajectory such as the Science Based Targets initiative’s (SBTi) cross-sector absolute reduction method.¹³ Sustainalytics also considers both KPIs to be directly linked to the Company’s sustainability performance on GHG emissions.

Overall Assessment

Sustainalytics considers KPI 1a and KPI 1b to be very strong given that they: i) are a direct measure of material and relevant environmental performance; ii) have a high scope of combined applicability; iii) follow a clear methodology that is externally defined; and iv) lend themselves to be externally benchmarked.

KPI	Strength of KPI			
KPI 1a: Absolute scope 1 and 2 GHG emissions	Not Aligned	Adequate	Strong	Very strong
KPI 1b: Absolute scope 3 GHG emissions	Not Aligned	Adequate	Strong	Very strong



Calibration of Sustainability Performance Targets

Alignment with Telecom Armenia’s Sustainability Strategy

Telecom Armenia has set the following SPTs for its KPIs:

- SPT 1a: Reduce absolute scope 1 and 2 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce absolute scope 1 and 2 GHG emissions by 20% by 1 October 2027 from a 2023 baseline
- SPT 1b: Reduce absolute scope 3 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce category 1 scope 3 emissions from purchased goods and services by 20% by 1 October 2027 from a 2023 baseline

Sustainalytics considers the SPTs to be aligned with Telecom Armenia’s sustainability strategy.

As part of its sustainability strategy, Telecom Armenia focuses on reducing its environmental footprint and decarbonizing its business operations to support the transition to a low-carbon economy and contribute to Armenia’s climate goals. The SPTs are aligned with Telecom Armenia’s long-term decarbonization target to achieve net zero emissions across all its operations by 2050.¹⁴

Please refer to Section 2 for an analysis of the credibility of Telecom Armenia’s sustainability strategy.

Strategy to Achieve the SPTs

¹¹ A direct measure refers to a metric selected for the KPI that shows a specific indicator of performance or an outcome on the material ESG issue.

¹² External contextual benchmarks are standards or points of reference established by recognized third-party organizations to facilitate comparability.

¹³ SBTi, “SBTi Corporate Near Term Criteria” (2024), at: <https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf>

¹⁴ Telecom Armenia shared its sustainability strategy with Sustainalytics confidentially.

Telecom Armenia intends to achieve the SPTs through the following strategy:

SPT 1a: Reduce absolute scope 1 and 2 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce absolute scope 1 and 2 GHG emissions by 20% by 1 October 2027 from a 2023 baseline

- **Increase energy efficiency of IT and network systems:** i) deploy energy-efficient hardware, such as servers, routers and switches certified with Energy Star or equivalent certifications; ii) enhance energy efficiency of data centres by optimizing cooling systems, measure power usage effectiveness and employ advanced power management techniques; iii) implement energy monitoring programmes to identify inefficiencies and optimize energy use in the Company's IT systems and network operations; iv) decommission older technologies by replacing copper cables with energy-efficient fibre optics and switching to LED lighting; and v) train employees on energy-efficient practices to lower office energy consumption.
- **Fleet emissions reduction:** increase the share of electric vehicles in the Company's fleet by replacing a portion of the existing vehicles with electric alternatives.
- **Renewable energy sourcing:** i) transition to solar energy to power the Company's technical sites, including automated telephone stations; ii) implement renewable energy solutions to power data centres, where feasible; and ii) purchase electricity from renewable sources, such as hydro energy.

SPT 1b: Reduce absolute scope 3 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce category 1 scope 3 emissions from purchased goods and services by 20% by 1 October 2027 from a 2023 baseline

- **Adoption of circular economy practices:** i) develop take-back and recycling programmes for customer devices; ii) collect at least 50% of devices, such as routers and wi-fi equipment, when customers terminate their subscriptions; iii) reuse decommissioned network equipment; and iv) promote the use of refurbished equipment within the Company.
- **Sustainable procurement of materials:** Telecom Armenia aims to engage suppliers to align on the Company's climate targets, support their decarbonization efforts, and prioritize those implementing emission reduction initiatives. The Company also intends to include CSR clauses in supplier contracts, requiring emissions data reporting and life cycle emissions assessments. Additionally, the Company plans to incentivize suppliers to adopt circular economy practices, such as waste reduction and material reuse, to further lower product carbon footprint.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of an SPT, Sustainalytics considers: i) whether the SPT goes beyond a business-as-usual trajectory; ii) how the SPT compares to targets set by peers; and iii) how the SPT compares with science-based references.¹⁵

Telecom Armenia has set the baseline for the SPTs at 2023, because it is the most recent year for which the Company has comprehensive and accurate data for both KPIs.

