

Green Evaluation

Royal Schiphol Group's €750 Million Green Bond

Transaction Overview

On April 1, 2020, Royal Schiphol Group N.V. issued a €750 million green bond maturing in 2029, with an annual coupon of 2.0%. This is the second green-labeled bond the company has issued. As with the first transaction in 2018, Schiphol raised 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, pier buildings, commercial and other real estate; as well as build new energy-efficient buildings and invest in clean transportation assets and infrastructure in the Netherlands. Furthermore, the green bond has been issued under the group's revised 2020 green finance framework. In our opinion, this transaction is aligned with the Green Bond Principles 2018 (GBP).

Entity: Royal Schiphol Group N.V.
Subsector: Airport Services
Location (HQ): Netherlands
Financing value: €750 million
Amount evaluated: 100%
Evaluation date: April 1, 2020
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Green Evaluation Overview

Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

70

Transaction's Governance

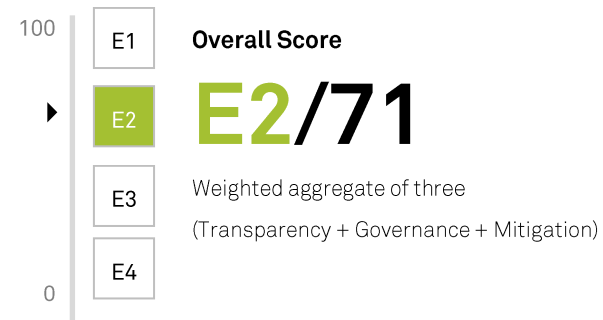
- Management of proceeds
- Impact assessment structure

90

Mitigation

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Green Building	Refurbishment - Commercial New Build - Commercial	Alleviating emissions of existing carbon-intense industries Significant decarbonization in sectors already aligned with a green economy	71
Green Transport	Bus Rapid Transit		

Adaptation **NA**



Project Description

We expect that Schiphol will use the majority of its €750 million green bond issuance 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 fund the purchase of electric vehicles and related infrastructure for transporting passengers. 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 71 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 E2/71 score by taking a weighted aggregate of the projects' solid Transparency (70) and excellent Governance (90) scores, as well as the favorable environmental impact and resulting strong Mitigation score (71). 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-high carbon intensity of the regional grid mix in the Netherlands and capped at the Mitigation score. The Green Evaluation score for this transaction is lower than the score achieved by the first green transaction we evaluated in 2018, which scored 74. This difference is driven by a higher allocation of proceeds relative to the first transaction to, in our view, less efficient refurbishment technologies.

Rationale

- The excellent Governance score (90) reflects the procedures that Schiphol has to ensure the transaction complies with its green finance framework. 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 finance 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 (71) 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-high 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, as well as heating, ventilation, and air conditioning (HVAC) systems; and removing and replacing telecommunication hardware in the terminals. 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 52. 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-high 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. This is because we see green building technologies as already compliant with a decarbonized economy. Therefore, the transaction to fund a refurbished terminal achieves an environmental impact score of 70.

Projects financed by Schiphol's €750 million green bond also include two new green buildings. Similar to the refurbishment projects, the Net Benefit Ranking of new buildings (51) reflects the medium-high carbon intensity of the national power grid mix and the commercial nature of the assets. However, the final environmental score of 78 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 long-term carbon benefits and complies with a decarbonized economy.

Approximately 1% of the €750 million green bond will finance 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-high 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 benefits from lower carbon emissions associated with the electricity generation in the country. In countries with the grid mix's higher carbon intensity, the positive carbon impact associated with using electric transportation might 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 to ensure the transaction complies with its green finance framework. The company has set up a sustainability committee, 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 subaccount, but their allocation to eligible projects will be tracked by the committee and audited by Schiphol's external auditors. The company is also committed to monitoring the environmental impact of all projects financed by its €750 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:

- Allocate the full amount of the net proceeds of bonds to eligible green projects, as defined by the issuer;
- Use clear “green” criteria (as defined by the issuer) to select projects for funding;
- Manage and track proceeds; and
- Commit 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	317	Estimated	70
Green Buildings	Netherlands	Refurbishment – Not Specified	190	Estimated	10
Green Buildings	Netherlands	Refurbishment – Commercial LED	127	Estimated	70
Green Buildings	Netherlands	New Build - Commercial	109	Estimated	51
Green Transport	Amsterdam, Netherlands	Bus Rapid Transit	7	Estimated	20
			750		

Carbon

Green Evaluation Process

70
Transparency

90
Governance

71
Mitigation

Weighted aggregate of three
(Transparency + Governance + Mitigation)

