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ASSESSMENT
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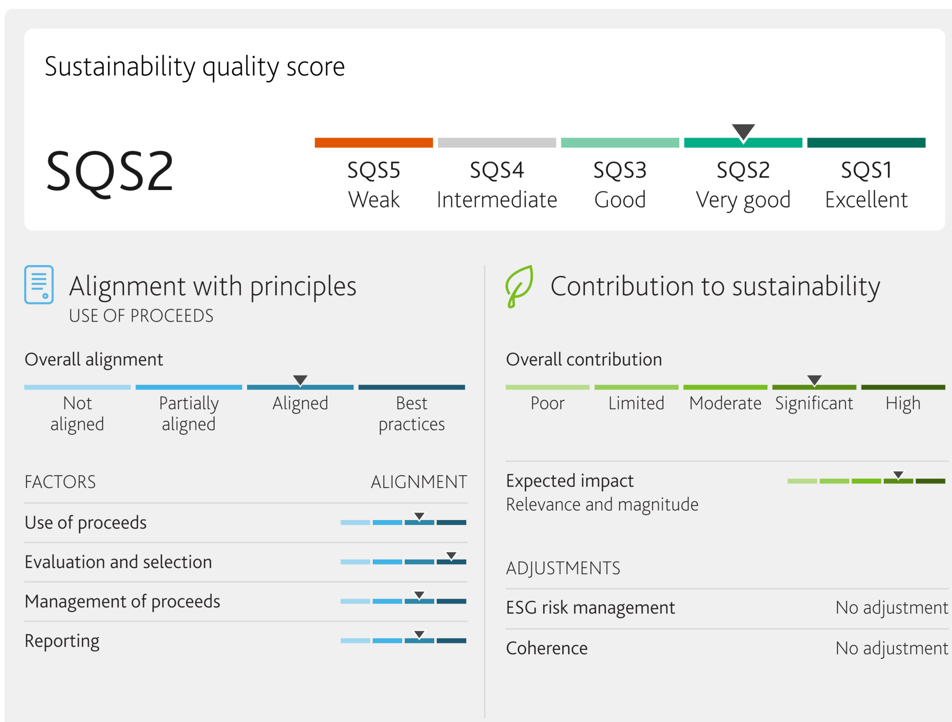
ALLO Communications LLC

Second Party Opinion – Sustainability Financing Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 sustainability quality score (very good) to ALLO Communications LLC's sustainability financing framework dated May 2023. The issuer has established its use-of-proceeds framework with the aim of financing projects across two eligible green categories and one eligible social category. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (with June 2022 Appendix 1) and Social Bond Principles (SBP) 2021 (with June 2022 Appendix 1), and the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association (LMA/APLMA/LSTA). The framework demonstrates a significant contribution to sustainability.



Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of ALLO Communications LLC's (ALLO) sustainability financing framework, including its alignment with the ICMA's Green Bond Principles 2021 (with June 2022 Appendix 1) and Social Bond Principles 2021 (with June 2022 Appendix 1), as well as the Green Loan Principles (GLP) 2023 and Social Loan Principles (SLP) 2023 of the LMA/APLMA/LSTA. Under the framework, ALLO and its subsidiary plan to issue use-of-proceeds green, social or sustainability bonds, loans and other financial instruments with the aim of financing projects comprising two green categories and one social category, as outlined in Appendix 2 of this report.

Our assessment is based on the last updated version of the framework received on 5 May 2023, and our opinion reflects our point-in-time assessment of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

Headquartered in Imperial, Nebraska, ALLO is a telecommunications company offering internet, telephone and television services through a high speed fiber-to-the-premise (FTTP) broadband network. The company provides symmetrical high speed broadband services to over a million residential and commercial customers across 36 cities in Nebraska, as well as customers in the states of Colorado and Arizona. The issuing entity of securitized bonds under the framework is ALLO Funding LLC, which is a wholly owned bankruptcy remote subsidiary of ALLO.

