S&P Global Ratings

Sustainable Finance

S&P Global Ratings: Sustainable Finance

80+ ESG evaluations

90+ Green transaction evaluations

15+ Framework alignment opinions

June 14, 2021

Key Takeaways

- As of May 31, 2021, we've completed 83 ESG evaluations, including seven new evaluations this month.
- This month, we published five new ESG evaluations and published an update on one evaluation.
- We published one green transaction evaluation and six framework alignment opinions this month.
- We published research pieces covering the Leaders Climate Change Summit and transformations in the Islamic Finance space toward sustainability. Our team also released a Key Sustainability Factors article articulating the ESG risks in the capital goods sector.

When It Rains...

Awareness of environmental, social, and governance (ESG) risk facing oil and gas companies has grown the past few years, especially over the past few weeks, which have been particularly challenging. While the International Energy Agency (IEA) has long suggested a substantial role for oil and gas in global decarbonization, its May 2021 report was far more ominous. After a new round of heightened Nationally Defined Contributions (NDCs) and Net Zero Commitments from major economies, the IEA suggested that new fossil fuel projects were incompatible with meeting the Paris Agreement targets. And while this report is not binding, court decisions are: The Hague District Court in the Netherlands responded to environmental activist concerns by requiring Royal Dutch Shell to reduce its emissions by 45% by 2030, necessitating an acceleration of its decarbonization timeline and calling for it to account not just for its own emissions, but those of its end users. In the U.S., Chevron Corp. and Exxon Mobil Corp. were confronted by climate-wary shareholders. Chevron was asked to reduce greenhouse emissions, including Scope 3, and Exxon shuffled its board to include more climate expertise after a prolonged and unsuccessful attempt by some shareholders to trend toward Net Zero by 2050.

Of course, these likely aren't the last three oil and gas companies that will face pressure to account for and minimize their carbon footprints. After all, the growing financial materiality of climate exposure means this is a relevant risk for the entire shareholder base, not just those interested in ESG. But it also suggests that shareholders are educating themselves to become more conversant and fluent in ESG risk, and they are inclined to appoint board members who can not only match this skill level but can incentivize management to strike a balance between short-term needs and long-

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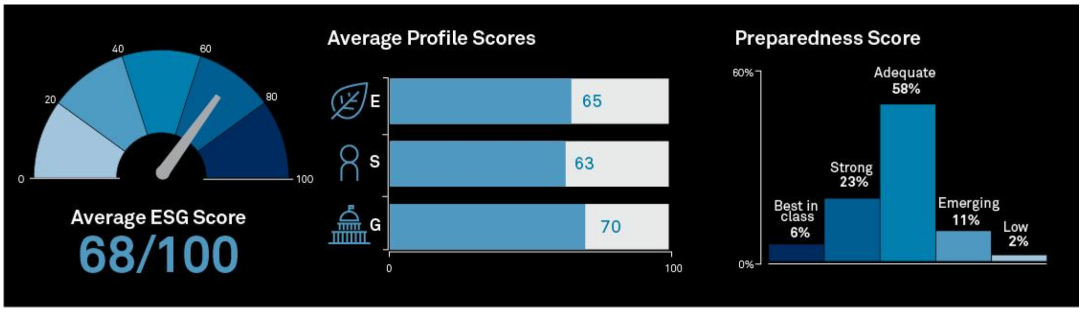
term sustainability. The need for this is especially pronounced for investors with long hold periods, such as pensions and life insurers, but with valuations in flux for all fossil fuel companies because of this steady parade of discouraging news, there will be few shareholders who don't want a board that holds management accountable for creating a more sustainable future.

ESG Evaluation Summary



S&P Global Ratings' ESG Evaluation is a cross-sector, relative analysis of an entity's capacity to operate successfully in the future. It is grounded in how ESG factors could affect stakeholders, potentially leading to a material direct or indirect financial impact on the entity.

Our definition of stakeholders for a particular entity goes beyond shareholders to include employees, the local community, government, regulators, customers, lenders, borrowers, policyholders, voters, members, and suppliers. A high ESG evaluation score indicates an entity is relatively less prone to experiencing material ESG-related events and that it is relatively better positioned to capitalize on ESG-related growth opportunities than entities with lower ESG evaluation scores.

