

Green Evaluation

ACS Servicios Comunicaciones y Energía S.L. Green Notes

Transaction Overview

ACS Servicios Comunicaciones y Energía S.L. (ACS SCE) plans to issue €750 million of direct, general, unconditional, unsubordinated, and unsecured notes in April 2018. Proceeds of the offering will be used to finance or refinance the development, construction, installation, and maintenance of new or existing eligible green projects, assets, or activities. These include renewable energy, energy distribution and management, water and wastewater management, and energy efficiency projects for which ACS SCE has either a full or partial ownership stake across North America, South America, Europe, Asia, and Africa.

Entity: ACS SCE
Subsector: Renewable Energy
Location (HQ): Spain
Financing value: €750 million
Amount evaluated: 84%
Evaluation date: April 3, 2018
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Green Evaluation Overview

Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

82

Transaction's Governance

- Management of proceeds
- Impact assessment structure

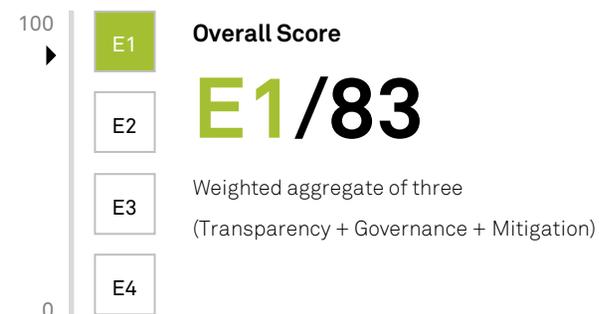
88

Mitigation

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Renewables & Efficiency	Solar, Wind, Hydro, General Renewables, Lighting	Carbon	83
Water	Water Treatment, Distribution, Desalination	Water	

Adaptation

NA



Project Description

ACS SCE will use net proceeds for a diverse range of renewable energy, transmission, efficiency, and water projects situated across a wide range of countries around the world. About 85% of bond proceeds will be used to refinance ACS SCE's portfolio of eligible projects, and the remaining proceeds will finance additional investments in existing projects. ACS SCE is a part of the ACS Group, a global leader in infrastructure development. ACS SCE includes a number of operating subsidiaries that have either full or partial ownership interests in the eligible assets.

Renewable energy projects, which account for 59% of proceeds allocation, involve 16 installations with a total capacity of 3.6 GW from solar (photovoltaic (PV) and concentrated solar power (CSP)), wind (onshore and offshore), and small hydropower assets. These projects are located in the U.S., Spain, U.K., Uruguay, Peru, Brazil, South Africa, Mexico, and Taiwan. About 20% of proceeds are allocated for energy distribution and management projects in Brazil, Chile, and Peru, and include transmission projects that support the integration of renewable energy into national grids and network efficiency improvements. Under our analytical approach, transmission projects used for clean energy integration are evaluated using a renewable technology proxy given the role this infrastructure plays in enabling clean energy integration. We exclude proceeds that fund network efficiency improvements from our evaluation as these technologies are currently out of scope.

Water projects account for 12% of proceeds and involve seawater desalination projects in Africa, United Arab Emirates, and Peru as well as wastewater treatment and recycling and water distribution network improvements in Peru. The final 9% of bond proceeds are allocated to lighting upgrades in Spain.

Scoring Summary

This transaction achieves the strongest Green Evaluation score of E1 on our scale of E1 (highest) to E4 (lowest) and an overall score of 83. The evaluation reflects a high Mitigation score of 83 which is largely supported by proceeds allocated to renewable energy and water projects in countries with medium carbon intensity grids and medium high water stress coupled with our hierarchy adjustment that reflects the role these technologies play in the transition to a low carbon economy. The E1 score also reflects the strong Governance (88) and Transparency (82) framework which is aligned with the Green Bond Principles.

