

Green Evaluation

Royal Schiphol Group Proposed €500 Million Green Bond

Transaction Overview

In Q4 2018, Royal Schiphol Group N.V. (Schiphol) plans to issue a €500 million green bond. This is the first green-labeled bond that Schiphol will issue. The company will raise the proceeds under its €3 billion euro medium-term note program and will use the proceeds to improve the energy efficiency of its airport terminals and pier buildings, commercial and other real estate, build new energy-efficient buildings as well as invest in clean transportation assets and infrastructure in Amsterdam, the Netherlands. In our opinion, this proposed transaction is aligned with the Green Bond Principles 2018 (GBP).

Entity: Royal Schiphol Group N.V.
Subsector: Airport Services
Location (HQ): Netherlands
Financing value: €500 million
Amount evaluated: 100%
Evaluation date: Oct. 1, 2018
Contact: Noemie de la Gorce
 +44 (0) 207 176 9836
 Noemie.delagorce@spglobal.com

Green Evaluation Overview

Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

70

Transaction's Governance

- Management of proceeds
- Impact assessment structure

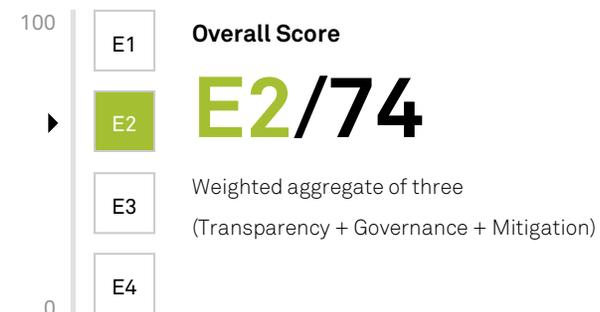
90

Mitigation

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Green Building	Refurbishment - Commercial	Alleviating emissions of existing carbon-intensive industries	74
Green Transport	Bus Rapid Transit	Significant decarbonization in sectors already aligned with a green economy	

Adaptation

NA



Project Description

We expect that Schiphol will use the majority of its €500 million proposed green bond to finance the refurbishment of its existing buildings and the construction of new green buildings in its aviation and commercial real estate portfolio. The company has selected refurbishment projects that improve the energy efficiency of existing buildings to a level equivalent to the 15% most-efficient buildings in the Netherlands. It has also selected new buildings among the 10% most energy-efficient buildings. The remaining proceeds will be used to purchase electric vehicles and related infrastructure for transporting passengers as well as loading and offloading baggage. The selection of green projects is in line with the categories of eligible projects defined in the company's green bond framework, namely "Green Buildings" and "Clean Transportation".

Scoring Summary

This transaction achieves an overall score of 74 out of 100, equivalent to a Green Evaluation score of E2, the second highest score on our scale of E1 (highest) to E4 (lowest). We determined the E2/74 score by taking a weighted aggregate of the projects' solid Transparency (70) and excellent Governance (90) scores, as well as their favorable environmental impact and resultant strong Mitigation score (74). Our view of the projects' favorable environmental impact and their relatively high position in our carbon hierarchy also contribute to the overall score. However, the overall Green Evaluation score is limited by the medium carbon intensity of the regional grid mix in the Netherlands and capped at the Mitigation score.

Rationale

- The excellent Governance score (90) reflects the procedures that Schiphol has put in place to support the greenness of its transaction. These include tracking and auditing the allocation of proceeds to eligible projects, measuring the environmental impact of these projects, and certifying green building projects against high industry standards.
- The solid Transparency score (70) reflects the strong level of disclosure of Schiphol's green bond framework. The company is committed to report annually the allocation of proceeds and the environmental impact of the eligible projects, though only on an aggregate-basis at category level.
- The strong Mitigation score (74) primarily reflects the environmental impact of the refurbishment projects, where most of the proceeds will be allocated. Although these projects bring about a significant favorable environmental impact, this is limited by the projects' ranking in our carbon hierarchy and the medium carbon intensity of the Dutch power grid.

