



MARC RATINGS BERHAD

2020010441436 (1397757-W)



AMANAT LEBUHRAYA RAKYAT BERHAD

PRE-ISSUANCE SUSTAINABILITY SUKUK FRAMEWORK
ASSESSMENT

MAY 2022



SUSTAINABILITY SUKUK
FRAMEWORK ASSESSMENT

MARC Ratings Berhad (MARC Ratings) has been engaged by Amanat Lebuhraya Rakyat Berhad as an independent external reviewer for its Sustainability Sukuk Framework. This external review was conducted according to the analytical framework in MARC's Impact Bond Assessment (IBA) methodology that is published on its website.

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Publication date: May 25, 2022

SUMMARY

Amanat Lebuhraya Rakyat Berhad's (ALR) Sustainability Sukuk Framework Assessment is a three-part analysis consisting of an impact significance analysis of the project financed by the Sustainable and Responsible Investment (SRI) Sukuk; an assessment of alignment with the Securities Commission (SC)'s SRI Sukuk Framework; and an evaluation of the issuer's sustainability implementation capacity and performance.

In performing its assessment, MARC Ratings has predominantly relied on the pre-issuance information provided by ALR as well as information gathered from the public domain.

ALR is a company that will be specifically constituted to acquire four highway toll concessionaires comprising Gamuda Berhad's (Gamuda) highway concessions business pursuant to a toll restructuring proposal submitted to the Ministry of Works. Gamuda is proposing to mitigate the fiscal impact of compensation payments for toll hike freezes imposed on the four highways by seeking an extension of their remaining concession by between 6 years to 10 years in addition to a full waiver of corporate taxes. This will relieve the government of its toll freeze compensation obligations and allow all four highways to maintain existing toll rates until the revised end dates of the concessions. Projected toll revenues are expected to be sufficient to provide for an orderly takeout of the Sukuk and the ongoing operation and maintenance needs of the tolled facilities. Once the Sukuk are fully redeemed, the highways will be returned to the Government (Lembaga Lebuhraya Malaysia, LLM).

At issuance, the proceeds of the SRI Sukuk will be predominantly used to finance the acquisition of the following concessionaires and the redemption of their existing debt: Sistem Penyuraian Trafik KL Barat Sdn Bhd (SPRINT SB), Syarikat Mengurus Air Banjir & Terowong Sdn Bhd (SMART SB), Lingkaran Trans Kota Holdings Sdn Bhd (LITRAK SB) and KESAS Sdn Bhd (KESAS SB). Managed under Build-Operate-Transfer (BOT) concessions, the four controlled-access highways measuring 110.7 km in total are the Western Kuala Lumpur Dispersal Link (SPRINT Highway), the Stormwater Management and Road Tunnel (SMART), the Damansara-Puchong Highway (LDP) and the Shah Alam Expressway (KESAS). The highways are mature road networks within Malaysia's economically developed Klang Valley. KESAS, SPRINT and LDP, in particular, serve as critical arteries that connect major industrial and residential areas and have fairly long history of demonstrated demand with large commuter bases.

Based on the nature of the expected social impact of the acquisitions of SPRINT SB, SMART SB, LITRAK SB and KESAS SB, ALR has defined its single largest acquisition funding Use of Proceeds category as "Socioeconomic Advancement and Empowerment". This Use of Proceeds category seeks to achieve positive social outcomes, especially but not exclusively, for the B40 and M40 highway users, as well as for the general population through fiscal savings on the part of the Government. Effort has been made to quantify this social additionality which consists of two components: expected social impact of this eligible category which is composed of direct welfare gains among the highway users from toll rate savings and an expected shortening of the revised end dates of the concessions as well as indirect public welfare gains from the release of fiscal resources for potentially impactful public spending. ALR has estimated monetary values for the expected net welfare gain to highway users and indirect public welfare gains, at RM2.67 billion and RM3.52 billion respectively under an annual highway traffic growth scenario of 1.7%. The Framework also quantifies the to-date flood mitigation benefit of SMART's stormwater management function at RM1.4 billion based on estimated avoided damages.

The Framework also includes Renewable Energy, Climate Change Mitigation, and Pollution Prevention and Control as additional asset categories for future reallocations of proceeds to support ALR's articulated sustainability strategy. Importantly, the main and additional categories are among those broad categories of eligibility recognised by the SC's SRI Sukuk Framework. Overall, MARC Ratings

assesses the impact of the Use of Proceeds to be significant, mostly on the basis of the corresponding quantified estimated benefits of the social additionality to be provided in the form of improved equity in transport and fiscal savings, as well as qualitative benefits associated with effective, safe and reliable highways and SMART's stormwater tunnel's flood mitigation capacity. ALR has also mapped its Use of Proceeds to individual Sustainable Development Goals (SDGs).

The net Sukuk proceeds will be credited to a separately created Main Servicing Reserve Account. The Framework aligns ALR's post-issuance tracking and reporting on Use of Proceeds with SC's SRI Sukuk framework. It provides for annual reporting of the projects to which the Sukuk proceeds have been allocated, the balance of unallocated proceeds and where such unutilised amount is placed or invested pending utilisation, as well as project impact indicators.




ALR's proposed corporate governance structure consists of a board comprising external directors with no political affiliation who are also equal shareholders in the company. ALR's Constitution will prohibit the distribution of dividends so any surplus that is generated will be applied towards the full redemption of the Sukuk which will lead to shortening of the concession(s). MARC Ratings considers the environmental and social risks associated with the Use of Proceeds categories to be well managed in light of the highways' long operating, maintenance and safety track record. ALR's articulated sustainability commitments include reducing emissions and climate change exposures through current and future projects that are identified in the additional eligible Use of Proceeds categories.



Based on our review of the relevant documentation and assessment per our IBA methodology, we have assigned ALR's Framework a Silver IBA largely to reflect the significant expected direct as well as indirect environmental and social impacts of the Use of Proceeds. MARC Ratings also opines that the Framework is aligned with the core components of the SC's SRI Sukuk Framework.

Introduction

The Highways

The four concession companies to be acquired by ALR operate 110.7 km of highways within economically developed Klang Valley in Malaysia. As key infrastructures in the Klang Valley, the highways play an important role in supporting the economic and sustainable development of their service areas, providing commuters with safer and faster connected mobility, and facilitating access to essential services.

<p>KESAS</p> 	<p>KESAS is a 34.5 km dual three-lane highway with 14 interchanges and three toll plazas. The KESAS highway runs from Pandamaran in Klang, Selangor to Sri Petaling in Kuala Lumpur. Built to reduce congestion at the Federal Highway, KESAS serves as a major inter-urban expressway. It connects major industrial and residential areas within the Klang Valley namely, Kuala Lumpur, Cheras, Petaling Jaya, Subang Jaya, Shah Alam and Klang.</p> <p>Concessionaire: KESAS SB</p> <p>Annual average daily traffic: 2020: 238,400 vehicles (2019: 310,600 vehicles); cars being the dominant vehicle category</p> <p>Year of opening: Phase 1 (Sri Petaling to Seafeld Interchange) in 1996; Phase 2 (Seafeld to Pandamaran Interchange) in 1998</p> <p>Concession end date without extension: August 2028</p>
<p>SMART</p>  	<p>SMART is composed of a 9.7 km stormwater bypass tunnel, a 3 km double-deck motorway within the stormwater tunnel from the Jalan Istana interchange to the Kampung Pandan roundabout, a holding pond and a storage reservoir.</p> <p>SMART was designed with the primary purpose of mitigating recurring floods in the Kuala Lumpur city centre with the motorway as a secondary purpose. The stormwater management tunnel diverts floodwaters away from the confluence of the two major rivers running through the Kuala Lumpur city centre while the motorway relieves traffic congestion at the main southern gateway into the city centre.</p> <p>The motorway section of the tunnel is fitted with water-tight flood and traffic gates at both end to separate the motorway from the stormwater tunnel for the safety of the motorway users. The tunnel is closed to road traffic during severe flooding to allow full use of the tunnel's combined capacity of 3 million cubic metres to divert floodwater.</p> <p>Concessionaire: SMART SB</p> <p>Annual average daily traffic: 2020: 13,100 vehicles (2019: 25,000 vehicles); the motorway is only accessible by cars and taxis</p> <p>Year of opening: 2007</p> <p>Concession end date without extension: December 2042</p>

