

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

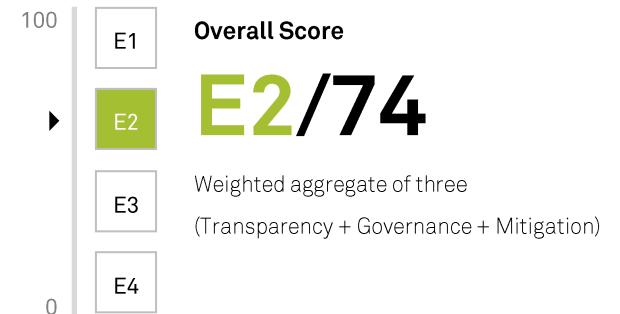
**90**

**Mitigation**

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Green Building	Refurbishment - Commercial	Alleviating emissions of existing carbon-intensive industries	<b>74</b>
Green Transport	New Build - Commercial 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
			<b>500</b>		

# Carbon

## Green Evaluation Process


**70**  
Transparency

**90**  
Governance

**74**  
Mitigation

Weighted aggregate of three  
(Transparency + Governance + Mitigation)

**E2/74**  
Overall Score

Technology	Baseline Carbon Intensity	Net Benefit Ranking	→ Carbon Hierarchy Adjustment	Environmental Impact Score	Proceeds (500 mil.)
	High  Low Netherlands				
Wind power					
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
<b>Green transport without fossil fuel combustion</b>		<b>20</b>			
<b>Green buildings – new build</b>		<b>42</b>			
Unspecified					
Energy efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
<b>Green buildings refurbishment</b>		<b>63</b>			
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Unspecified					
			Systemic decarbonization		
			<b>Significant decarbonization in sectors already aligned with a green economy</b>	<b>69</b> <b>76</b>	<b>38.19</b>
			<b>Alleviating emissions of existing carbon-intense industries</b>	<b>74</b>	<b>461.81</b>
			Decarbonization technologies with significant environmental hazards		
			Improvement of fossil-fueled activities' environmental efficiency		

