

Green Evaluation

Aeroporti di Roma's Proposed €300 Million Green Bond

Transaction Overview

In fourth-quarter 2020, Aeroporti di Roma SpA (AdR) plans to issue a €300 million green bond, the first it is issuing. The company will raise the proceeds under its €1.5 billion medium-term note program and will use most of the funds to finance the construction of new green buildings and refurbishment of existing buildings in its aviation and commercial real estate portfolio in Rome, Italy. AdR will use the remaining proceeds to fund the installation of photovoltaic panels and LED runway and street lighting, the completion of a waste composting plant, and a project to improve the reuse of industrial wastewater in its operations. In our opinion, this proposed transaction is aligned with the 2018 Green Bond Principles (GBPs). Of the proceeds, only around €0.08 million or 0.03% are not in scope for our evaluation.

Entity: Aeroporti di Roma S.p.A
Subsector: Airport Services
Location (HQ): Italy
Financing value: €300 million
Amount evaluated: 99.97%
Evaluation date: Nov. 20, 2020
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Green Evaluation Overview

Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

76

Transaction's Governance

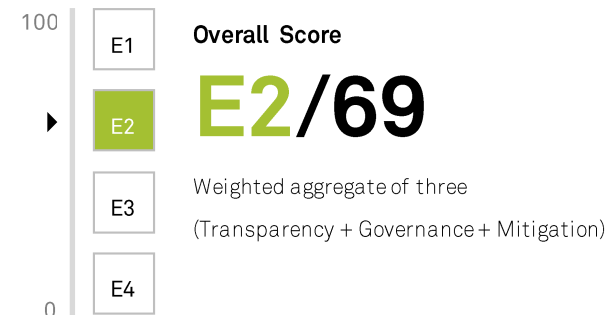
- Management of proceeds
- Impact assessment structure

81

Mitigation

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Green Building, Green Energy, Fossil Fuel, and Energy Efficiency	Refurbishment, New Build, Solar PV, Onshore Wind, Cogeneration and LED	Carbon	69
Water	Industrial Recycled Water	Water	
Waste	Aerobic Waste Composting	Waste	

Adaptation **NA**



Project Description

We expect that AdR will use the majority of its proposed €300 million green bond to finance the construction of new green buildings and the refurbishment of existing buildings in its aviation and commercial real estate portfolio. The company's eligible projects primarily include the construction of new airport terminals, offices, and retail buildings; and the retrofit, upgrade, or renovation of existing airport terminals, offices, and buildings. The construction of new buildings will be delivered in line with at least one of the classification standards: LEED Gold, BREEAM Very Good, and EPBD. Under these standards, new infrastructure will be built using 10%-20% recycled materials, over 95% of the worksite waste will be recycled and reused, and at least 30% of the materials will be sourced locally. The infrastructure will be constructed with the aim of reducing the environmental impact via energy savings, maximization of waste recycling, reduction of water consumption, and control of carbon dioxide emissions and noise pollution. The expansion or partial refurbishment of the existing buildings will not be certified. AdR will use the remaining bond proceeds to fund the installation of photovoltaic panels and LED runway and street lighting, the completion of a waste composting plant, and the reuse of industrial wastewater in its operations. These projects are in line with the list of eligible projects defined in the company's green financing framework under the categories "Green Buildings & Energy Efficiency" and "Clean Transportation".

Of the allocated proceeds, 0.03% are not in scope for our evaluation.

Scoring Summary

This transaction achieves an overall score of 69 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 E2/69 score by taking a weighted aggregate of the projects' solid Transparency (76) and very strong Governance (81) scores, as well as their favorable environmental impact and resultant above-average Mitigation score (69). Our view of the projects' favorable environmental impact and their relatively high position in our carbon hierarchy also contribute to the overall score.