Rationale

- In our evaluation, the proceeds are allocated to renewable energy (75%), water (14%), and energy efficiency (11%) technologies across a variety of countries globally. We assess clean energy transmission-related projects using a renewable energy proxy based on their function as enabling infrastructure.
- Our evaluation considers 84% of the total bond proceeds allocation. We exclude proceeds that fund network efficiency improvement technologies from our assessment, which are currently out of scope.

- The evaluation considers the overall net environmental impact of each technology relative to the local energy grid and/or water system. The overall grid carbon intensity factor, aggregated across all countries where projects are located, is considered medium. The aggregated water stress factor is medium-high.
- Renewable energy technology and wastewater treatment projects are considered long-term green solutions and are placed at the top end of our carbon and water hierarchies, which facilitates the uplift of the overall mitigation score.
- ACS SCE green notes achieve very strong Governance and Transparency scores via a robust green bond framework aligned with the Green Bond Principles that features a clear and transparent project selection criteria, third party verification of proceeds allocation, and annual reporting of environmental impacts.

Key Strengths And Weaknesses

The green bond proceeds will be used to refinance and/or fund additional capital for a diversified set of environmentally beneficial assets dispersed across a vast geographic footprint spanning North America, South America, Europe, Asia, and Africa.

Three quarters of the green bond proceeds are allocated to a range of clean energy technologies including solar PV and CSP, onshore and offshore wind, and hydro power in countries with an aggregate grid carbon intensity which we consider medium when compared to grids globally. The offshore wind projects, which include a 996 MW installation in Taiwan and a 50 MW project in the U.K., achieve the highest unadjusted net benefit score given the relatively high capacity factors offered by the technology and consequently, the comparatively higher carbon emissions offset in grids that are moderately high in carbon intensity. Overall, the tilt of the asset pool toward renewable energy enables further uplift through our hierarchy adjustment, which differentiates the systemic importance of renewable energy in the decarbonization of the economy along the 2° Celsius target of the Paris Climate Agreement.

Water-related projects in the pool, for which 12% of bond proceeds are assigned, also offer significant environmental benefits. These assets include a wastewater treatment system in Peru which we believe provides systemic enhancements in water improvement and seawater desalination projects provide marginal system enhancements in high water stress regions of Africa, Peru, and the United Arab Emirates. The lighting projects in Spain offer some environmental benefit in terms of the reduced energy demand, which is reflected in the overall score. The ultimate Mitigation score achieved is strong at 83, reflecting a relatively high net benefit score from the predominant proceeds allocation toward renewable energy projects and the positive adjustments from our hierarchy overlay.

ACS SCE's Green Bond Framework meets the guidelines of the Green Bond Principles, facilitating robust governance and transparency of the green bond issue. The framework draws its strength from a defined selection criteria based on a set of environmental objectives and alignment with the United Nations Sustainable Development Goals. A Green Bond Committee consisting of senior

representatives from ACS Group is responsible for tracking the financing allocation and reporting annually on the use of proceeds. The proceeds are not held in a separate sub-account; however, the framework ensures committee oversight and the reporting of bond allocations benefits from third party verification. On an annual basis, net environmental benefits associated with the technologies over their operating life are disclosed and expressed using

advanced indicators including annual attributable greenhouse gas emissions avoided (tCO2e) and total volume of water production and treatment and when applicable and feasible, the number of people affected through access to clean water. However, the environmental impact data does not benefit from independent assurance. Overall, the bond scores very high in terms of Transparency, achieving 82, and in Governance, achieving 88.