The environmental challenges of the telecommunications sector are primarily driven by the moderate exposure to physical climate risks as well as the emissions from energy intensive networks and equipment. Although the urban-rural digital divide has narrowed over the past decade, a significant gap remains and is a key social issue for the sector. ALLO aims to address these issues by deploying a high speed fiber optic network to provide broadband services to its service area and to underserved and unconnected areas with limited or low quality broadband access. The company's strategy is focused on transforming legacy copper networks that are inherently more energy intensive to energy-efficient fiber networks to reduce its carbon footprint.

Strengths

» Financing of a best-in-class energy-efficient fiber optic transmission network with the potential to reduce emissions beyond the company's own carbon footprint

» Fiber broadband services targeting a highly vulnerable population to bridge the digital divide

» Clearly defined eligible project categories, target population and sustainability objectives and benefits

» Structured, detailed and transparent process for project evaluation and selection, including relevant internal expertise

Challenges

» Despite the comparatively high energy efficiency of FTTP networks, the expected increase in data traffic could lead to increased absolute GHG emissions

» The rollout in rural areas is likely to generate higher locked-in emissions per house connected than in urban areas, because of the more extensive use of materials and construction required

» Reporting on allocation of proceeds will be provided until full allocation of proceeds, shorter than market best practice of until bond/loan maturity

» Proceeds allocation period will be 36 months, longer than market best practice of 24 months or less

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Alignment with principles

ALLO's sustainability financing framework is aligned with the four core components of the ICMA's GBP 2021 (with June 2022 Appendix 1) and SBP 2021 (with June 2022 Appendix 1), as well as the GLP 2023 and SLP 2023 of the LMA/APLMA/LSTA:

- [x] Green Bond Principles (GBP)
- [x] Social Bond Principles (SBP)
- [x] Green Loan Principles (GLP)
- [x] Social Loan Principles (SLP)
- [ ] Sustainability-Linked Bond Principles (SLBP)
- [ ] Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned	Partially aligned	Aligned	Best practices

Clarity of the eligible categories – BEST PRACTICES

The company has clearly communicated the nature of expenditures, the eligibility criteria and the location of eligible projects which will be deployed in Nebraska, Colorado and Arizona. The target population for the social category has been clearly defined as the following; (i) populations with limited or low-quality access to broadband networks in rural or remote areas defined as a small town over forty minutes from an urban area or a truly rural area over forty minutes from an urban area, and (ii) populations from disadvantaged socioeconomic backgrounds defined as low income communities and individuals with incomes of less than 80% of the area median income, and individuals that are eligible for government assistance programs.

The framework includes descriptions of the eligible projects to be financed, and, additionally, the company has specified that the supporting infrastructure for the fiber network will seek to comply with the US Environmental Protection Agency's ENERGY STAR guidelines for energy management, thus constituting a reference to an internationally recognized technical threshold.

The framework governs the company's future issuances of green, social, and sustainability senior notes, subordinated notes, securitized financing, convertible notes, and green, social, and sustainability loans. In the case of securitization, the proceeds will be allocated by the fiber cable securitization program to finance or refinance the acquisition and deployment of eligible fiber that meet the criteria of eligible categories. The company has shared that collateralized assets will consist of fiber optic cables and equipment to support the network, and that details on the specific collateralized assets will be disclosed in the relevant securitized financing documentation. The company commits to not double count the sustainable benefits of the collateralized assets associated with any securitized financing.

Clarity of the environmental or social objectives – BEST PRACTICES

The company has clearly outlined the environmental and social objectives associated with its three eligible categories. These objectives include climate change mitigation through energy efficiency and renewable energy projects in the green categories and bridging the digital divide by providing access to broadband services in the social category. All eligible categories are relevant to the respective environmental and social objectives to which the company aims to contribute. The company has framed its objectives through six UN Sustainable Development Goals (SDGs) – Goal 7 – Affordable and Clean Energy, Goal 8 – Decent Work and Economic Growth, Goal 9 – Industry, Innovation and Infrastructure, Goal 10 – Reduced Inequalities, Goal 12 – Responsible Consumption and Production, and Goal 13 – Climate Action.