Key Strengths And Weaknesses

The majority of the bond proceeds are for projects aimed at reducing the energy use of some of the airport's existing buildings. These include installing efficient lighting, and heating, ventilation, and air conditioning (HVAC) systems; developing heat and cold storage; and improving insulation. In our view, these projects result in significant potential carbon savings compared with a scenario where the buildings are not refurbished, resulting in an above-average Net Benefit Ranking of 63. The bulk of the funds are allocated to refurbishing buildings with technologies with higher potential energy savings, such as LED lights and HVAC. However, the medium carbon intensity of the regional grid mix in the Netherlands, dominated by natural gas, limits the ranking in a global context compared with more carbon-intense regions.

In our view, refurbishing existing buildings alleviates carbon emissions but does not score as well under our carbon hierarchy as building new energy-efficient airport terminals. Therefore, the transaction to fund a refurbished terminal achieves an environmental impact score of 74.

Projects financed by Schiphol's €500 million green bond also include the construction of four new green buildings. Similar to the refurbishment projects, the Net Benefit Ranking of new buildings of 42 reflects the medium carbon intensity of the national power grid mix and the commercial nature of the assets. However, the final environmental score of 76 reflects the new assets' higher position in our carbon hierarchy compared to the refurbished buildings. In our view, the construction of new green buildings brings longer-term carbon benefits and complies with a decarbonized economy.

Approximately 1% of Schiphol's €500 million green bond goes to the financing of electric buses and charging stations. In our view, these buses result in limited avoided carbon emissions compared with a baseline scenario. This is due to the medium carbon intensity of the modal mix in transit cities such as Amsterdam, which are characterized by a medium average population density and a balanced modal mix of cars and public transport. The projects' Net Benefit Ranking profits from lower carbon emissions associated with the electricity generation in the country. In countries with higher carbon intensity of the grid mix, the positive carbon impact associated with using electric transportation may be offset by the negative carbon impact of producing the electricity on a life-cycle basis. Furthermore, electric-fueled technologies in the transportation sector benefit from a positive hierarchy adjustment under our methodology, due to the potential significant decarbonization benefits they bring to the global economy. This results in a strong environmental impact score of 69. This score plays a marginal role in the overall Mitigation score of the transaction due to the limited proportion of proceeds allocated to this project type.

The excellent Governance score (90) reflects the robust practices that Schiphol has adopted to support the greenness of its transaction. The company has set up a sustainability committee that is in charge of selecting projects in the green building and green transportation sectors, in line with its green bond framework. Green proceeds will not be transferred to a separate sub-account, but their allocation to eligible projects will be tracked by the committee and audited by Schiphol's external auditor. The company is also committed to monitoring the environmental impact of all projects financed by its €500 million green bond, on a life-cycle basis for its green building projects, and over the economic life of its green transport projects.

The Governance score further benefits from Schiphol's commitment to certify its green buildings against higher industry standards. The company's green portfolio only includes new buildings receiving one of the following certifications:

- LEED Platinum or Gold
- BREEAM Outstanding, Excellent, or Very Good
- Energy Performance of Buildings Directive (EPBD) A

Furthermore, Schiphol will only include retrofitted buildings, demonstrating a minimum two-step improvement in energy label and achieving at least an EPBD B. Buildings receiving an EPBD B are among the 15% most energy-efficient buildings in the Netherlands.

The solid Transparency score (70) reflects Schiphol's commitment to annually disclose the allocation of green proceeds along with the environmental impact of some of its eligible projects, including the energy certificates of its green buildings. The company is planning to have independent assurance of its environmental impact data and disclose the methodology used to calculate this data. The Transparency score is weakened by Schiphol's commitment to report data by project category--Green Buildings and Green Transport, and not at the individual project level.

Second Opinion On GBP Alignment

Based on a Transparency score of 70 and Governance score of 90, and that 100% of proceeds have or will be allocated to green projects, we expect this bond to meet the basics of the four pillars of the voluntary GBP given the issuer has committed to:

- Allocating the full amount of the net proceeds of bonds to eligible green projects – as defined by the issuer,
- Using clear “green” criteria (as defined by the issuer) to select projects for funding,
- Managing and tracking proceeds, and
- Committing to regular reporting of environmental impact and use of proceeds.