SPT 1a: Reduce absolute scope 1 and 2 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce absolute scope 1 and 2 GHG emissions by 20% by 1 October 2027 from a 2023 baseline

Sustainalytics assessed ambitiousness based on: peer performance and science-based trajectories.

With regard to historical performance, Telecom Armenia began calculating its scope 1 and 2 emissions in 2022, when it reported 18,423 tCO₂e of scope 1 and 2 emissions, increasing by 6.33% to 19,559.1 tCO₂e in 2023.

For peer comparison, Sustainalytics analyzed the targets of five of Telecom Armenia's regional peers. Sustainalytics notes that all of these peer companies do not have any reported quantitative time-bound targets disclosed for the reduction of scope 1 and 2 emissions.

Regarding comparison with science-based decarbonization trajectories, Sustainalytics used the SBTi's cross-sector absolute reduction method to assess SPT 1a. The SPT implies an annual linear reduction rate in absolute

¹⁵ We refer here to contextual benchmarks that indicate the alignment of targets with ecosystem boundaries.

scope 1 and 2 GHG emissions of 6.67% between 2023 and 2029. According to the SBTi’s cross-sector absolute reduction method, an annual linear reduction rate of at least 6% is required for an emissions reduction target with a 2023 baseline to be aligned with the 1.5°C decarbonization pathway. Therefore, Sustainalytics considers SPT 1a to be aligned with the SBTi 1.5° C trajectory, following the cross-sector absolute reduction method.

SPT 1b: Reduce absolute scope 3 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce category 1 scope 3 emissions from purchased goods and services by 20% by 1 October 2027 from a 2023 baseline

Sustainalytics assessed ambitiousness based on: peer performance and science-based trajectories.

Sustainalytics notes that Telecom Armenia only started calculating its scope 3 emissions in 2023. Therefore, Sustainalytics is unable to assess SPT 1b’s implied performance in relation to the Company’s historical performance.

For peer comparison, Sustainalytics analyzed the performance of five of Telecom Armenia’s regional peers. Sustainalytics notes that all of these peer companies do not have any reported quantitative time-bound targets disclosed for the reduction of scope 3 emissions.

Regarding comparison with science-based decarbonization trajectories, Sustainalytics used the SBTi’s cross-sector absolute reduction method to assess SPT 1b. The SPT implies an annual reduction rate in absolute scope 3 GHG emissions of 6.67% between 2023 and 2029. According to the SBTi’s cross-sector absolute reduction method, an annual linear reduction rate of at least 6.0% is required for an emissions reduction target with a 2023 baseline to be aligned with the 1.5°C trajectory.¹⁶ Based on this, Sustainalytics notes that SPT 1b represents a material emissions reduction aligned with the 1.5°C trajectory, following the SBTi’s cross-sector absolute reduction method, and considers SPT 1b as highly ambitious.

Overall Assessment

Sustainalytics considers the SPTs to align with Telecom Armenia’s sustainability strategy and SPT 1a to be highly ambitious, as it is aligned with the SBTi’s 1.5°C scenario under the cross-sector absolute reduction method. Regarding peer performance, Sustainalytics notes that the sample of the Company’s regional peers did not report targets for reducing scope 1 and 2 emissions.

Sustainalytics considers SPT 1b to be highly ambitious given that it represents a continuous material improvement in scope 3 emissions in line with the 1.5°C trajectory, following the SBTi’s cross-sector absolute reduction method. Regarding peer performance, Sustainalytics notes that the sample of the Company’s regional peers did not report targets for reducing scope 3 emissions.

SPT	Ambitiousness of SPT			
SPT 1a: Reduce absolute scope 1 and 2 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce absolute scope 1 and 2 GHG emissions by 20% by 1 October 2027 from a 2023 baseline	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
SPT 1b: Reduce absolute scope 3 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce category 1 scope 3 emissions from purchased goods and services by 20% by 1 October 2027 from a 2023 baseline	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious



Bond Characteristics

The financial characteristics of the instruments issued under the Framework will be linked to the Company’s performance against the SPTs; certain events may trigger a coupon step-up of 0.25% or an increase in the premium payment by an equivalent amount at the maturity of the bond. A trigger event occurs if: i) a relevant SPT is not met on the relevant target observation date; ii) the performance level of the SPT cannot be calculated or

¹⁶ SBTi, “SBTi Corporate Manual” (2021), at: <https://sciencebasedtargets.org/resources/files/Legacy-SBTi-Corporate-Manual-V2.0.pdf>

reported in a satisfactory manner supported by a verification assurance statement; or iii) Telecom Armenia does not publish the relevant verification assurance statement within the time limit specified in the bond documentation. In addition, Telecom Armenia has communicated to Sustainalytics that all KPIs and their associated SPTs will be included in all bond issuances under the Framework.