<p>SPRINT</p> 	<p>The 26.5 km dual three-lane SPRINT highway is considered as a major arterial road network in the Klang Valley, and comprises three sections, Pantai link: 11.5 km, Damansara link: 9.5 km, Bukit Kiara link: 5.5 km and 15 interchanges. The open toll urban highway was built to disperse traffic from congested inner-city roads and narrow residential roads leading into the city of Kuala Lumpur from the western suburbs of Petaling Jaya and Damansara.</p> <p>Concessionaire: SPRINT SB</p> <p>Annual average daily traffic: 2020: 125,500 vehicles (2019: 191,100 vehicles); cars being the dominant vehicle category at around 98% of vehicles</p> <p>Year of opening: 2001 (Damansara and Pantai links); 2004 (Bukit Kiara link)</p> <p>Concession end date without extension: December 2034 (Damansara and Pantai links); December 2031 (Bukit Kiara link)</p>
<p>LDP</p> 	<p>LDP is a 40 km dual three-lane inter-urban highway with 19 interchanges, 21 bridges and four toll plazas. Linking five economic centres in the Klang Valley, LDP was built to alleviate congestion in the city and to provide greater capacity in the north-south corridor. LDP operates on an open toll system at its four toll plazas located at Penchala, Petaling Jaya, Puchong Barat and Puchong Selatan.</p> <p>Concessionaire: LITRAK SB</p> <p>Annual average daily traffic: 2020: 338,200 vehicles (2019: 439,100 vehicles); cars account for over 90% of traffic.</p> <p>Year of opening: 1999</p> <p>Concession end date without extension: August 2030</p>

Note: Annual Average Daily Traffic (AADT) numbers are rounded to the nearest 100

Recent AADT numbers point to a recovery in toll road activity for all four highways closer to pre-pandemic levels after showing a downward trend in 2020 that was mainly a result of the various mobility restriction measures implemented to prevent the spread of COVID-19. The lingering public health concerns also will likely favour commute by personal vehicles over public transportation.

Background to Proposed Restructuring of Concessions via Acquisition

BOT concessions were, until more recently, a mainstream highway development funding route and generally premised on the efficiency of the private sector in highway design, construction and maintenance, and in the collection of tolls. Toll highways also help limit the fiscal impact of road infrastructure provisions. Because of the long lead time that it takes for large highway projects to develop a significant revenue base, back-loaded debt structures and periodic toll rate increases are necessary to meet debt service and ongoing maintenance (to prevent facilities from falling into the need of for considerable remediation) requirements. However, every incremental adjustment in tolls has proven to be politically sensitive.

Consistent with its election manifesto, The Pakatan Harapan government, which came into power in May 2018, opted to freeze all toll hikes on 21 highways which were eligible for scheduled increase in toll rates in 2019. Even prior to 2018, there were instances of deferred toll hikes under the previous administration.

More recently, in April 2021, the Ministry of Works announced that the 2021 scheduled increase in toll rates for another three highways including KESAS had been deferred, taking into account the COVID-19's impact on the cost of living for highway users. The deferment of scheduled toll hikes under the affected toll highway concessions has culminated in a steady uptrend in the government's compensation obligations of the government. Separately, the increasingly onerous financial demands posed by growing toll compensation payments to public sector finances are raising questions as to the reliability and sustainability of such payments. On a related note, the Government has announced that it is in negotiations with toll highway concessionaires to restructure toll rates and this will be finalised before 2023.

It is within this context that Gamuda has, in a toll restructuring proposal submitted to the Ministry of Works, proposed to dispose four highway concessionaires to ALR to facilitate the restructuring of the scheduled toll rates under the respective concessions. The inter-urban highways of LITRAK SB, SPRINT SB, SMART SB and KESAS SB were eligible for toll hikes in 2016 (LDP), 2019 (SPRINT- Penchala Link -Bukit Kiara Toll), 2020 (SMART), and more recently in 2021 (KESAS). LDP's last toll hike was granted in October 2015, after the government has been compensating the concessionaire for the difference in the toll rates between the amount paid by users and the rates provided for in the concession agreement. SPRINT's Damansara Link and Kerinchi Link will again be eligible for toll hikes in 2022 (See Exhibit 1).

The restructuring of the four highway concessionaires through ALR seeks to mitigate the impact of compensation payments for deferred toll hikes on the national budget whilst keeping the highway portfolio bankable for the private sector. The average life remaining for the four concessions without the proposed extensions is around 12.25 years. In Gamuda's proposal, concession period extensions are sought for SPRINT, SMART, LDP and KESAS of between 6 years to 10 years (as shown in Exhibit 2) along with a full waiver of corporate taxes. This proposal will relieve the government of its toll hike freeze compensation obligations and the four highways will maintain the existing toll rates until the end of the respective extended concession periods. All surplus or profit generated by ALR will be used to redeem the Sukuk.

Exhibit 1: Toll Rates: Existing and BAU Under Concession Scheduled Rates

Highway	Current Toll (Rates Maintained)	Agreed Rate Under Concession (scheduled toll hikes based on business-as-usual scenario)
KESAS	RM2.00	RM3.00 (2021-2028)
LDP	RM2.10	RM3.10 (2016 - 2030)
SPRINT: Damansara	RM2.00	RM2.50 (2022 - 2034)
SPRINT: Pantai	RM2.50	RM4.50 (2022 - 2034)
SPRINT: Bukit Kiara	RM3.00	RM5.00 (2019 - 2031)
SMART	RM3.00	RM5.00 (2020 - 2024)
		RM6.00 (2025 - 2029)
		RM7.00 (2030 - 2042)

Exhibit 2: Extensions Sought to Concession Periods

	Current CA End Date	Extension Sought	New Extension End Date
KESAS	18-Aug-28	6 years	31-Jul-34
LDP	14-Aug-30	10 years	31-Jul-40
SPRINT – Penchala	15-Dec-31	10 years	30-Nov-41
SPRINT – Pantai	14-Dec-34	10 years	30-Nov-44
SPRINT – Damansara	14-Dec-34	10 years	30-Nov-44
SMART	31-Dec-42	6 years	30-Nov-48

On April 4, 2022, Malaysia’s prime minister Datuk Seri Ismail Sabri Yaakob announced that toll rates on KESAS, SMART, SPRINT and LDP will not be raised until the end of their concession period, and that this would be accomplished via restructuring of the highway concessionaires. This was followed by an announcement by Gamuda later in the same month that the four highway concessionaires had each separately accepted their respective takeover offer by ALR. The proposed disposals are subject to approval by relevant regulatory authority for each offer; execution by each of the four highway concessionaires and the government of a supplemental concession agreement; and an approval of an income tax exemption and stamp duty exemption from the government for ALR and each concessionaire on completion of each offer.

The four concessionaires will remain solely responsible for the day-to-day operations of the three highways and the traffic and stormwater management tunnel. Wholly-owned by ALR post-restructuring, they will continue to collect tolls and perform maintenance on the highways as usual. The four concession companies collectively have an employee base of more than 900 in total.