A Green Evaluation is a point in time assessment and is not monitored.

Sector level scores

Sector	Location	Technology	Use of Proceeds (Mil. €)	Use of Proceeds Treatment	Net Benefit Ranking
Green Buildings	Netherlands	Refurbishment – Commercial HVAC	230.90	Estimated	70
Green Buildings	Netherlands	Refurbishment – Commercial LED	184.72	Estimated	60
Green Buildings	Netherlands	Refurbishment – Commercial Insulation	36.94	Estimated	45
Green Buildings	Netherlands	New Build - Commercial	33.70	Estimated	42
Green Buildings	Netherlands	Refurbishment – Not Specified	9.24	Estimated	10
Green Transport	Amsterdam, Netherlands	Bus Rapid Transit	4.49	Estimated	20
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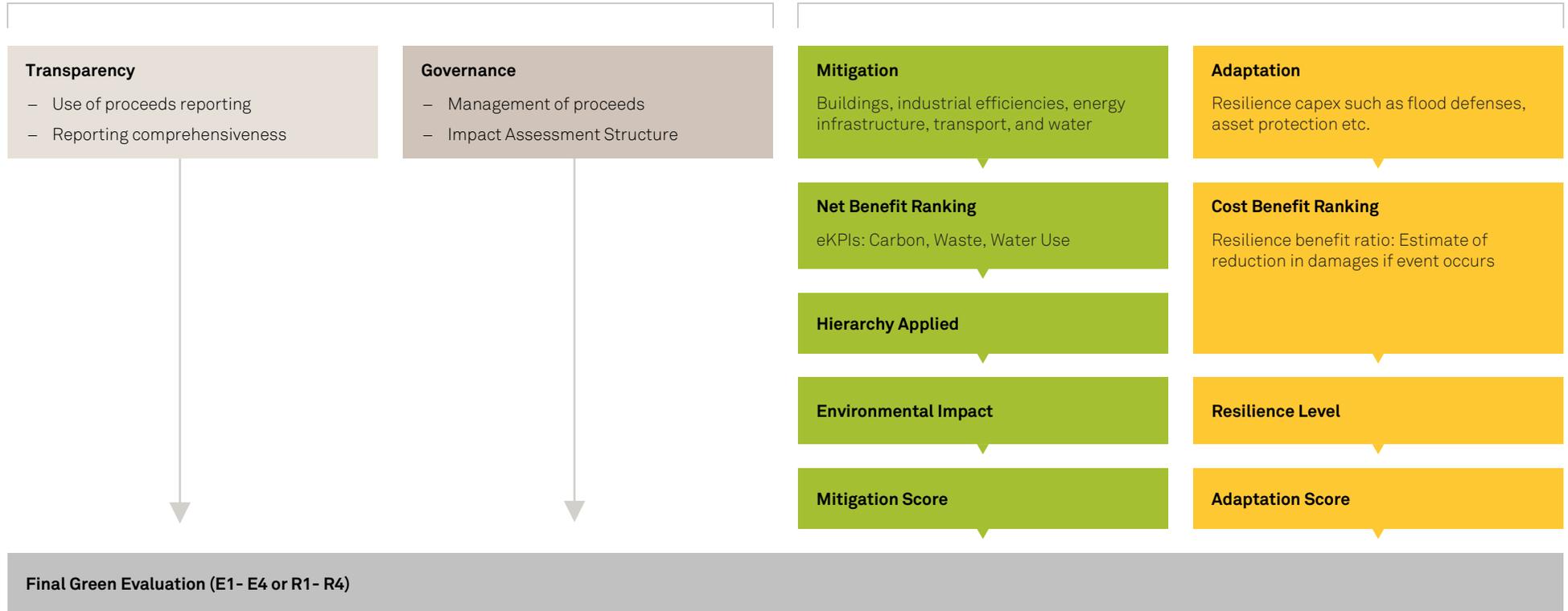
Our Green Evaluation Approach

Weighted aggregate of three:



Common approach used amongst opinion providers

Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

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