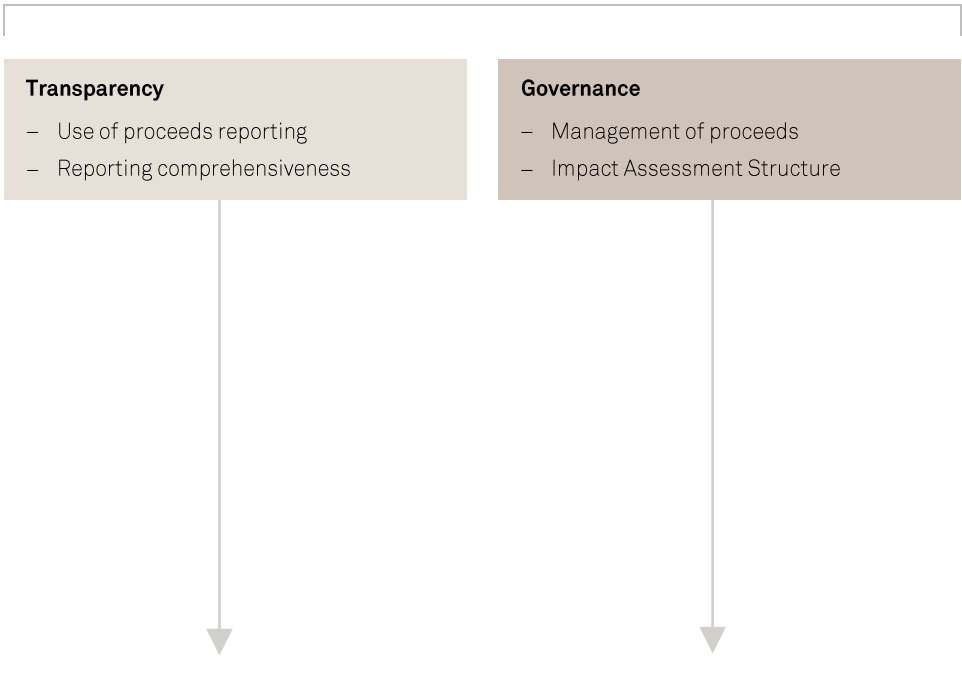
Increasing Decarbonization Impact

# Our Green Evaluation Approach

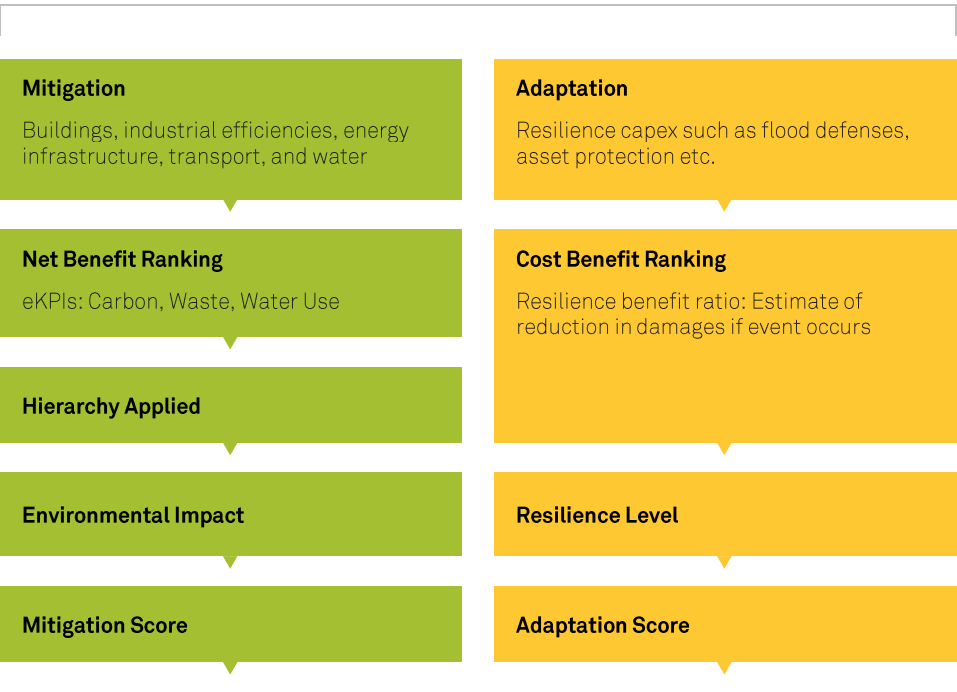
Weighted aggregate of three:



Common approach used amongst opinion providers



Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P) receives compensation for the provision of the Green Evaluation product (Product). S&P may also receive compensation for rating the transactions covered by the Product or for rating the issuer of the transactions covered by the Product. The purchaser of the Product may be the issuer or a third party.

The Product is not a credit rating. The Product does not consider state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product provides a relative ranking evaluation of the estimated environmental benefit of a given financing. The Product is a point in time assessment reflecting the information available at the time that the Product was created and published. The Product is not a research report and is not intended as such.

S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Product. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for reliance of use of information in the Product, or for the security or maintenance of any information transmitted via the Internet, or for the accuracy of the information in the Product. The Product is provided on an "AS IS" basis. S&P PARTIES MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDED BUT NOT LIMITED TO, THE ACCURACY, RESULTS, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE PRODUCT, OR FOR THE SECURITY OF THE WEBSITE FROM WHICH THE PRODUCT IS ACCESSED. S&P Parties have no responsibility to maintain or update the Product or to supply any corrections, updates or releases in connection therewith. S&P Parties have no liability for the accuracy, timeliness, reliability, performance, continued availability, completeness or delays, omissions, or interruptions in the delivery of the Product.

To the extent permitted by law, in no event shall the S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence, loss of data, cost of substitute materials, cost of capital, or claims of any third party) in connection with any use of the Product even if advised of the possibility of such damages.

S&P maintains a separation between commercial and analytic activities. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

Copyright 2018 © by Standard & Poor's Financial Services LLC. All rights reserved.

**[spglobal.com/ratings](https://www.spglobal.com/ratings)**