ALR’s corporate governance structure consists of external directors who are equal shareholders in the company. In addition, a negative sukuk covenant prohibits any amendment to its Constitution which may be materially prejudicial to the interest of the Sukukholders. Importantly, ALR exhibits the generic characteristics of a not-for-profit organisation. The shareholders do not provide risk capital for the business and ALR’s Constitution prohibit the distribution of dividends to ensure that any surplus that is generated will be applied towards the full redemption of the Sukuk which will lead to shortening of the concession(s).

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APPENDIX





COMPLIANCE REVIEW FORM


01 IMPACT SIGNIFICANCE ANALYSIS





ALR's Sustainability Sukuk Asset Portfolio will be largely composed of acquired enterprises, as represented by the four highway toll concessionaires to be acquired, and to a much lesser extent, future sustainability projects to be undertaken. Our Impact Significance Analysis will address the sustainability objectives, benefits of the Acquisition Funding Use of Proceeds categories and their corresponding estimated social and environmental impacts, followed by that of the future projects.

ALR has defined its main Acquisition Funding Use of Proceeds category as "Socioeconomic Advancement and Empowerment" based on the nature of the expected social impact of the acquisitions of SPRINT SB, SMART SB, LITRAK SB and KESAS SB and the redemption of their existing debt.




ACQUISITION FUNDING USE OF PROCEEDS CATEGORIES






Social Project Category: Socioeconomic Advancement and Empowerment		
<p>Sustainability Objectives:</p> <p>The key purpose of the SRI Sukuk issuance is to facilitate the restructuring of the four identified highway concessions. As described in the Framework, key value propositions of the transaction are: toll rate savings for the highway users; toll compensation payment savings for the government and an expected shortening of the revised end dates of the concessions with the prioritisation of Sukuk repayment with the surplus cash flow generated by the acquired concessionaires.</p> <p>Project context:</p> <p>Motorization is still in a high trajectory in Malaysia where private car use for daily travel remains a key mode of transport. Time wasted in slow traffic negatively impacts economic growth in city contexts, increases fuel use and emissions, as well as uncertainty about travel times. Annual cost of congestion include lost time, traffic accidents and deaths, and worsened environmental conditions. The four toll highways help reduce the costs of congestion as measured by the costs of travel delay, additional fuel consumption and greenhouse gas emissions</p>	<p>Sustainability Benefits:</p> <p>Safe mobility as well as social equality (increased highway accessibility to all) Fiscal or public finance sustainability</p> <p>The Framework identifies the B40 and M40 highway users as the most significant beneficiaries of the expected social benefits of toll rate savings and a potential shortening of the concessions. This user segment is most at risk of being potentially priced off the highways by higher toll rates or increased hardship from scheduled toll rate hikes because they are already spending a higher share of their disposable income in tolls compared to higher income users. Within this population segment, the most concerning social impact includes for highway users that have the least flexibility in their schedules and are no more likely than higher income users to change their highway use because of toll rate hikes.</p> <p>The Framework also identifies direct fiscal savings for the Government in respect of otherwise payable toll</p>	<p>SDG Alignment:</p> <p>8 DECENT WORK AND ECONOMIC GROWTH</p>  <p>The selected highways contribute to a more efficient economy and improved efficiency of transport fuel use, and hence play a role in achieving SDG 8 and targets 8.2 and 8.4. The highways also offer a diversity of jobs, directly (employee base: > 900) and indirectly through their value chain, hence contributing to SDG target 8.5.</p> <p>Safer road infrastructure also contributes to the prevention of deaths and serious injuries.</p> <div> <div> <p>TARGET 8-2</p>  <p>DIVERSIFY, INNOVATE AND UPGRADE FOR ECONOMIC PRODUCTIVITY</p> </div> <div> <p>TARGET 8-4</p>  <p>IMPROVE RESOURCE EFFICIENCY IN CONSUMPTION AND PRODUCTION</p> </div> </div> <div> <p>TARGET 8-5</p>  <p>FULL EMPLOYMENT AND DECENT WORK WITH EQUAL PAY</p> </div>




for urban areas, the benefit of which extends to people who		
Social Project Category: Socioeconomic Advancement and Empowerment (cont'd)		
<p>continue to drive on publicly operated and toll-free roads from which traffic is diverted from. The four toll highways provide the B40, M40, and T20 alike the option of a congestion-free and reliable highway when they are especially pressed for time. (B40 represents the bottom 40% of income earners with a monthly income of RM4,850 and below, M40 represents the middle 40% with a monthly income of between RM4,851 to RM10,970, and T20 represents the top 20% with a monthly income above RM10, 971. The definitions of B40, M40 and T20 shall be updated from time to time to be consistent with the Department of Statistics Malaysia's (DOSM) household income classification. The Economic Action Council (EAC) announced in June 2021 that 600,000 M40 households, or 8% of Malaysian households had slipped into the B40 category due to the COVID-19 pandemic.)</p> <p>As highways that connect between centers of economic activity and based on the utilisation of the highways, the four highways can be considered as important social infrastructure enabling access to health services, education facilities and employment, amongst others.</p>	<p>compensation payments as a key positive social outcome of this Use of Proceeds category.</p> <p>However, the exact nature of public welfare gains is less clear as information on the intended utilisation of the Government's compensation savings is unavailable.</p>	<p>10 REDUCED INEQUALITIES</p>  <p>Apart from being efficient and resilient, transportation infrastructure needs to be equitable and inclusive to avoid further entrenching inequality.</p> <p>On an inflation-adjusted basis, toll rates are expected to decline, and improve equity in highway access and economic affordability, the importance of which has increased significantly due to the social and economic context generated by the pandemic-induced growing inequality, declining affordability and income growth stagnation.</p> <p>TARGET 10-2</p>  <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>  <p>The highways also positively impact fuel consumption, congestion, pollution and road safety, hence contributing towards the achievement of SDG 11 and targets 11.2 and 11.6.</p> <p>TARGET 11-2</p>  <p>TARGET 11-6</p> 

Green Project Category: Climate Change Adaptation		
<p>Sustainability Objective: Climate change mitigation</p> <p>Project context:</p> <p>The SMART project was incepted by MMC Corp Berhad-Gamuda Berhad Joint Venture, primarily to mitigate flooding in the City Centre of Kuala Lumpur and around the vicinity of Masjid Jamek and Jalan Tun Perak caused by the Klang River overflowing its banks. The motorway tunnel was later integrated into SMART at the design stage. The project was implemented with the Department of Irrigation and Drainage Malaysia and the Malaysian Highway Authority as the executing government agencies.</p> <p>The stormwater tunnel addresses floods caused by overflow of rivers by diverting the floodwaters to be stored in flood reservoir ponds and re-released after the water level at the main river drops.</p>	<p>Sustainability Benefits: Flood mitigation</p> <p>Since 2007, SMART has activated its stormwater diversion system for more than 550 times and has prevented nine major floods in Jalan Ampang, Jalan Tun Perak, Masjid Jamek and Dataran Merdeka. The corresponding flood mitigation benefits from savings generated by the prevention of property and public damages amount to an estimated RM1.4 billion. This is before taking into account avoided flood damage in the KL city centre during the December 2021 torrential downpours. The floods in the Klang Valley and associated flood damage could have been more severe if not for the tunnel which had to utilise 100% of its capacity to divert a total of five million cubic metres of floodwater in the December 2021 floods.</p>	<p>SDG Alignment:</p> <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>  <p>The flood mitigation function of the SMART project/ tunnel contributes directly to SDG 11's target 11.5 of reducing the number of people affected by disasters and direct economic losses caused as a result of water-related disasters.</p> <p>TARGET 11-5</p>  <p>13 CLIMATE ACTION</p>  <p>The flood mitigation function of the SMART project/ tunnel also contributes to SDG 13's target 13.1 of strengthening resilience and adaptive capacity to climate-related hazards. Expected climate change impacts include changes in rain patterns, increased flood risk, and more frequent extreme weather events with a significant corresponding increase in the number of people exposed annually to flood risk.</p> <p>TARGET 13-1</p> 