E2/71
Overall Score

Technology	Baseline Carbon Intensity	Net Benefit Ranking	→ Carbon Hierarchy Adjustment	Environmental Impact Score	Proceeds (750 Mil. €)
	High  Low Netherlands				
Wind power					
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion		20			
Green buildings – new build		51			
Unspecified					
Energy efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
Green buildings refurbishment		52			
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Unspecified					
			Systemic decarbonization		
			Significant decarbonization in sectors already aligned with a green economy	69 78	116
			Alleviating emissions of existing carbon-intensive industries	70	634
			Decarbonization technologies with significant environmental hazards		
			Improvement of fossil-fueled activities' environmental efficiency		

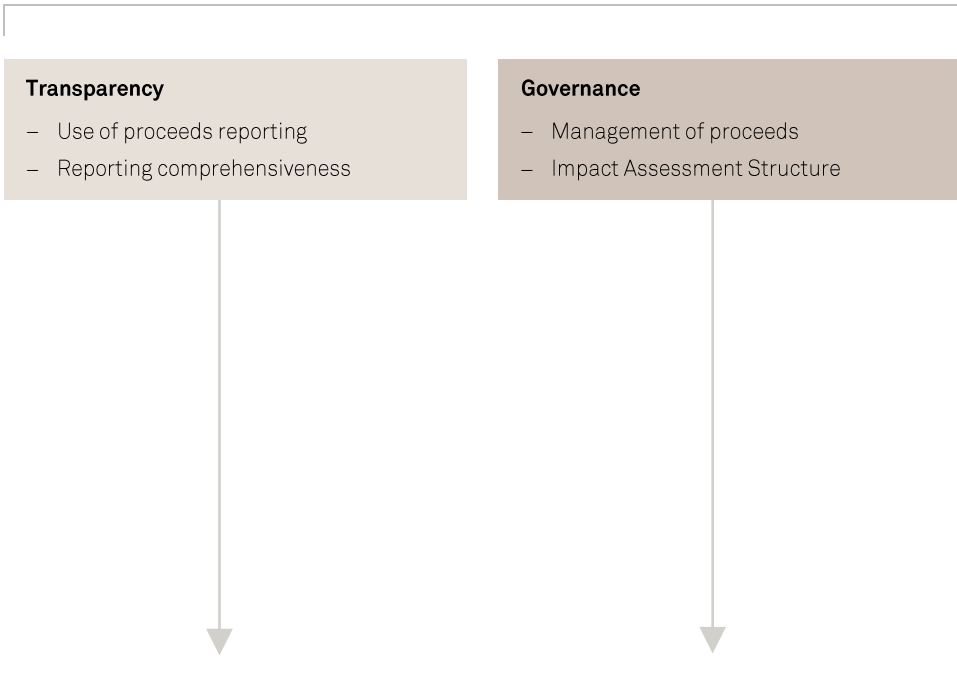
Increasing Decarbonization Impact ↑

Our Green Evaluation Approach

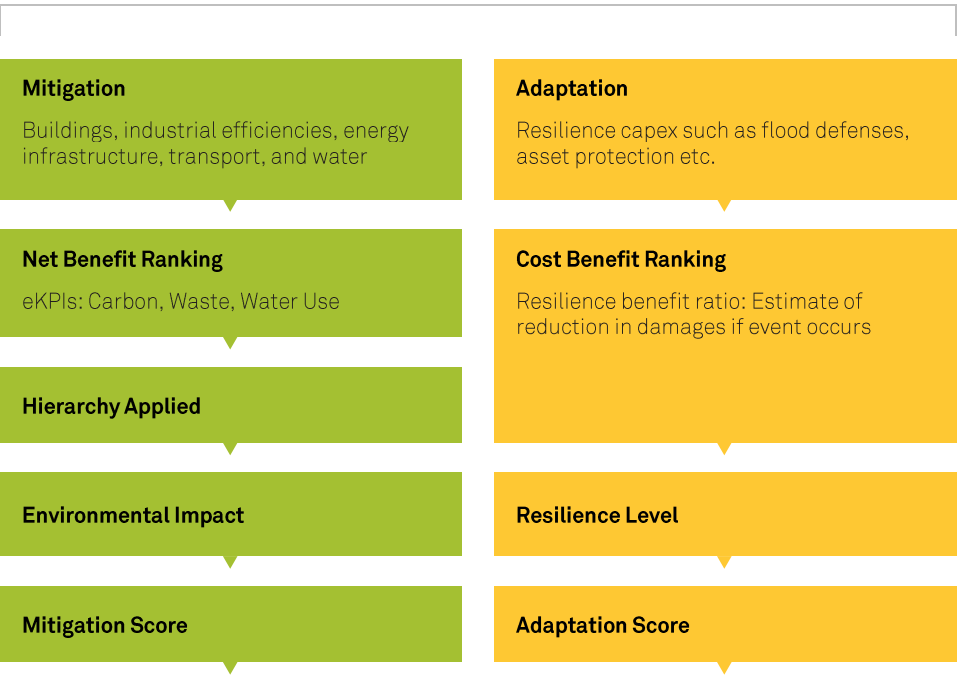
Weighted aggregate of three:



Common approach used amongst opinion providers



Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

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