Sustainalytics considers the financial characteristics of the sustainability-linked bonds to be aligned with the SLBP but does not opine on the adequacy of the magnitude and structure of the financial penalty.



Reporting

Telecom Armenia commits to report on an annual basis on its progress on the KPIs and expects to include the relevant figures in its annual sustainability report published on its website. This reporting will include: i) updated information on the performance of the selected KPIs, including the baseline, where relevant; ii) a verification assurance report outlining the performance against the SPTs and the related impacts on the bond's financial or structural characteristics; iii) qualitative or quantitative explanation on the key factors that materially impact the evolution of the KPIs; iv) sustainability impacts of the performance improvement; v) any restatement of the SPTs or pro-forma adjustments of baselines or scope of the KPIs; and vi) relevant information enabling investors to monitor the level of ambition of the SPTs. The reporting commitments are aligned with the SLBP.



Verification

Telecom Armenia commits to having an external verifier provide reasonable assurance against each SPT for each KPI at least once a year. The reasonable assurance report will be made available as part of the Company's annual sustainability report. These commitments are aligned with the verification component of the SLBP.

Section 2: Assessment of Telecom Armenia's Sustainability Strategy

Credibility of Telecom Armenia Sustainability Strategy

Telecom Armenia integrates ESG considerations into its core operations through a sustainability strategy launched in 2022, which focuses on decarbonizing the Company's activities and minimizing its environmental impact. Under this strategy, the Company has set the following environmental targets for 2029: i) reduce absolute scope 1 and 2 emissions by 40% from a 2023 baseline, with an interim target of a 20% reduction by 1 October 2027; ii) reduce absolute scope 3 emissions by 40% from a 2023 baseline, with an interim target of a 20% reduction in category 1 emissions (purchased goods and services) by 1 October 2027; and iii) integrate circular economy practices in the Company's operations aimed at reducing electronic waste and increasing resource efficiency. Additionally, Telecom Armenia has committed to achieving net zero GHG emissions in all its operations by 2050.¹⁷

The Company has developed specific initiatives to achieve its decarbonization targets, including transitioning to renewable energy for network operations and data centres by deploying solar energy solutions at its facilities and purchasing electricity from renewable sources, aiming for 10% annual increases.¹⁸ In 2023, Telecom Armenia added eight new solar power plants to the existing 25, increasing the share of solar energy in its total energy consumption by approximately 7% compared to 2022.¹⁹ The Company also aims to increase the share of electric vehicles (EVs) in its fleet by 5% annually and expand the network of fast charging stations.²⁰ As of 2023, EVs accounted for 14% of the Company's fleet, supported by 50 charging stations throughout Armenia.²¹ Other initiatives to address the Company's direct emissions include: i) implementing certified energy-efficient hardware for mobile stations and technical sites; ii) decommissioning older technologies by replacing copper cables with fibre optics,

¹⁷ Telecom Armenia has shared its sustainability strategy with Sustainalytics on a confidential basis.

¹⁸ Ibid.

¹⁹ Team Telecom Armenia OJSC, "Caring for nature, we have started with ourselves - Team Telecom Armenia", at: <https://www.telecomarmenia.am/en/news/2024/04/22/caring-for-nature-we-have-started-with-ourselves-team-telecom-armenia/1018/>

²⁰ Telecom Armenia has shared its sustainability strategy with Sustainalytics on a confidential basis.