Sector level scores

Sector	Location	Technology	Use of Proceeds (€mil.)	Use of Proceeds treatment	Net Benefit Ranking
Green Power Generation	Nevada	Solar Thermal Power Generation	198.9	Estimated	59
Energy Star Products	Spain	Lighting	66.4	Estimated	50
Green Power Generation	Spain	Solar Photovoltaic Power Generation	50.6	Estimated	31
Green Power Generation	United Kingdom	Offshore Wind Power Generation	49.6	Estimated	70
Seawater Desalination	Africa	Seawater Desalination	45.3	Estimated	24
Green Power Generation	Uruguay	Onshore Wind Power Generation	31.1	Estimated	41
Green Power Generation	Peru	Onshore Wind Power Generation	30.7	Estimated	41
Green Energy Generation	Brazil	Biomass Power	29.6	Estimated	14
Green Power Generation	South Africa	Solar Thermal Power	24.8	Estimated	86
Green Power Generation	Brazil	Solar Photovoltaic Generation	24.5	Estimated	31
Green Power Generation	Mexico	Onshore Wind Power Generation	23.3	Estimated	70
Wastewater Treatment Potable Water	Peru	Wastewater Treatment Potable Water	22.7	Estimated	100
Seawater Desalination	Peru	Seawater Desalination Plant	13.4	Estimated	71
Green Power Generation	Peru	Hydroelectric Power Generation- Small	5.1	Estimated	75
Seawater Desalination	United Arab Emirates	Seawater Desalination	4.4	Estimated	88
Water Distribution Network Improvements	Peru	Water Distribution Network Improvements	3.3	Estimated	68
Green Power Generation	Taiwan	Offshore Wind Power Generation	2.4	Estimated	70
Green Power Generation	Spain	Onshore Wind Power Generation	2.4	Estimated	42
			629		

Carbon

Green Evaluation Process

82

Transparency

88

Governance

83

Mitigation

Weighted aggregate of three
(Transparency + Governance + Mitigation)

E1/83

Overall Score

Technology	Baseline Carbon Intensity	Net Benefit Ranking	Carbon Hierarchy Adjustment	Environmental Impact Score	Proceeds (€29 mil.)
	High  Low				
	Aggregated				
Offshore wind power		70		92	51.99
Small hydro		75		94	5.13
Solar power		54		88	298.71
Onshore wind power		49		87	87.55
Large hydro (excluding tropical areas)					
Biomass Power		14		80	29.60
Green transport without fossil fuel combustion					
Green buildings – new build					
Unspecified					
Energy efficient projects (industrial and appliance efficiencies)		50		70	66.36
Green transport with fossil fuel combustion					
Green buildings refurbishment					
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Unspecified					

Increasing Decarbonization Impact

Significant decarbonization in sectors already aligned with a green economy

Alleviating emissions of existing carbon-intensive industries

Decarbonization technologies with significant environmental hazards

Improvement of fossil-fueled activities' environmental efficiency

Water

Green Evaluation Process

82

Transparency

88

Governance

83

Mitigation

Weighted aggregate of three
(Transparency + Governance + Mitigation)

E1/83

Overall Score

Technology	Baseline Water Stress	Net Benefit Ranking	→ Water Stress and Hierarchy Adjustment	Environmental Impact Score	Proceeds (€mil.)
	High  Low Aggregate				
Recycling wastewater for water (agricultural uses)					
Recycling wastewater for water (other uses)					
Wastewater treatment with no energy recovery		100	Increasing freshwater availability through system enhancements	100	22.72
Wastewater treatment with energy recovery					
Unspecified					
Reducing water losses in water distribution network		68	Improving delivery of existing freshwater supplies	73	3.33
Unspecified					
Water desalination to supply municipal water		38	Increasing freshwater availability with significant negative environmental impact	55	63.04
Unspecified					
Conservation measure in residential buildings					
Conservation measure in commercial buildings					
Conservation measure in industrial buildings					
Smart metering in residential buildings					
Unspecified			Reducing demand on potable water supplies		