FUTURE PROJECTS USE OF PROCEEDS CATEGORIES

Green Project Category: Renewable Energy		
<p>Sustainability Objective: Climate change mitigation</p> <p>Sustainability Benefits: Contribution to climate change mitigation.</p> <p>This project category supports the national renewable energy (RE) and emissions reduction targets. Malaysia has set a target to improve the RE capacity in its power mix to 31% by 2025 in its Power Sector Development Plan 2021-2039. The government's plan for renewable energy forms part of the wider efforts to ensure Malaysia achieves its pledged commitment to reduce its greenhouse gas (GHG) emissions for up to 45% in terms of emission intensity of GDP by the year 2030 relative to 2005 levels.</p>	<p>Eligibility Criteria:</p> <ul style="list-style-type: none"> Development, installation, operation and maintenance of renewable energy systems including solar (photovoltaic) in underserved areas. <p>Project Examples: Installation of solar panels at 13 identified locations namely Kerinchi Link Tol, PJ South Tol, Plaza West Tol, Damansara Tol A, Plaza Tol Pantai, Plaza Tol Bukit Kiara (Penchala), Plaza Tol Kemuning, Plaza Tol Sunway, Plaza Tol Awan Besar East and West, Awan Besar Rest Service Area (RSA) and Kinrara RSA by December 2023, with a total estimated value of RM4.4 million to generate an estimated 1.5 GWh of green energy per annum. The installed solar generation capacity is estimated to account for 25% of the buildings' average annual load consumption. The solar panels can last for 20 years.</p> <p>ALR expects to save an estimated RM15.62 million in energy costs over the next 20 years from the solar electricity generated.</p>	<p>SDG Alignment:</p> <p>7 AFFORDABLE AND CLEAN ENERGY</p>  <p>This eligible category will have a positive impact on the achievement of SDG 7, target 7.2.</p> <p>TARGET 7.2</p> 
Social Project Category: Socioeconomic Advancement and Empowerment		
<p>Sustainability Objective: Access to education</p> <p>Sustainability Benefits: Socioeconomic mobility and poverty eradication</p> <p>Educational attainment is linked to a wide range of positive outcomes including longer life expectancy, higher employment rates and higher earnings. Education is one of the cornerstones of a sustainable economy in that a well-educated labour pool</p>	<p>Eligibility Criteria:</p> <ul style="list-style-type: none"> Provision of scholarships for tertiary education of B40 students at local universities. <p>ALR estimates to invest RM 1.45 million until 2032 or an average of RM132,000 a year indicative investment in this scholarship programme.</p>	<p>SDG Alignment:</p> <p>4 QUALITY EDUCATION</p>  <p>This eligible category will contribute to SDG 4 in promoting inclusive and quality education for all, including equal access for all women and men to affordable and quality technical, vocational and tertiary education as espoused in target 4.3.</p>

Social Project Category: Socioeconomic Advancement and Empowerment (cont'd)		
drives economic productivity in addition to improving the resilience of businesses and the national economy.		<div> <div> <div>TARGET 4-3</div>  <div>EQUAL ACCESS TO AFFORDABLE TECHNICAL, VOCATIONAL AND HIGHER EDUCATION</div> </div> <div> <div>10 REDUCED INEQUALITIES</div>  </div> <div> <div>TARGET 10-2</div>  <div>PROMOTE UNIVERSAL SOCIAL, ECONOMIC AND POLITICAL INCLUSION</div> </div> </div> <p>Access to quality education is fundamental to achieving universal social and economic inclusion as expressed in SDG 10's target 10.2.</p>
Green Project Category: Climate Change Adaptation		
<p>Sustainability Objective: Climate change adaptation</p> <p>Sustainability Benefits: Carbon sequestration</p> <p>Trees are a proven and safe means of removing carbon from the atmosphere. Planting trees can help increase the resilience of ecosystems and help minimise climate change effects.</p>	<p>Eligibility Criteria:</p> <ul style="list-style-type: none"> Tree planting in collaborations with local communities. <p>ALR expects to plant 1,375 trees and saplings at key places such as the rest service areas (R&R) with assistance from the local communities by 2032. The indicative investment for this is RM 0.54 million.</p>	<p>SDG Alignment:</p> <div> <div>13 CLIMATE ACTION</div>  </div> <p>The eligible project is generally supportive of mitigating and adapting to climate change.</p> <div> <div>TARGET 13-1</div>  <div>STRENGTHEN RESILIENCE AND ADAPTIVE CAPACITY TO CLIMATE RELATED DISASTERS</div> </div>

Green Project Category: Pollution Prevention and Control		
<p>Sustainability Objective: Pollution prevention and control</p> <p>Sustainability Benefits: Responsible management of e-waste</p> <p>Unwanted electronic or electrical devices can pose health and environmental hazards if not disposed of properly. Recycling electronic waste (e-waste) recycling helps to conserve natural and non-renewable resources, ultimately contributing to a more resource-efficient and climate change resilient economy.</p>	<p>Eligibility Criteria:</p> <ul style="list-style-type: none"> Provision of e-waste recycling facilities along highways. <p>ALR intends to set up six collection points for recycling electronic waste at strategic locations along the highways.</p>	<p>SDG Alignment:</p> <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>  <p>This eligible category contributes to SDG 12 and targets 12.2 and 12.5:</p> <div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>TARGET 12-2</p>  <p>SUSTAINABLE MANAGEMENT AND USE OF NATURAL RESOURCES</p> </div> <div style="text-align: center;"> <p>TARGET 12-5</p>  <p>SUBSTANTIALLY REDUCE WASTE GENERATION</p> </div> </div>

As the proceeds will be used predominantly for the refinancing of existing highway concessionaires, the most significant social additionality that will be provided by the SRI Sukuk is the combination of direct and indirect welfare gains accruing to highway users and the general population that will not exist in a baseline business as usual (BAU) scenario. This social additionality consists of two components: (i) the net present value of highway users' net toll savings represented by the present value of toll payments up to the original concession end date with post-2021 toll hikes under a BAU scenario minus the present value of expected toll payments to the end of the extended concession periods at existing toll rates; and (ii) the net public welfare gain represented by the immediate compensation savings minus the present value of tax revenue foregone in respect of corporate income taxes otherwise payable on highway profits.

ALR has estimated the monetary values for the expected net welfare gain to highway users and indirect public welfare gains (from direct fiscal savings) corresponding to this Acquisition Funding Use of Proceeds category at RM2.67 billion and RM3.52 billion respectively, under annual highway traffic growth scenario of 1.7% as projected by the highways' independent traffic consultant.

Importantly, the aforementioned social additionality aligns with a consistent stance on toll rates towards burden reduction as demonstrated by the current and previous administration. It remains to be seen, however, whether distributional equity in targeted positive social outcomes can be realised to the extent intended, particularly with regard to B40 and M40 highway users.

IDENTIFICATION AND MITIGATION OF ENVIRONMENTAL AND SOCIAL RISKS

MARC Ratings' assessment of the environmental and social risks associated with the Use of Proceeds categories considers the track record of the four highway concessionaires in managing the potentially material environmental and social (E&S) risks associated with the four highways. Highway projects are approved by public authorities following an extensive study of alternatives and robust planning with the involvement of transport policy makers, planners, other government agencies, amongst others, to accommodate environmental and local concerns. Key ESG and sustainability focus areas in the use phase of toll highways include traffic congestion management, road safety, road user satisfaction, climate action, as well as environmental management.