Rationale

- The very strong Governance score (81) reflects the procedures that AdR has to support the transaction's environmental contribution. These include auditing the allocation of proceeds to eligible projects, measuring the environmental impact of these projects, and certifying green building projects against high industry standards. A lack of commitment to track the allocation of proceeds constrains the score.
- The solid Transparency score (76) reflects the high level of disclosure of AdR's green bond framework. However, the limited reporting commitments on the environmental impact of some of its energy efficiency, waste, and water projects negatively affect the score.
- The above-average Mitigation score (69) primarily reflects the environmental impact of the new green buildings and refurbishment projects, where most of the proceeds will be allocated. Although these projects have a significant favorable environmental impact, this is limited

by their ranking in our carbon hierarchy and the medium carbon intensity of the Italian power grid. Projects with a higher net benefit ranking, such as water and wastewater projects, represent a minor portion of the proceeds.

Key Strengths And Weaknesses

The majority of bond proceeds will fund the construction of new and expansion or refurbishment of existing airport infrastructure. In our view, these projects could result in carbon savings compared to scenarios where the buildings are built to lower environmental standards or the buildings are not refurbished. On the other hand, the incremental environmental benefits associated with these projects are limited by the medium and declining carbon intensity of the regional grid in Italy, which lowers the ranking compared with more carbon-intensive regions globally. The net benefit ranking of the refurbishment projects is further limited by the lack of information on the type of refurbishment technologies being implemented. Therefore, the new green buildings and refurbished buildings achieve lower net benefit rankings of 33 and 10, respectively.

The net benefit ranking of the green building projects sees a positive impact from the position of the green building technologies in the carbon hierarchy, reflecting the contribution of the technologies to the systemic decarbonization of the economy. As a result, the new green buildings and refurbished buildings achieve higher environmental impact scores of 73 and 56, respectively. Under our assessment, refurbishing existing buildings does not rank as highly as building new energy-efficient buildings under our carbon hierarchy. This reflects our view that constructing new green buildings brings long-term carbon benefits because the buildings already comply with low-carbon requirements.

About 7% of the bond proceeds will be allocated to projects resulting in significant energy savings and an associated reduction in carbon dioxide emissions. These projects include the installation of photovoltaic panels and onshore wind turbines, which provide electricity with a lower carbon intensity than the regional grid, which still highly relies on natural gas. The projects also include the introduction of LED lighting at the airports, which reduces energy demand, while providing the same service as standard lighting, as well as natural gas-based cogeneration.

AdR will use about 1% of bond proceeds to improve industrial water treatment at the airports and increase waste recycling. In our view, these projects enable a more efficient use of water resources, thereby improving the company's resilience to water stress, to which Italy is highly exposed. This results in a higher net benefit ranking and environmental impact score of 100. AdR will also invest some of the proceeds in an aerobic composting plant, which will enable the company to produce compost in its green areas while reducing the amount of waste sent to landfill. The scores of the waste and water projects play a marginal role in the transaction's overall mitigation score because they represent a minor portion of bond proceeds.

The very strong Governance score (81) reflects the robust practices that AdR has adopted to support the greenness of its transaction. The company has set up a sustainability steering committee in charge of reviewing, evaluating, and selecting the eligible projects to be financed or refinanced with the proceeds from green debt issues. The green proceeds will not be transferred to a separate subaccount, which constrains the score. However, the allocation of proceeds to

eligible projects will be tracked by the committee while the green debt is outstanding, and audited by AdR's external auditor. All projects will be tracked for accounting and regulatory purposes. The score is also positively affected by AdR allocating 70% of the bond proceeds to new green buildings, and its commitment to certify all its new green buildings under at least one of the classification standards. Of bond proceeds, 21% are refurbishments or expansions that will not receive these certifications.

The solid Transparency score (76) reflects AdR's commitment to annually disclose the allocation of the green proceeds until the maturity of the green debt. The company plans to have independent assurance by its auditor of its environmental impact data and to disclose the methodology used to calculate this data. However, the Transparency score is weakened by AdR's commitment to report data by project category -- "Green Buildings & Energy Efficiency" and "Clean Transportation" -- and not by individual project. For renewable energy projects, reporting will involve only a comparison of the amount and consumption of energy generated from traditional, or nonrenewable sources, with the amount and consumption of energy generated from renewable sources. For waste management, reporting will involve only the percentage of waste sent for recycling.