Clarity of expected benefits – ALIGNED

The company has identified clear expected environmental and social benefits for its three eligible categories. The benefits are measurable and quantifiable for nearly all project categories, and the company commits to report on these benefits in its annual allocation report. The company has committed to a refinancing lookback period of no longer than 24 months from the time of issuance. This will be communicated in each subsequent sustainability financing instrument documentation, and the company commits to disclose the estimated share of refinancing in its annual allocation report.

Best practices identified

- » Eligibility criteria are clearly defined for all project categories
- » Objectives set are defined, relevant and coherent for all project categories
- » Relevant benefits are identified for all project categories
- » Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- » Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection

Not aligned	Partially aligned	Aligned	Best practices ▼

Transparency and quality of process for defining eligible projects – BEST PRACTICES
ALLO's decision-making process for the selection and evaluation of projects is clear, structured and disclosed in its framework. The company has established a sustainable finance steering committee that is responsible for project identification, evaluation, selection and ensuring that the projects are aligned with the eligibility criteria of its sustainability financing framework. The committee consists of individuals with relevant expertise, including members from its leadership, compliance, ethical engagement and finance teams. The committee will meet on an annual basis at a minimum and is responsible for the continued monitoring of the eligibility of the selected projects through the life of the sustainability financing instruments. The company has indicated that the committee will maintain an internal tracker to document details of decision-making to ensure traceability. In the event of a project divestment, the company commits to reallocate proceeds to other eligible green or social projects.

Environmental and social risk mitigation process – BEST PRACTICES
ALLO's environmental and social risk mitigation process is robust. The company has an internal environment, health, safety and sustainability (EHSS) management system to monitor, mitigate and prevent environmental and social risks across its operations. The committee will ensure the alignment of selected projects with internal environmental and social risk policies. Additionally, the company engages with local, state and federal authorities to plan and mitigate environmental externalities associated with the proposed projects through the approval, permitting, construction and operation phases of projects. Additionally, ALLO's social risk management policy is embedded within its procurement strategy and supply chain network.

Best practices identified

- » The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- » There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed
- » The process for project evaluation and selection is traceable
- » Material environmental and social risks for most project categories are identified
- » Presence of corrective measures to address environmental and social risks across projects
- » ESG controversies are monitored

Management of proceeds

Not aligned	Partially aligned	Aligned	Best practices

Allocation and tracking of proceeds – ALIGNED

The company has defined a clear process for the management and allocation of proceeds in its framework. The company has established a green and social financing register that will be tracked separately for the purpose of recording all eligible green and social projects that are intended to be allocated to future sustainability financings. Periodic tracking of the allocation of funds to eligible projects will be performed and adjustments will be made annually. The company will fully allocate net proceeds within 36 months.

Management of unallocated proceeds – BEST PRACTICES

As formalized in its framework, unallocated proceeds will be invested in cash or cash equivalents, or other short-term investments, including marketable securities or the repayment of debt, in line with the company's internal liquidity management practices. The company commits to not invest temporary placements in any activities deemed by the company's management as high-emitting or controversial activities. In the event that a project is postponed, canceled, or otherwise becomes ineligible, the company has formalized in its framework that it will reallocate the funds to other eligible green and social projects.

Best practices identified

» Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum

» Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities

» Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting

Not aligned	Partially aligned	Aligned	Best practices

Transparency of reporting – ALIGNED

The company has committed to provide an allocation report within one year from the date of issuance of the sustainability financing instruments, and annually thereafter and in case of material developments until full allocation. The report will be publicly available on a designated website and will include exhaustive reporting indicators including general information and description of the allocated proceeds to eligible expenditures under the eligible category; the amount of net proceeds pending allocation; the percentage share of proceeds used for financing versus re-financing; material developments, issues and controversies related to the projects; information on types of temporary investments and the expected environmental and social benefits.