²¹ Team Telecom Armenia OJSC, "Caring for nature, we have started with ourselves - Team Telecom Armenia", at: <https://www.telecomarmenia.am/en/news/2024/04/22/caring-for-nature-we-have-started-with-ourselves-team-telecom-armenia/1018/>

switching to LED lighting and deploying 5G technology; and iii) training employees on energy efficiency and water-saving techniques to reduce energy consumption in office buildings.²²

To reduce scope 3 emissions and promote circularity in its operations, Telecom Armenia has implemented take-back and recycling programmes for customer devices, such as routers and wi-fi equipment, with a target of collecting at least 50% of devices when customers terminate their subscriptions.²³ As part of this initiative, the Company diverted more than 14,000 pieces of electronic telecommunications equipment from landfill in 2023 by repairing, refurbishing and reusing them.²⁴ To further accelerate decarbonization in the supply chain, the Company plans to engage with suppliers to reduce their overall carbon footprint.²⁵ Specifically, Telecom Armenia intends to prioritize suppliers offering low-carbon products and to incorporate CSR clauses in supplier contracts, requiring emissions reporting and life cycle analyses to identify emissions reduction and resource optimization opportunities.²⁶

Sustainalytics considers the Framework to be aligned with Telecom Armenia's sustainability strategy and considers that bonds issued under the Framework will further support its sustainability strategy.

Telecom Armenia's Environmental and Social Risk Management

Sustainalytics recognizes that Telecom Armenia's defined targets are impactful, but notes that achieving the SPTs bears environmental and social risks related to: i) data privacy and security;²⁷ ii) product governance;²⁸ iii) human capital;²⁹ and iv) business ethics.³⁰

Sustainalytics comments below on Telecom Armenia's ability to mitigate such potential risks.

- Telecom Armenia addresses risks related to data privacy and security through its Personal Data Protection Policy, which establishes a data protection framework and operational procedures for the collection, processing, storage, transmission and destruction of personal data, including customer and employee information.³¹ This policy applies to all Company products, software, websites and services.³² Telecom Armenia is committed to responsible data use and complies with the Armenian Law on Protection of Personal Data, which requires that data is processed lawfully, with explicit consent, and secured against unauthorized access.^{33,34} The Company also adheres to the Armenian Law on Electronic Communications, protecting the confidentiality of transmitted data.^{35,36} Telecom Armenia is certified with ISO 27001 on the effective management of information security risks.^{37,38} In addition, the Company's Business Partner Code of Conduct mandates partners, suppliers, distributors and vendors to protect company and customer data and comply with relevant privacy and security laws.³⁹

²² Telecom Armenia shared its sustainability strategy with Sustainalytics confidentially.

²³ Ibid.

²⁴ Team Telecom Armenia OJSC, "Caring for nature, we have started with ourselves - Team Telecom Armenia", at:

<https://www.telecomarmenia.am/en/news/2024/04/22/caring-for-nature-we-have-started-with-ourselves-team-telecom-armenia/1018/>

²⁵ Telecom Armenia shared its sustainability strategy with Sustainalytics confidentially.

²⁶ Ibid.

²⁷ Sustainalytics' Data Privacy and Security MEI focuses on data governance practices, including how companies collect, use, manage and protect data.

²⁸ Sustainalytics' Product Governance MEI focuses on how companies manage responsibilities to their clients. Emphasis is put on quality management systems, marketing practices, fair billing and post-sales responsibility.

²⁹ Sustainalytics' Human Capital MEI focuses on the management of risks related to scarcity of skilled labour as well as labour relations, such as non-discrimination, working hours and minimum wages.

³⁰ Sustainalytics' Business Ethics MEI focuses on the management of ethical considerations applicable to most or all sectors, such as taxation and accounting, anti-competitive practices and intellectual property issues.

³¹ Team Telecom Armenia OJSC, "Privacy policy", at: <https://www.telecomarmenia.am/en/privacy-policy>

³² Ibid.

³³ Armenian Legal Information System, "Republic of Armenia Law on Protection of Personal Data", at:

<https://www.arlis.am/documentview.aspx?docid=117034>

³⁴ Team Telecom Armenia OJSC, "Privacy policy", at: <https://www.telecomarmenia.am/en/privacy-policy>

³⁵ Armenian Legal Information System, "Republic of Armenia Law on Electronic Communications", at:

<https://www.arlis.am/documentview.aspx?docid=117043>

³⁶ Team Telecom Armenia OJSC, "Privacy policy", at: <https://www.telecomarmenia.am/en/privacy-policy>

³⁷ Telecom Armenia shared the information on its ISO 27001 certification with Sustainalytics confidentially.