Second Opinion On GBP Alignment

Based on a Transparency score of 76 and a Governance score of 81, and assuming that 100% of bond proceeds will be allocated to green projects, we expect the bond to meet the basics of the four pillars of the voluntary GBPs, given that the issuer has committed to:

- Allocating net proceeds 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 the use of the proceeds; and
- Regular reporting of the environmental impact and use of the 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 (%)	Use of Proceeds Treatment	Net Benefit Ranking
Green Buildings	Italy	New--Commercial	209.15	70%	Estimated	33
Green Buildings	Italy	Refurbishment--Commercial	63.86	21%	Estimated	10
Green Energy	Italy	Solar Photovoltaic	19.28	6%	Estimated	20
Green Energy	Italy	Onshore Wind	0.06	<1%	Estimated	31
Fossil Fuel	Italy	Cogeneration	2.79	<1%	Estimated	90
Energy Efficiency	Italy	LED	2.56	<1%	Estimated	50
Water	Italy	Industrial Recycled Water	1.70	<1%	Estimated	100
Waste	Italy	Aerobic Waste Composting	0.53	<1%	Estimated	41
Out of scope of S&P Green Evaluation	Italy	Hydraulic mitigation, rain detection sensors, cycle ways, traffic detection sensors	0.08	0.03%	Estimated	N/A
			300			

Carbon

Green Evaluation Process


76
Transparency

81
Governance

69
Mitigation

Weighted aggregate of three:
(Transparency + Governance + Mitigation)

E2/69
Overall Score

Technology	Baseline carbon intensity	Net benefit ranking	→ Carbon hierarchy adjustment	Environmental impact score	Proceeds (mil. €)
	Medium-high  Italy				
Wind power		31			
Solar power		20			
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion		33			
Green buildings – new build					
Unspecified					
Energy-efficient projects (industrial and appliance efficiencies)		50			
Green transport with fossil fuel combustion					
Green buildings refurbishment		10			
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Fossil fuel-based cogeneration		90			
			Systemic decarbonization	80	19.34
			Significant decarbonization in sectors already aligned with a green economy	73	209.15
			Alleviating emissions of existing carbon-intense industries	56	66.41
			Decarbonization technologies with significant environmental hazards		
			Improvement of fossil-fueled activities' environmental efficiency	36	2.79

Increasing decarbonization impact ↑

Water

Green Evaluation Process

76
Transparency

81
Governance

68
Mitigation

Weighted aggregate of three:
(Transparency + Governance + Mitigation)

E2/69
Overall Score

Technology	Baseline water stress	Net benefit ranking	Water stress and hierarchy adjustment	Environmental impact score	Proceeds (mil. €)
	<p>Extremely high</p> <p>Italy</p>				
Recycling wastewater for water (agricultural uses)					
Recycling wastewater for water (other uses)					
Wastewater treatment with no energy recovery					
Wastewater treatment with energy recovery					
Unspecified					
Reducing water losses in water distribution network					
Unspecified					
Water desalination to supply municipal water					
Unspecified					
Conservation measure in residential buildings					
Conservation measure in commercial buildings					
Conservation measure in industrial buildings		100			
Smart metering in residential buildings					
Unspecified					
			Increasing freshwater availability through system enhancements		
			Improving delivery of existing freshwater supplies		
			Increasing freshwater availability with significant negative environmental impact		
			Reducing demand on potable water supplies	100	1.70

Increasing water sustainability

Waste

Green Evaluation Process

76
Transparency

81
Governance

69
Mitigation

Weighted aggregate of three:
(Transparency + Governance + Mitigation)