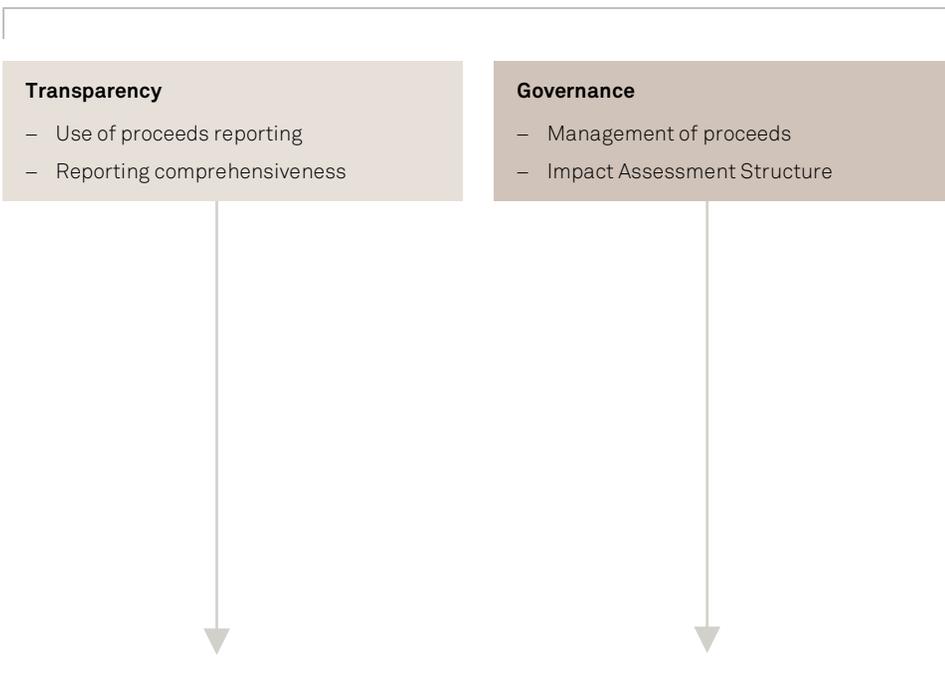
Increasing Water Sustainability

Our Green Evaluation Approach

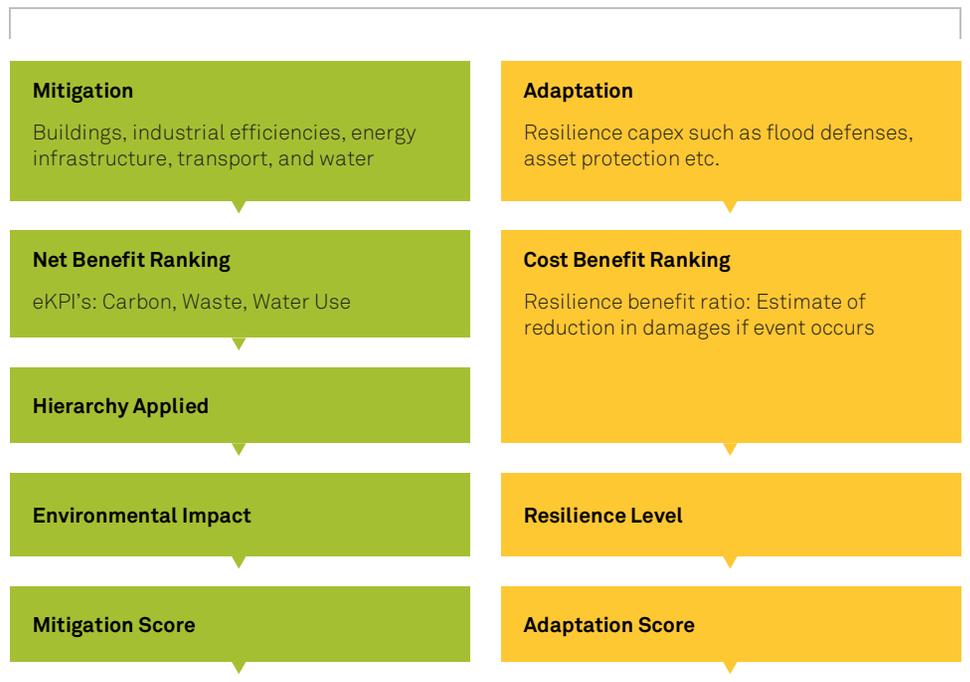
Weighted aggregate of three:



Common approach used amongst opinion providers



Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

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