This assessment is largely based on a high-level review of available information in the public domain, which includes sustainability-related reporting provided by Lingkaran Trans Kota Holdings Berhad which covers LITRAK as a group, including the highway operations of SPRINT (Lingkaran Trans Kota Holdings Berhad is the holding company of LITRAK SB). This assessment is also informed by ALR's articulated ESG strategy as outlined in its Framework.

Traffic congestion management

Traffic queue lengths and user waiting time are monitored and reviewed regularly and measures are taken to mitigate or contain congestion to ensure that satisfactory levels of service are maintained in the toll road network. The summary of the main activities undertaken to relieve traffic congestion on LDP and SPRINT included in LITRAK's Sustainability Statement in its 2020 Annual Report confirms that congestion management measures are complemented by active monitoring of major projects sited along the highways, whether proposed or in progress. Electronic toll collection (ETC) systems are especially important to increase the throughput capacity of urban highway toll plazas and to limit emissions and air pollution from sporadically moving vehicles.

Highway maintenance and safety risks

Highway maintenance is key to protecting the investments in the highways and the continued provision of a safe and efficient transportation system. Concessionaires are required to maintain the highways in accordance with the highway maintenance standards of the Malaysian Highway Authority. The highway regulator sets standards for highway maintenance and performs monthly audits to review compliance with its standards and guidelines. Adequate spending on ongoing maintenance is important to ensure highways are maintained.

Highway safety is supported by preventive and infrastructure maintenance actions, awareness-raising and communication campaigns. The highways are monitored to prevent, detect and rectify poor and unsafe physical conditions.

Road user satisfaction and service quality issues

Among the factors influencing road user satisfaction are toll road service quality, time savings, toll rates and road user services such as patrolling services. Formal mechanisms for receiving queries, complaints and suggestions are in place at all highways to facilitate timely resolution of all reasonable public complaints and enable actions aimed at ongoing service improvement. ALR has plans to seek ISO 9001 certification for its quality management system. Concerning toll rates, the likelihood remains that the extension of the highway toll concessions may bring with it the risk of user dissatisfaction notwithstanding the commitment to keep existing toll rates unchanged.

Environmental risk management

The range of actions currently implemented by the highways to manage and mitigate their environmental impact includes reducing energy consumption, scheduled and regular road cleaning and measures to monitor and mitigate noise pollution. Noise barrier walls are installed in various highway stretches to help reduce the noise associated with the use of the infrastructure. Planned initiatives to conserve and protect biodiversity and natural capital, meanwhile, include the planting of trees and saplings in rest service areas.

Procurement risks

Significant value purchases are carried out via a tender process for greater transparency and good governance. The promotion of local suppliers is currently practised to control the impacts associated with the products and services provided in relation to the highways' activities. Apart from making it possible to generate positive synergies between the highways' activities and the socio-economic development of the local community, the promotion of local suppliers also helps reduce the transportation's contribution to their carbon footprint.

Social licence risk

The social licence to operate is essential for ongoing community support and for the sustainability of the highways post-acquisition. The highways' reputation among users and local communities is key, as is their continued ability to manage key relationships with the government and highway regulators. Gamuda and the highway concessionaires' long track record of operation attests to this; most of the highways have been in operation for two decades or more. MARC Ratings believes that ALR's ESG strategy which is premised on the identification of opportunities to eliminate negative E&S impacts as well as to strengthen E&S positive impacts will be an important factor in maintaining this social license, going forward. Additionally, we believe that ALR's stature as legally autonomous entity with a transparent structure of corporate governance would have a neutral or moderately positive effect on its social licence.

Transport policy trade-off risks

An unintended consequence of the increased affordability of highway toll rates may be an increase in the overall traffic activities which can have the end result of delaying the modal shift to public transport as targeted by the National Land Public Transport Masterplan. Under the said Masterplan, a 40% modal share of public transport in urban areas is targeted by 2030. While this effect cannot be entirely avoided, this also underscores the essentiality of electric vehicle adoption for long-term decarbonisation of the transport sector, including highways.

On the whole, MARC Ratings believes that the highway concessionaires, collectively and individually, exhibit adequate capacity to manage and respond to key ESG risks and opportunities in the use phase of their respective toll highways.

Overall Impact Significance

Overall, MARC Ratings assesses the impact of the Use of Proceeds to be significant, mostly on the basis of the corresponding quantified estimated benefits of the social additionality to be provided in the form of improved equity in transport and fiscal savings, as well as qualitative benefits associated with effective, safe and reliable highways and SMART's stormwater tunnel's flood mitigation capacity. The acquisition funding component of the Use of Proceeds also produces a significant intangible benefit in the form of an effective reconciliation between public policy priorities and budgetary imperatives within the current economic and social environment, and the social resistance to higher toll rates. It is noted that the proposed green and social projects amounting to RM10mil will contribute towards the achievement of ALR's articulated sustainability goals but will likely have a limited ground level impact.

<input type="checkbox"/>	Very Significant	This level of impact significance is assigned where underlying projects are expected to generate very visible positive ground level impact. Projects at this level support the realisation of long-term integrated visions of sustainable development that are consistent with global sustainability goals, as well as national sustainable development goals and priorities.
<input checked="" type="checkbox"/>	Significant	This level of impact significance is assigned where underlying projects are expected to generate a visible positive ground level impact. Projects at this level have the potential to facilitate adjustments towards a more sustainable development trajectory and to meaningfully advance national level sustainable development goals.
<input type="checkbox"/>	Fairly Significant	This level of impact significance is assigned where underlying projects are expected to generate a ground level impact which, although at a lower magnitude than that expected for higher assessment levels, is still considered noteworthy.
<input type="checkbox"/>	Marginal	This level of impact significance is assigned where underlying projects are expected to generate a positive but limited ground level impact.
<input type="checkbox"/>	Not Significant	This level of impact significance is assigned where underlying projects are expected to have negligible ground level impact.

02 ALIGNMENT WITH SRI SUKUK FRAMEWORK



Malaysia's SRI Sukuk
Framework: Utilisation
of Proceeds

At issuance, the proceeds of ALR's SRI Sukuk will be predominantly used to finance the acquisition of the four concession companies including transaction costs in accordance to the Framework. The balance of proceeds will be invested in projects undertaken by the highways to promote the transition towards a low-carbon and environmentally sustainable society, as set out by ALR in its Framework. The allocation of the net Sukuk proceeds between acquisition funding and future projects is provided in the Framework. The issuer has indicated that the latter will be limited to RM10 million. Based on the nature of the expected social impact of the acquisitions of SPRINT SB, SMART SB, LITRAK SB and KESAS SB, ALR has defined its main acquisition funding Use of Proceeds category as "Socioeconomic Advancement and Empowerment". This Use of proceeds category seeks to achieve positive social outcomes, especially but not exclusively, for the B40 and M40 highway users, as well as for the general population through fiscal savings on the part of the government. The second and remaining acquisition funding Use of Proceeds category is "Climate Change Adaptation" and concerns the flood mitigation and climate resilience benefits provided by SMART's stormwater management function. The Use of Proceeds categories for future projects align with the green and social project categories recognised by the SC's SRI Sukuk Framework.

MARC Ratings considers the Use of Proceeds description provided by ALR's Framework as aligned with the SC's SRI Sukuk Framework. ALR has clearly defined environmental and social objectives for its Use of Proceeds categories, which align with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing the SRI Sukuk is also clearly described by the issuer. Considerable effort has also been made to assess and quantify the expected social and environmental benefits of the Use of Proceeds, which MARC Ratings finds commendable.