³⁸ ISO, "ISO/IEC 27001:2022 Information security, cybersecurity and privacy protection – Information security management systems – Requirements", at: <https://www.iso.org/isoiec-27001-information-security.html>

³⁹ Team Telecom Armenia OJSC, "Business Partner Code of Conduct", at: https://www.telecomarmenia.am/file_manager/BP_COC_ENG.pdf

- Regarding product governance including network reliability and service quality, Telecom Armenia's services — mobile communication, fixed internet, telephony, and television — are delivered via its own transmission networks.⁴⁰ The Company continuously updates and integrates its information technology systems for reliability.⁴¹ Regular inspections of physical radio access network sites are conducted by the Base Station Operation and Service Department, in collaboration with local engineers, to prevent unauthorized access and interrupted operations. Inspection results, including reports and multimedia documentation, are submitted to the Technical Director and relevant departments for corrective actions. These actions are executed within a set timeframe and monitored by the Environmental and Social Management System (ESMS) specialist.⁴²
- To mitigate human capital risks, Telecom Armenia's Code of Conduct outlines guidelines for protecting human rights, promoting diversity and ensuring workplace safety.⁴³ The Company has policies to promote freedom of association and collective bargaining, equal treatment and opportunities for employees, and prohibiting discrimination, child labour, forced labour, sexual harassment and gender-based violence across its operations and supply chain.^{44,45} Telecom Armenia has established an internal grievance mechanism and the anonymous Speak Up online platform for employees, suppliers and external stakeholders to report concerns related to human and labour rights.^{46,47} To ensure worker health and safety, the Company has an Occupational Health and Safety (OHS) Policy that emphasizes critical risk prevention, safety leadership, incident reporting and investigation, and the involvement of both managers and employees in OHS training.⁴⁸ Additionally, the Company has a Retrenchment Policy that requires a fair process during workforce reductions based on objective criteria and provides retraining or job search assistance to affected employees.⁴⁹
- Regarding business ethics, Telecom Armenia's Code of Conduct⁵⁰ outlines core principles and policies on anti-money laundering, anti-bribery and anti-corruption, and sets standards of conduct expected from employees and business partners. The code guides employees on managing risks stemming from the potential misuse of the Company's products and services for money laundering and terrorist financing. These measures include compliance with local laws and regulations and conducting KYC procedures and reporting suspicious activities. The Company has also an Anti-Corruption and Anti-Bribery Policy to mitigate financial and reputational risks associated with corruption and bribery. This policy outlines procedures for interactions with government agencies and government officials, gifts and business hospitality, the provision of free or discounted services and desired telephone numbers, facilitation payments, relations with authorized representatives, social investments and charity donations, sponsorships, as well as mergers and acquisitions and joint ventures.⁵¹ The Speak Up platform also fosters an environment conducive to reporting violations of these policies,⁵² establishing mechanisms and channels for reporting potential misconduct, including non-retaliation protections for employees.

Sustainalytics has found no evidence of major environmental or social controversies related to Telecom Armenia. Based on these policies and standards, Sustainalytics considers that Telecom Armenia has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the achievement of the SPTs.

Section 3: Impact of the SPTs

Importance of reducing GHG emissions in the ICT sector

⁴⁰ Telecom Armenia, "2023 Annual Report", at: <https://www.telecomarmenia.am/en/results-reporting/>

⁴¹ Telecom Armenia, "2023 Annual Report", at: <https://www.telecomarmenia.am/en/results-reporting/>

⁴² Community Health and Safety Management Plan is shared with Sustainalytics confidentially.

⁴³ Telecom Armenia shared its Code of Conduct with Sustainalytics confidentially.

⁴⁴ Telecom Armenia shared the following internal policies with Sustainalytics confidentially: i) Non-Discrimination and Equal Opportunity Policy; ii) Workers' Organizations Policy; iii) Prevention of Child Labor Policy; iv) Prevention of Forced Labor Policy; v) Prevention of Sexual Harassment Policy; and vi) Prevention of Gender-Based Violence Policy.

⁴⁵ Team Telecom Armenia OJSC, "Sustainable Development", at: <https://www.telecomarmenia.am/en/sustainable-development/>

⁴⁶ Team Telecom Armenia OJSC, "Speak-Up hotline", at: <https://speakup.telecomarmenia.am/en/>

⁴⁷ Telecom Armenia shared its Speak Up: Raising Concerns and Non-Retaliation Policy with Sustainalytics confidentially.

⁴⁸ Telecom Armenia shared its Occupational Health and Safety Policy with Sustainalytics confidentially.

⁴⁹ Telecom Armenia shared its Retrenchment Policy with Sustainalytics confidentially.

⁵⁰ Telecom Armenia shared its Code of Conduct with Sustainalytics confidentially.