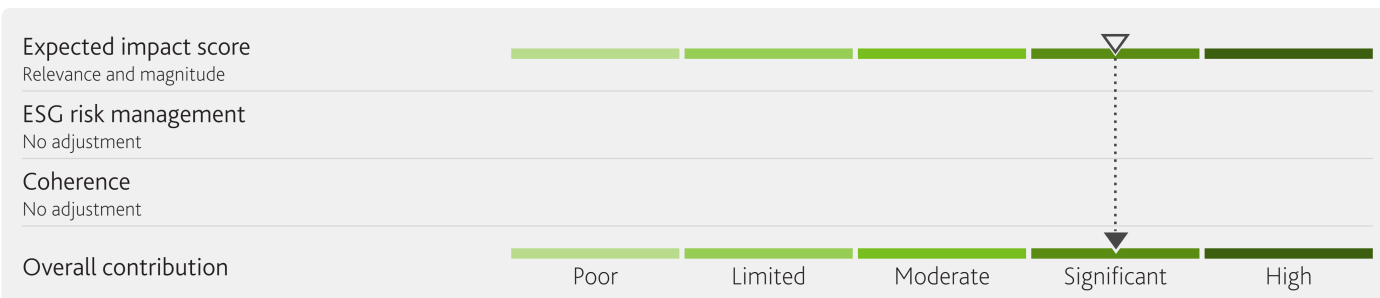
The company has identified clear and relevant environmental and social impact reporting indicators for each eligible category and has disclosed these indicators in its framework. The methodologies and assumptions used to report on environmental and social impacts will be disclosed in the report. The company has also committed to engage with an independent third party to verify the contents of the report, including information on both the allocation of proceeds and the environmental and social benefits.

Best practices identified

- Reporting covers material developments and issues related to the projects or assets
- Reporting on allocation of proceeds and benefits done at least at eligible category level
- Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing versus re-financing
- Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes
- Independent impact assessment on environmental benefits by a qualified third-party reviewer at least until full allocation and in case of material changes and/or case studies to report on the social impact/benefits

Contribution to sustainability

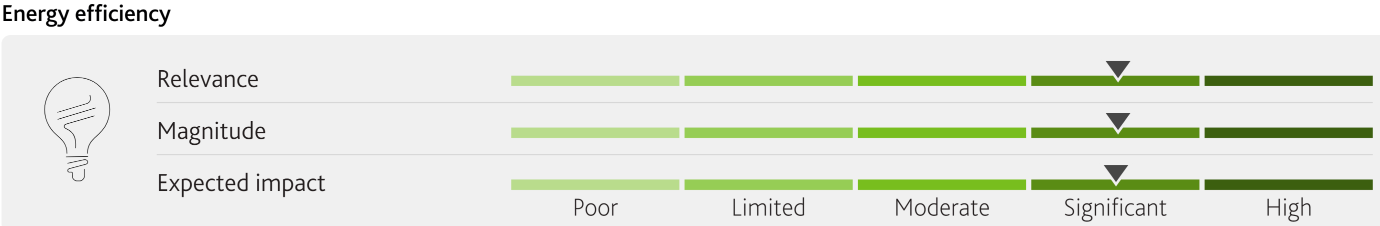
The framework demonstrates a significant overall contribution to sustainability.



Expected impact

The expected impact of the eligible projects on environmental and social objectives is significant. Based on information provided by ALLO in the framework, we expect proceeds from forthcoming issuances to represent a higher proportion for the energy efficiency category. We have therefore assigned a higher weight to that category in our assessment of the framework's overall contribution to sustainability. A detailed assessment by eligible category is provided below.