Malaysia's SRI Sukuk
Framework: Eligible SRI
Projects

ALR will establish a Sukuk Kelestarian ALR Committee to carry out project evaluation and selection, which will be chaired by the Group Chief Executive Officer and composed of Chief Operating Officer(s) and Chief Financial Officer.

Eligible projects will be evaluated and approved by the Sukuk Kelestarian ALR Committee during the annual expenditure budgeting process, or when necessary. Apart from the eligibility criteria defined in the Framework, projects will be considered based on their contribution towards achieving ALR's sustainability vision and strategic plans, and their impact on ALR's ESG's performance, cost and viability. If a project is deferred or loses its eligibility, the Sukuk Kelestarian ALR Committee will, on a best-efforts basis, substitute the project with another project.

The process for project evaluation and selection is clearly defined in the Framework. The process is good in terms of governance and transparency, and should ensure that selected projects are consistent with the initial goals of the SRI Sukuk and the Framework's eligibility criteria. The identification and management of E&S risks associated with the Eligible

Categories are considered to be good based on the highways' operating track record. Sound ESG execution on the part of toll highway operators is also secured to some extent through laws and regulations. In any case, because the majority of the proceeds will be applied towards the pre-identified acquisition funding, only a limited small percentage of net Sukuk proceeds will be managed in accordance with the project evaluation and selection process.



Principle Three:
Management of
Proceeds

Prior to Sukuk issuance, a Main Servicing Reserve Account will be opened with a Shariah-compliant bank. This account will solely be operated by a Security Agent. Sukuk proceeds will only be made available for the acquisition funding of the four concession companies upon completion of documentation and fulfilment of all conditions precedent set in all relevant transaction documents. The processes for management of proceeds, along with the explicit eligibility criteria, ensure that the Sukuk proceeds would not be used for any purposes other than what is set out in the Framework.

As the majority of the proceeds will be applied to acquisition funding and redemption/settlement of concession debt, we expect much of the proceeds to be allocated in a timely manner post-financial close. ALR has committed to provide information on the latest available cash reserve, outstanding financial debt and subsequently the anticipated full redemption date of ALR's financial debt in its reporting to the Government at least annually.



Principle Four:
Reporting

ALR's reporting process and commitments cover both the allocation of net proceeds and their corresponding impact. ALR will make a performance report publicly available on a designated website for its stakeholders annually. ALR has committed to engage an independent third party to provide assurance on its stakeholder report(s). The allocation and impact reporting commitments made in the Framework, along with the annually reviewed external credit ratings on its Sukuk will support regular and transparent updates to investors and the public. The indicative indicators selected by ALR to report on the environmental and social benefits of the Use of Proceeds are clear and relevant although not exhaustive. Areas for improvement include committing to disclosures that will support continued assessment of the highways' management of E&S risks such as that of which is currently provided by the holding company of LITRAK SB in fulfilment of sustainability reporting obligations under the Listing Requirements of Bursa Malaysia Securities Berhad. Post-acquisition (of the four highway concessionaires), a potential challenge may lie in sustaining an appropriate level of transparency on ESG performance as is currently provided by the listed shareholders of the concession companies.

Overall, MARC Ratings considers ALR's Framework to be aligned with the core components of SC's SRI Sukuk Framework with regard to the Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting (including Disclosures).

Overall Assessment

	Clarity of Issuance Process and Disclosure	Total Score
<input checked="" type="checkbox"/>	High	10- 12 points
<input type="checkbox"/>	Good	7 -9 points
<input type="checkbox"/>	Satisfactory	4 – 6 points
<input type="checkbox"/>	Low	Below 4 points

Equal weighting is given to each of the four principles in arriving at the total score which is then expressed on the above four-point descriptive scale which ranges from High to Low.

Assessment Grade	High	Good	Satisfactory	Low
	3	2	1	0

03 ANALYSIS OF SUSTAINABILITY PERFORMANCE

The analysis of the prospective sustainability performance of ALR's highway operations is primarily informed by a review of publicly available information on the ESG performance of SPRINT SB, SMART SB, LITRAK and KESAS SB (collectively referred to as 'the Group' in this section), particularly their engagement with material ESG topics for the toll highway sector. MARC Ratings considers the toll highway sector to be one in which there is an observed close and positive linkage between coherent and effective regulation and the protection of public interest.

The Group identifies regulatory compliance, traffic congestion, road safety and maintenance, and road user satisfaction as high priority ESG factors to be proactively managed. Environmental priorities currently include energy conservation, monitoring and maintaining acceptable noise levels along the highways and responsible waste management. While the Group's current sustainability strategy appears to attach primary importance to the economic dimension and regulatory compliance, ALR has committed to achieve an E&S performance extending beyond regulatory compliance in its Framework.

As an entity stewarding the 'infrastructure of the people', ALR is seeking to embed sustainability more broadly in the operation of the Group's highways. To realise its vision of becoming a sustainable and leading highway service provider, ALR's ESG strategy is premised on three sub-strategies: socially responsible stewardship (of financial resources and highway tolling), climate action (environmental impact reduction) and safe and reliable operation and maintenance of highways. A sustainability policy will be established to promote awareness of social and environmental issues among the Group's internal and external stakeholders, namely its employees, contractors, suppliers and business partners.

ALR has made commitments in the Framework in respect of future energy conservation and renewable energy initiatives to reduce the highways' environmental footprint. The planned actions include the replacement of buildings' fluorescent lightings with energy efficient LED lightings and the installation of solar panels to generate clean self-consumption electricity. As part of the strategy to control the environmental impacts of the highway operations, ALR will seek ISO 14001 certification to ensure its environmental management system meets international industry-specific environmental standards. In addition, the highways will seek to maintain or improve their My Green Highway certification by Lembaga Lebuhraya Malaysia (LLM) and rankings in My Expressway Ranking by the Malaysian Institute of Road Safety Research (MIROS). The My Green Highway certifications from LLM are subject to renewal every five years. MARC Ratings notes positively ALR's efforts to give more detailed effects to its ESG vision and strategy through specific and detailed outlines of proposed green and social projects in its Framework.

ALR's proposed corporate governance structure consists of a board comprising of external directors who are also equal shareholders in the company. As an entity operated for collective public benefit, ALR's Constitution will prohibit the distribution of dividends so any surplus that is generated will be applied to redeem the sukuk and shortening the concession(s) in line with its not-for-profit purpose. Apart from its Framework-related responsibilities, ALR's Sukuk Kelestarian ALR Committee which will also assume the responsibility of managing ALR's sustainability risks and opportunities integrating sustainability within the Group's operations and monitoring and reporting compliance. This addresses an important need to initiate and sustain a high level of accountability as a core element of good governance post-acquisition of the four highway concessionaires. Equally important is the commitment to maintain an appropriate level of transparency on how ALR is stewarding the 'infrastructure of the people' in terms outcome indicators relevant to the highways' operations. Such indicators include average daily traffic (ADT) as a measure of value creation, annual maintenance




spending, and highway safety performance measures, all of which will help convey the effectiveness, safety and reliability of the highways. Having an independent external assurance of the reported information would help build trust and confidence in ALR's governance dimension. MARC Ratings notes that ALR's annual reporting to stakeholders under the Framework will be assured by an independent third-party assurance provider.