⁵¹ Telecom Armenia shared its Anti-Corruption and Anti-Bribery Policy with Sustainalytics confidentially.

⁵² Telecom Armenia shared its Speak Up: Raising Concerns and Non-Retaliation Policy with Sustainalytics confidentially.

The information and communications technology (ICT) sector accounted for approximately 4% of global electricity consumption and 1.4% of global GHG emissions in 2020.⁵³ In 2022, telecommunication operators generated 133 million tCO₂e in operational emissions (scope 1 and 2 emissions), representing 0.4% of total global energy-related GHG emissions.⁵⁴ Although network infrastructure is becoming more energy efficient per unit of data, the rapid growth in data traffic, driven by the increased capacity and speeds of new generations of mobile infrastructure, indicates rising energy consumption as network capacity expands.⁵⁵ It is estimated that mobile data traffic will increase by 26% per year between 2022 and 2028, posing significant challenges for decarbonizing this sector.⁵⁶

The ICT sector is moving towards the goal of achieving net zero carbon emissions by 2050.⁵⁷ The International Telecommunication Union, in collaboration with the Global System for Mobile Association, the Global Enabling Sustainability Initiative, and the Science Based Targets initiative (SBTi), has developed a sector-specific decarbonization pathway to help ICT companies set climate targets aligned with the latest climate science.⁵⁸ According to the SBTi, the main strategies to decarbonize the ICT sector from 2020 to 2030, in line with a 1.5°C trajectory, include: i) continued implementation of energy efficiency plans; ii) a switch to renewable or low-carbon electricity supply; and iii) promoting carbon consciousness among end users.⁵⁹

Sustainalytics is of the opinion that Telecom Armenia’s efforts to reduce its scope 1, 2, and 3 GHG emissions will contribute to reducing the environmental footprint of its services and support the ambitions of the Paris Agreement to limit global warming to 1.5°C.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The SLB is expected to help advance the following SDG and targets:

KPI	SDG	SDG Target
KPI 1a: Absolute scope 1 and 2 GHG emissions	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 7.3 By 2030, double the global rate of improvement in energy efficiency
	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
KPI 1b: Absolute scope 3 GHG emissions	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

Conclusion

⁵³ Ericsson, “Sustainability and ICT”, at: <https://www.ericsson.com/en/reports-and-papers/mobility-report/dataforecasts/ict-sustainability>
⁵⁴ The World Bank and International Telecommunication Union, “Measuring the Emissions & Energy Footprint of the ICT Sector: Implications for Climate Action”, (2024), at: <https://documents1.worldbank.org/curated/en/099121223165540890/pdf/P17859712a98880541a4b71d57876048abb.pdf>
⁵⁵ Ibid.
⁵⁶ Ibid.
⁵⁷ Global System for Mobile Association, “ICT Industry Agrees Landmark Science-Based Pathway to Reach Net Zero Emissions”, (2020), at: <https://www.gsma.com/newsroom/press-release/ict-industry-agrees-landmark-science-based-pathway-to-reach-net-zero-emissions/>
⁵⁸ Science Based Targets, “Guidance for ICT Companies Setting Science Based Targets”, at: <https://www.itu.int/en/action/environment-and-climate-change/Documents/20200227-Guidance-ICT-companies-report.PDF>
⁵⁹ Ibid.

Telecom Armenia intends to issue sustainability-linked bonds tying the financial characteristics, such as a coupon adjustment or premium payment, to achievement of the following SPTs:

- 1) SPT 1a: Reduce absolute scope 1 and 2 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce absolute scope 1 and 2 GHG emissions by 20% by 1 October 2027 from a 2023 baseline.
- 2) SPT 1b: Reduce absolute scope 3 GHG emissions by 40% by 1 November 2029 from a 2023 baseline, with an interim target to reduce category 1 scope 3 emissions from purchased goods and services by 20% by 1 October 2027 from a 2023 baseline.

Sustainalytics considers KPIs 1a and 1b to be very strong based on their materiality, relevance, scope of applicability and comparability to an external benchmark. Sustainalytics considers SPTs 1a and 1b to be highly ambitious based on peer performance and alignment with science-based decarbonization pathways.

Additionally, Sustainalytics considers the reporting and verification commitments to be aligned with the Sustainability-Linked Bond Principles 2024.

Based on the above, Sustainalytics considers the Telecom Armenia Sustainability-Linked Bond Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2024 and the prospective achievement of the SPTs to be impactful.

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