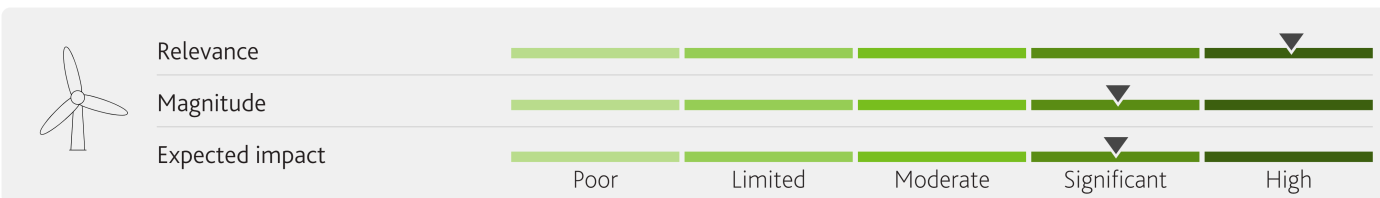
Energy efficiency



The projects have significant relevance to reduce the carbon footprint in the telecommunications sector. The information communication and technology sector is responsible for nearly 1% of energy related greenhouse gas emissions (GHG).[1] The sector's relatively modest share of GHG emissions is attributed in part to energy efficiency improvements to network equipment and the broad adoption of fiber cables in the last decade. Fiber cable deployment combined with a gigabit passive optical access network is one of the most energy-efficient technologies because of its inherent passive network structure that uses less power and fewer active hardwares for data transmission compared to legacy copper and coaxial cable networks. However, fiber coverage remains below that of cable services. According to the Fiber Broadband Association[2], fiber only accounts for 20% of the market share in the US compared to over 50% for cable. With the expected rise in demand for digital services in the foreseeable future, investments in energy-efficient fiber networks are crucial to prevent even higher emissions stemming from less energy-efficient networks.

The magnitude of the FTTP projects and related network equipment is significant as it will likely generate a positive long-term impact toward climate change mitigation and reduce negative externalities. The carbon reduction potential is significant because of the capabilities of fiber cables to transmit data signals over a longer distance with less hardware support, which in turn reduces the overall energy usage and emissions compared to the energy use in legacy networks. According to information provided by the company, fiber technology is estimated to have carbon savings of 18% compared to digital subscriber lines and 39% compared to cable networks. Fiber cables coupled with the company's commitment to use ENERGY STAR certified supporting equipment will likely drive greater energy savings for broadband services. However, the absolute emissions generated from rising data consumption in an increasingly digitized environment can potentially offset some of the efficiency gains of a fiber broadband network. Moreover, the deployment of the project will likely generate front-loaded emissions because of substantial construction and infrastructure need to expand connectivity to rural areas. Still, the long useful life of fiber cables (40 years), the use of a more resource-efficient material compared to copper wires, as well as the scalability of the technology position fiber favorably in terms of durability. We expect that fiber networks will likely reduce emissions within the sector, help serve as a backbone for 5G technology and drive sustainable benefits in other industries through faster and more efficient connectivity, expanding the reach of the project's benefits beyond its own carbon footprint.

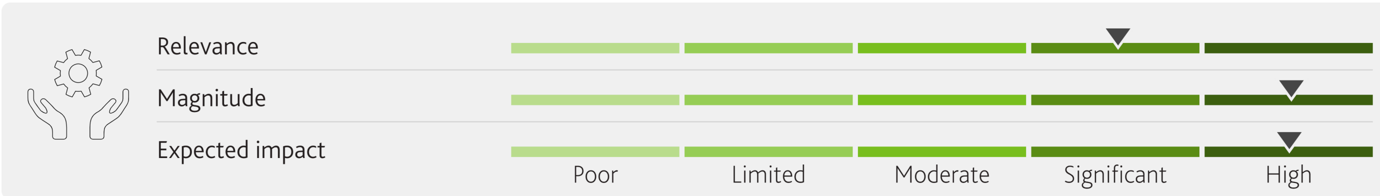
Renewable energy



Projects in this category are highly relevant to mitigate climate change in the telecommunications sector and within the local context. Despite energy efficiency improvements to networks and equipment over the last decade, emissions from purchased electricity (scope 2 emissions) remain the largest share at over 90% of total sector emissions. In the State of Nebraska, which is the company's primary service area, about half of generated electricity is sourced from coal. Given the state's fossil fuel heavy energy mix, and the still substantial share of the sector's scope 2 emissions, investments in renewable energy projects are important to decarbonize the sector and the local grid.