Sustainability Performance Assessment

<input type="checkbox"/>	Excellent/Highest Assurance	The issuer positions itself as a sustainability leader in its industry, ranking in the "top tiers" of performance across multiple categories of engagement, ranging from supply chain management to environmental performance. Sustainability-related risks and opportunities are integrated with the business strategy. Well-defined sustainability policies and practices are augmented by strong accountability systems which allow for a benchmarking of the issuer's performance against stated objectives and the incorporation of external assurance in its sustainability reporting framework.
<input checked="" type="checkbox"/>	Very Good/High	The issuer has integrated risk-based sustainability considerations in its operations and has a robust process for assessing significant sustainability risks exposures to minimise adverse impacts on its business. The focus of the issuer's sustainability performance monitoring and evaluation is on managing risk exposures to minimise downside risk. Globally-recognised best practice reporting frameworks guide the issuer's sustainability reporting.
<input type="checkbox"/>	Good/Medium	The issuer has adopted a CSR-centric sustainability strategy that prioritises stakeholder engagement and goodwill building. Sustainability is a small part of the issuer's business strategy, nonetheless there is evidence to suggest that its sustainability performance has progressed beyond maintaining regulatory compliance. The issuer has implemented general sustainability reporting to investors.
<input type="checkbox"/>	Fair/Basic	The issuer has a policy of regulatory compliance but has yet to incorporate sustainability considerations into its business operations. At this performance level, the goal of sustainability management is to achieve and maintain compliance with health, safety, and environmental requirements mandated by government laws and regulations.
<input type="checkbox"/>	Poor/Weak	The issuer has a record of poor sustainability performance or operates in unsustainable industries.

MARC Ratings assessment of the issuer's sustainability implementation capabilities and performance is expressed on a five-level descriptive scale that runs from "Excellent" to "Poor" which corresponds to five levels of assurance (Highest, High, Medium, Basic and Weak). The assurance level can be interpreted as a measure of MARC Ratings' confidence in the issuer's continuing performance of its sustainability obligations in line with marketplace expectations and in compliance with its sustainability framework for the bonds or sukuk issuance.

04 RATING SCALE

GRADE	DESCRIPTION
	<p>Bonds assessed at this level are judged to offer very significant environmental and/or social sustainability impact based on the projects supported or expected to be supported by the bond issuance. The processes used or to be used for the allocation and administration of proceeds, decision making process of eligible projects and the reporting of performance indicators are consistent with the core principles of the GBP and/or SBP and applicable market guidance or standards and should support high standards of accountability and transparency.</p>
	<p>Bonds assessed at this level are judged to offer significant environmental and/or social sustainability impact based on the projects supported or expected to be supported by the bond issuance. The processes used or to be used for the allocation and administration of proceeds, decision making process of eligible projects and the reporting of performance indicators are consistent with the core principles of the GBP and/or SBP and applicable market guidance or standards and should support good standards of accountability and transparency.</p>
	<p>Bonds assessed at this level are judged to offer fairly significant environmental and/or social sustainability impact based on the projects supported or expected to be supported by the bond issuance. The processes used or to be used for the allocation and administration of proceeds, decision making process of eligible projects and the reporting of performance indicators are consistent with the core principles of the GBP and/or SBP and applicable market guidance or standards and should support satisfactory standards of accountability and transparency. Minor shortcomings exist in the areas assessed but none of major concern.</p>

MARC RATINGS BERHAD

MARC Ratings Berhad was incorporated as a public limited company to undertake the business of providing credit rating services, as well as economic and fixed-income research publications, on behalf of the MARC group of companies.

Effective January 1, 2022, Malaysian Rating Corporation Berhad (MARC) transferred its regulatory license as a credit rating agency with the SC and the Bank Negara Malaysia-accredited External Credit Assessment Institution (ECAI) status under Basel II to its wholly-owned subsidiary MARC Ratings. MARC Ratings continues to adopt practices and procedures for Domestic Credit Rating Agencies based on the guidance on the Code of Conduct Fundamentals provided by the International Organisation of Securities Commissions (IOSCO) and the Association of Credit Rating Agencies in Asia (ACRAA). MARC Ratings continues to consult international best practices and the International Capital Market Association's Guidelines for Green, Social and Sustainability Bonds External Reviews in its conduct of external reviews, particularly in relation to the organisation and content of external reviews.

Following a series of outreach and external reviewer capacity building initiatives jointly undertaken by domestic market regulators and World Bank Group, MARC published its proposed criteria for rating green, social or sustainability bonds in April 2018. The version that was adopted in July 2018 after public consultation can be accessed on MARC's corporate website at https://www.marc.com.my/images/Rating_Methodologies/201912_/Impact-Bonds-Assessment-Criteria-201912-newlogo-.pdf. As explained in the criteria, the analytical framework consists of three components that provide insights to the green, social and sustainability credentials of green, social and sustainability bonds: (1) an assessment of environmental and/or social benefits of the underlying funded project(s); (2) an assessment of compliance with internationally recognised principles and market standards for the evaluation of such bonds; and (3) an evaluation of the issuer's sustainability strategy and performance. Bonds which meet the minimum thresholds in each of the three analytical components will be rated Gold, Silver or Bronze.

For more information, visit <https://www.marc.com.my/> or contact us at ratings@marc.com.my.

Review of Compliance with SRI Sukuk Framework 2021

Issuer: Amanat Lebuhraya Rakyat Berhad (ALR) Sustainability Sukuk Framework

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p>Issuer</p> <p><u>SRI Sukuk Framework</u></p> <p>7.02 The proceeds (of Sukuk) will be applied exclusively for funding of any activities or transactions relating to the Eligible SRI projects.</p> <p>7.03 An issuer must not– (a) use or adopt the term “SRI sukuk”; or (b) hold itself out as an issuer of such SRI sukuk, unless the issuance of the SRI sukuk has complied with these Guidelines.</p> <p>7.04 An issuer who wishes to issue an SRI sukuk must establish policies and processes to ensure compliance with the SRI Sukuk Framework as set out in these Guidelines.</p> <p>7.05 The information relating to the issuer and the details of the issuer’s SRI Sukuk Framework must be made publicly accessible via a designated website to be disclosed by the issuer. Such information in the designated website must be made available at the point of issuance and throughout the tenure of the SRI sukuk.</p> <p>.</p> <p>Eligible Projects</p> <p>7.07 An eligible SRI project refers to a project that seeks to achieve any one or a combination of the following objectives: (a) Preserving and protecting the environment and natural resources; (b) Conserving the use of energy; (c) Promoting the use of renewable energy;</p>	<p>Complied. The Sukuk proceeds will be applied exclusively for the funding of transactions (enterprise acquisitions) and activities falling within those broad categories of eligibility recognised by the SC’s SRI Sukuk Framework.</p> <p>The issuer intends to issue SRI sukuk that complies with the Guidelines.</p> <p>ALR commits to establish policies and processes as needed to ensure compliance with the SRI Sukuk Framework.</p> <p>ALR’s Framework will be made available at the point of issuance and throughout the tenure of the SRI sukuk via a designated website.</p> <p>The eligible projects as defined by the Framework will achieve any one or a combination of objectives set out in paragraph 7.07 of the SRI Sukuk Framework.</p>	