E2/69
Overall Score

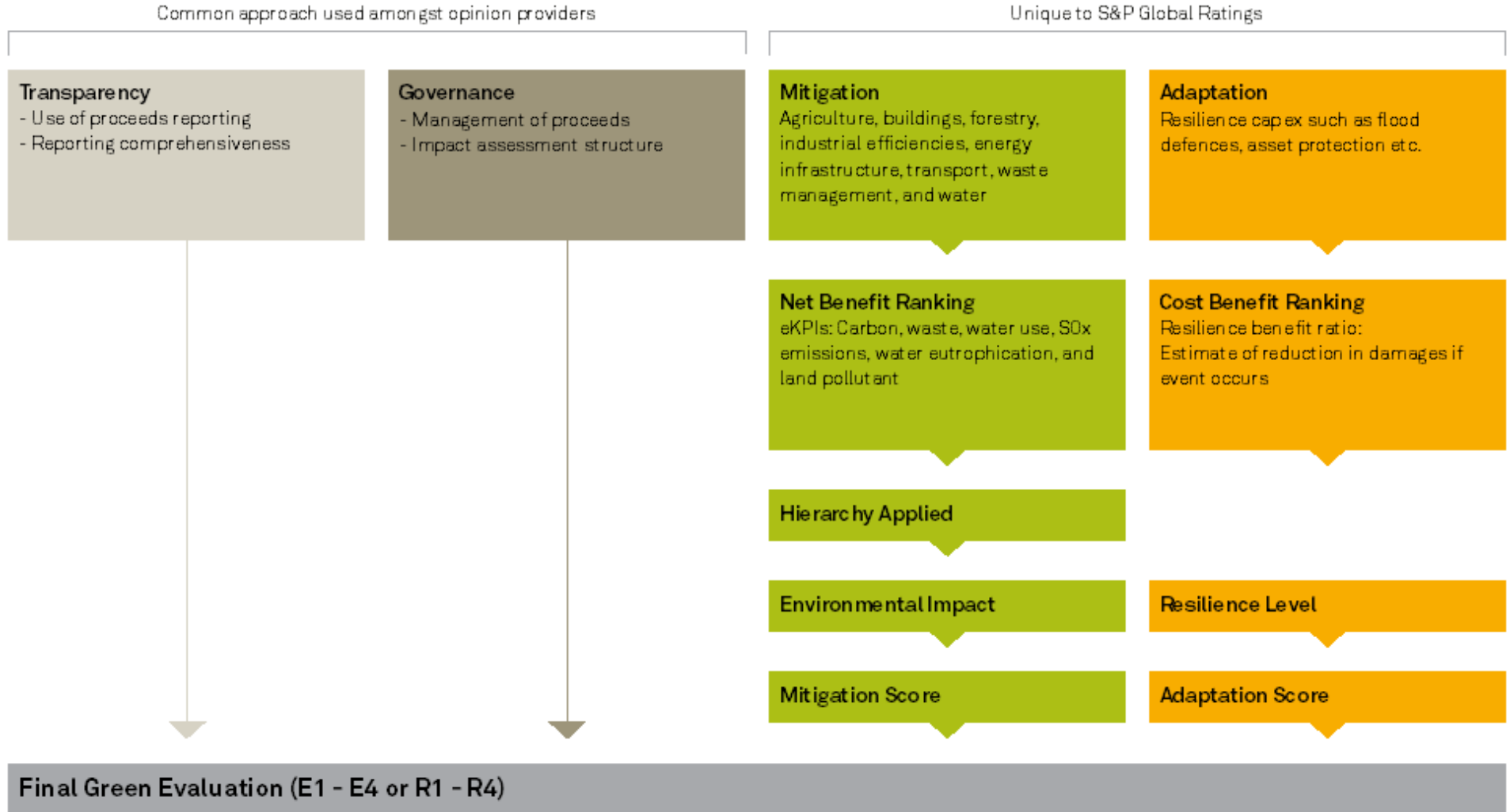
Technology	Net benefit ranking	→	Waste hierarchy adjustment	Environmental impact score	Proceeds (mil. €)
Reduction in food loss			Reduction in food loss		
Aerobic composting with fertilizer reuse	41		Waste management with material reuse	75	0.53
Anaerobic digestion			Waste management for energy recovery		
Gasification/ pyrolysis with waste feedstock			Waste management improvements		
Waste to energy					
Hazardous waste management					

Sustainable waste management ↑

Our Green Evaluation Approach

Weighted aggregate of three:

Transparency + Governance + Mitigation or Adaptation = Green Evaluation



eKPI--Environmental Key Performance Indicator.

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