The magnitude of projects is significant. Projects in this category as established in the framework reflect investments in facilities that generate or transmit renewable energy and the procurement of renewable contracts through physical and virtual power purchase agreements. The significant magnitude score reflects our view of the likely impact of all eligible projects within the category, with stronger emission mitigation potential of renewable energy generated from on-site facilities and of those procured through physical power purchase agreements. On-site facilities and physical power purchase agreements are stronger mitigation strategies because the procured energy can be directly attributed to the company's assets. Renewable energy acquired through virtual agreements are weaker in comparison because of the indirect procurement of renewables in the marketplace to abate emissions from company-owned facilities. Although the category captures a wide variety of renewable energy projects, the company does not currently expect any near-term allocations to generation projects and plans to primarily secure renewable energy through physical and virtual power purchase agreements.

Access to essential services



The investments in fiber deployment have significant relevance to address the digital divide, a key issue in the telecommunications sector. The company aims to provide high quality internet access to unconnected and underserved areas to bridge the urban-rural digital divide. Broadband adoption and access in the US are generally good. The 2021 five-year American Community Survey (ACS) data estimates that 87% of US households have broadband (fixed, mobile, satellite) subscriptions, and of that, roughly 72% had a subscription to fixed broadband (cable, fiber optic, DSL) services.[3] The US broadband adoption rate compares favorably to EU countries such as France, Italy, Denmark and Germany.[4] However, broadband access is disparate across US urban-rural areas. According to the Federal Communications Commission, approximately 17% and 21% of the population in rural and tribal lands respectively, lack coverage from fixed terrestrial 25/3 Mbps broadband, as compared to only 1% in urban areas.[5] High speed internet coverage is even more limited in low-income and marginalized communities, as it is less economically feasible for providers to service these markets.

The magnitude of the projects is high and will likely generate a positive long-term impact for a highly vulnerable target population to bridge the digital divide. ALLO aims to expand affordable fiber broadband access through the federal Affordable Connectivity Program (ACP), which includes a broad eligibility criterion including low-income households, veterans and participants in federal housing and other government assistance programs. ACP-eligible households can receive discounts on their monthly internet service rate with higher discounts provided to households on qualifying tribal lands. Extension of broadband connectivity to students will also be administered through ALLO's external partnership with Eduroam which aims to bridge the educational divide and facilitate the digital learning of unconnected students.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. Eligible projects are aligned with ALLO's internal guidelines, policies and risk management procedures, as well as the applicable social and environmental standards and regulations. Social risks are addressed through ALLO's EHSS management system as well as an environmental, health and safety policy, which covers provisions for a safe workplace. In addition, ALLO works with federal, state and local governments, as well as other stakeholders, including railroads, power companies and engineers to mitigate environmental risks. Potential externalities are identified and assessed through the approval, permitting, construction and operation phase of projects. Furthermore, ALLO has internal procedures and policies to manage e-waste, and performs security audits to safeguard customer data security and privacy.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. Projects to be financed under the framework align with ALLO's sustainability strategy, including expanding fiber broadband connectivity to its service areas and across underserved and unconnected communities to bridge the digital divide. The projects are closely aligned with the company's core business activities, which include the provision of symmetrical high speed fiber broadband services.