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p>(d) Reducing greenhouse gas emission;</p> <p>(e) Addressing or mitigating a specific social issue or seeking to achieve positive social outcomes especially but not exclusively for a target population; or</p> <p>(f) Improving the quality of life of the society.</p>		
<p>7.08</p> <p>The Eligible SRI projects may include but not limited to the following:</p> <p>(a) Green projects that relate to—renewable energy; energy efficiency; pollution prevention and control; environmentally sustainable management of living natural resources and land use; terrestrial and aquatic biodiversity conservation; clean transportation; sustainable water and wastewater management; climate change adaptation; eco-efficient and/ or circular economy adapted products, production technologies and processes; and green buildings which meet regional, national or internationally recognised standards or certifications.</p> <p>(b) Social projects that relate to, amongst others—affordable basic infrastructure; access to essential services; affordable housing; employment generation including the potential effect of SME financing and microfinance; food security; and socioeconomic advancement and empowerment.</p> <p>(c) Projects which are the combination of Green and Social projects as described in (a) and (b) above; and</p> <p>(d) Waqf projects that relate to the development of waqf properties or assets.</p>	<p>Eligible project categories detailed in the Framework are represented by two broad groupings, acquisition funding Use of Proceeds and future projects Use of Proceeds. All align with eligible SRI project categories in paragraph 7.08 (a) and (b) of the SRI Sukuk Framework.</p> <p>Eligible green project categories include:</p> <ul style="list-style-type: none"> • Renewable energy • Pollution prevention and control • Climate change adaptation <p>ALR has defined its main acquisition funding Use of Proceeds category as “Socioeconomic Advancement and Empowerment” based on nature of the expected social impact of the acquisitions of SPRINT SB, SMART SB, LITRAK SB and KESAS SB. In the Framework, ALR has assessed and quantified the expected social benefits arising from welfare gains among the highway users and indirect public welfare gains are expected to result from the release of resources the Government would have otherwise expended on compensation savings for impactful public spending including to support social recovery and resilience from the COVID-19 pandemic.</p> <p>ALR intends to set aside a portion of the Sukuk proceeds for B40 tertiary education student scholarships as a “Socioeconomic Advancement and Empowerment” future project Use of Proceeds Category.</p>	<p>Environmental Use of Proceeds impacts are linked to SDGs 7: Affordable and Clean Energy; 11: Sustainable Cities and Communities; 12: Responsible Consumption and Production; Energy; and 13: Climate Action.</p> <p>Social Use of Proceeds impacts have been linked to SDGs 4: Quality Education; 8: Decent Work and Economic Growth; and 10: Reduced Inequalities.</p> <p>While the acquisition funding “Socioeconomic Advancement and Empowerment” Use of Proceeds category seeks to achieve positive social outcomes especially, but not exclusively, for the B40 and M40 highway users, as well as for the general population through fiscal savings on the part of the Government, the future projects “Socioeconomic Advancement and Empowerment” Use of Proceeds category has a clearly defined target population, the B40 segment.</p>
<p>Use of Proceeds</p> <p>7.10</p> <p>An issuer must ensure that the proceeds raised from the issuance of the SRI sukuk are utilised only for the purpose of funding any activities or transactions relating to the Eligible SRI projects as described in paragraph 7.08 above. The utilisation of issue proceeds must be described in the documentation for issuance.</p>	<p>The use of proceeds is limited to the funding of the Eligible SRI projects described in the Framework.</p>	

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
7.11 <i>In relation to the activities or transactions that involve acquisition of a company which carries on the Eligible SRI projects, an issuer must ensure that the company that is to be acquired does not carry on any other business or projects except for the Eligible SRI projects.</i>	<i>The four highway/expressway concessionaires to be acquired <u>do not</u> carry on any other businesses or projects except for the operation of highways/expressways.</i>	<i>The net Sukuk proceeds will be used to predominantly fund the acquisition of the following four highway/expressway concessionaires (corresponding highway and expressway) and respective debt redemption:</i> <ul style="list-style-type: none"> • Kesas Sdn Bhd (Shah Alam Expressway) • Syarikat Mengurus Air Banjir & Terowong Sdn Bhd (Stormwater Management and Road Tunnel (SMART)) • Sistem Penyuraian Trafik KL Barat Sdn Bhd (SPRINT Highway) • Lingkaran Trans Kota Holdings Sdn Bhd (Lebuhraya Damansara Puchong).
Process for Project Evaluation and Selection 7.12 <i>An issuer must establish internal processes for evaluation and selection of the Eligible SRI projects as identified in paragraph 7.08 above.</i>	<i>The issuer has established internal processes for project evaluation and selection which provides for senior management involvement.</i>	<i>The Framework details an internal process by which Eligible SRI projects are assessed and selected. A Sukuk Kelestarian ALR Committee, chaired by the Group Chief Executive Officer and comprising the Chief Operating Officer(s) and Chief Financial Officer will evaluate and approve the current and future projects.</i>
Management of Proceeds 7.13 <i>An issuer must ensure that the proceeds allocated for the Eligible SRI projects are credited into a designated account or otherwise tracked in an appropriate manner.</i>	<i>The issuer will open a Proceeds Account with a Shariah-compliant bank to which the proceeds allocated for the Eligible SRI projects will be credited into.</i>	

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
Reporting 7.14 An issuer must provide the following information to the sukukholders annually through a designated website: (a) The original amount allocated for the Eligible SRI projects; (b) The amount utilised for the Eligible SRI projects; (c) The unutilised amount and where such unutilised amount is placed or invested pending utilisation; and (d) The list of the Eligible SRI projects in which the SRI sukuk proceeds have been allocated to and a brief description of the said Eligible SRI projects and their impact or expected impact, including the key underlying methodology or assumptions used to determine the impact or expected impact.	ALR has confirmed in the Framework that it will report on its corporate website the required information in relation to 7.14.	
7.15 Where an issuer is unable to make available comprehensive information as specified in paragraph 7.14 above due to confidentiality agreements or competitive considerations, such issuer may provide the information in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories)	Not applicable.	
Disclosure Requirements 7.16 The following information must be included: a) The overall SRI objectives that the issuer intends to achieve; b) The utilisation of proceeds from the issuance of the SRI sukuk. Where all or part of the proceeds are used for refinancing, an issuer must provide the amount of proceeds being allocated for refinancing and which Eligible SRI projects to be refinanced; c) The Eligible SRI projects in which the proceeds will be allocated; The details of the Eligible SRI projects and to the extent possible, d) impact objectives from the Eligible SRI projects; e) The processes used by the issuer to evaluate and select the Eligible SRI projects;	Complied. Complied. Complied. Complied. Complied.	

Criteria	Compliance with criteria	Remarks/Scope of Work Undertaken
<p>f) The criteria used by the issuer to identify and manage material environmental or social risks associated with the Eligible SRI projects;</p> <p>g) The processes used by the issuer to manage the proceeds from the issuance of the SRI sukuk; and</p> <p>h) A statement that the issuer has complied with the relevant environmental, social and governance standards or recognised best practices relating to the Eligible SRI projects.</p>	<p>Complied.</p> <p>Complied.</p> <p>Complied.</p>	
<p>External Review</p> <p>7.17</p> <p>If an external reviewer is appointed to assess and provide report on the Eligible SRI projects or the issuer's compliance with the requirements under these Guidelines, such external reviewer's report must be made available on the designated website.</p>	<p>MARC Ratings has been engaged as independent external reviewer for the Framework. The external reviewer's report will be made available on a designated website.</p>	

THE UN SUSTAINABLE DEVELOPMENT GOALS

	GOAL 1: End poverty in all its forms everywhere		GOAL 10: Reduce inequality within and among countries
	GOAL 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture		GOAL 11: Make cities and human settlements inclusive, safe, resilient and sustainable
	GOAL 3: Ensure healthy lives and promote well-being for all at all ages		GOAL 12: Ensure sustainable consumption and production patterns
	GOAL 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all		GOAL 13: Take urgent action to combat climate change and its impacts
	GOAL 5: Achieve gender equality and empower all women and girls		GOAL 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development
	GOAL 6: Ensure availability and sustainable management of water and sanitation for all		GOAL 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
	GOAL 7: Ensure access to affordable, reliable, sustainable and modern energy for all		GOAL 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
	GOAL 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all		GOAL 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development
	GOAL 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation		

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Published by:

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