Appendix 1 — Mapping eligible categories to the United Nations' Sustainable Development Goals

The three eligible categories included in ALLO's framework are likely to contribute to five of the UN SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	*Renewable energy*	7.2: Increase substantially the share of renewable energy in the global energy mix
	Energy efficiency	7.3: Double the global rate of improvement in energy efficiency
GOAL 8: Decent Work and Economic Growth	*Access to essential services*	8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation
GOAL 9: Industry, Innovation and Infrastructure	*Energy efficiency*	9.4: Upgrade infrastructure and retrofit industries to make them sustainable, with all countries taking action
	Access to essential services	9.C: Increase access to information and communications technology and provide universal and affordable access to the Internet
GOAL 10: Reduced Inequality	*Access to essential services*	10.2: Empower and promote the social, economic and political inclusion of all
GOAL 12: Responsible Consumption and Production	*Energy efficiency*	12.2: Achieve the sustainable management and efficient use of natural resources
GOAL 13: Climate Action	*Renwable energy*	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The UN SDGs mapping in this SPO includes the eligible project categories and associated sustainability objectives/benefits documented in the company's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 2 - Summary of eligible categories in ALLO's sustainability financing framework

Eligible Categories	Description	Sustainability Objectives	Impact Reporting Metrics
Energy Efficiency	Investments in or expenditures, including capital expenditures (CAPEX) and research and development (R&D) expenditures, that seek to achieve a minimum of 30% energy savings compared to coaxial or copper cables and comply with the U.S. Environmental Protection Agency's ENERGY STAR Guidelines for Energy Management related to; Network deployment transformation (both mobile and fixed) with a view to base connectivity on the latest technologies, making networks more energy-efficient, including but not limited to: - Modernization of broadband networks, both fixed and mobile (5G deployment) - Optic fiber deployment, with the aim of transforming wireline legacy copper networks into latest generation fiber networks - Improvement of supporting infrastructure with a view to making it more efficient (including but not limited to: free cooling systems, cooling optimization, power modernization, smart management, intelligent lighting or optimization of power storage)	Climate change mitigation	- Energy consumption per data traffic (MWh/equivalent unit) - Expected energy savings (MWh) - Estimated GHG emissions reduced (metric tons of CO2e)
Renewable Energy	Investments in or expenditures including CAPEX and R&D related to: - The development, construction, or operation of facilities, equipment or systems that generate or transmit renewable energy - The purchase of renewable energy pursuant to long-term power purchase agreements or virtual power purchase agreements entered into for electricity generated by wind and solar sources	Climate change mitigation	- Renewable energy capacity commitments (MW) related to newly constructed or rehabilitated projects - % share of electricity consumption from renewable sources - GHG emissions reduced/avoided in metric tons of CO2e
Access to Essential Services	Investments in or expenditures including CAPEX and R&D related to; Network deployment transformation (both mobile and fixed) with a view to base connectivity services in unconnected or underserved areas (rural or remote areas), in order to provide internet access with sufficient bandwidth for digital services networks that are more energy-efficient, including but not limited to: - Provision of services to participants in the Affordable Connectivity Program (ACP) - Provision of service through Eduroam program solving the digital divide Target Populations: - Populations with limited or low-quality acess to broadband networks in rural or remote areas defined as a small town over 40 minutes from an urban area, or a truly rural area over 40 minutes from an urban area - Populations from disdvantaged socioeconomic backgrounds defined as low income communities and individuals, making up to 80% of the area median income and individuals eligible for government assistance programs	Access to broadband services	-% share of customers receiving broadband access for the first time as a consequence of ALLO's services - % share of customers serviced through participation in the ACP program

Moody's related publications

Second Party Opinion analytical framework:

» Framework to Provide Second Party Opinions on Sustainable Debt, October 2022

Topic page:

» ESG Credit and Sustainable Finance

Endnotes

1 International Energy Agency, Data Centres and Data Transmission Networks, September 2022.

2 Pew Trust, How Do Americans Connect to the Internet, July 2022

3 American Community Survey (ACS) 2021 5-year Estimate

4 Information Technology & Innovation Foundation, The State of US Broadband in 2022, December 2022

5 Federal Communications Commission, Fourteenth Broadband Deployment Report, January 2021

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