First, we establish an ESG profile for a given entity, which assesses the exposure of the entity's operations to observable ESG risks and opportunities, as well as how the entity is mitigating these risks and capitalizing on these opportunities.

Second, we assess the entity's long-term preparedness, namely its capacity to anticipate and adapt to a variety of long-term plausible disruptions.

The ESG evaluation is not a credit rating, a measure of credit risk, or a component of our credit rating methodology.

S&P Global Ratings evaluates more than 80 entities across the globe, with an average score of 68. Since the first ESG evaluation, published in June 2019, S&P Global Ratings has finalized ESG evaluations across 21 sectors globally. **By region, the highest average score is 73, for companies headquartered in Europe, the Middle East, and Africa (EMEA).**

RESEARCH HIGHLIGHTS

Listen to the latest episode of our ESG podcast, Beyond the Buzz, here.

Request For Comment: Environmental, Social, And Governance Principles In Credit Ratings, May 17, 2021

The Leaders Climate Change Summit: A Decisive Decade To Cut Emissions, May 4, 2021

Islamic Finance 2021-2022: Toward Sustainable Growth, May 3, 2021

How Sustainability-Linked Debt Has Become A New Asset Class, April 28, 2021

The ESG Pulse: Spotlight On Structured Finance, April 28, 2021

How ESG Factors Are Shaping North American Regulated Investor-Owned Utilities' Credit Quality, April 28, 2021

Natural Capital And Biodiversity: Reinforcing Nature As An Asset, April 12, 2021

The ESG Pulse: Texas Storm Highlights Need For Preparedness, March 24, 2021

Six Key Corporate Governance Trends For 2021, March 22, 2021

Transition Finance: Finding A Path To Carbon Neutrality Via The Capital Markets, March 9, 2021

Damage Limitation: Using Enhanced Physical Climate Risk Analytics In The U.S. CMBS Sector, Feb. 16, 2021

2021 Sustainable Finance Outlook: Large Growth In Green, Social, Sustainable Labels As Municipal Market Embraces ESG, Feb. 16, 2021

The ESG Pulse: 2020 Lookback, Feb. 15, 2021

The ESG Pulse: 2020 Lookahead, Feb. 11, 2021

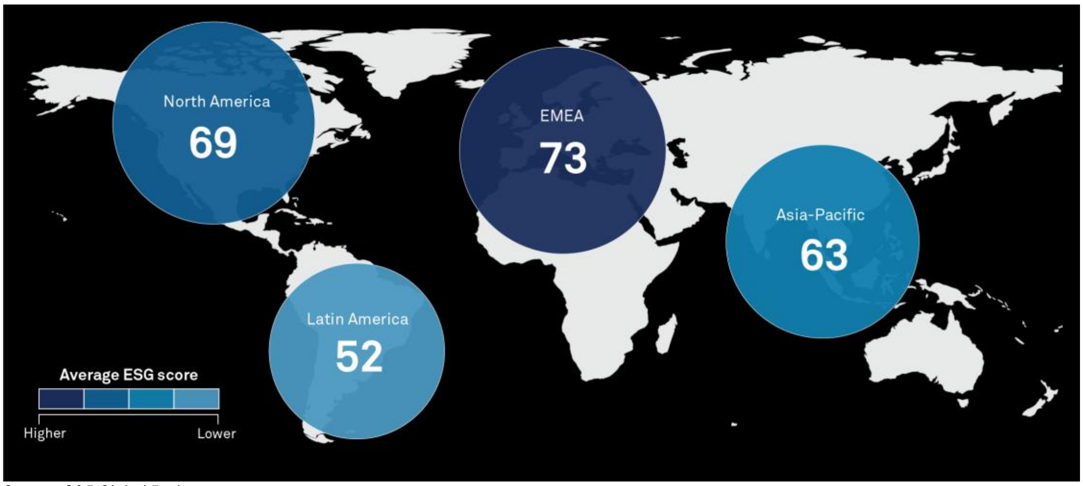
Sustainability In 2021: A Bird's Eye View Of The Top Five ESG Topics, Jan. 28, 2021

Sustainable Debt Markets Surge As Social And Transition Financing Take Root, Jan. 27, 2021

ESG Pulse: Reimagining Accounting To Measure Climate Change Risks, Dec. 22, 2020

Chart 1

ESG Evaluation Average Regional Score



Source: S&P Global Ratings.

Monthly Update (May 2021)

We completed seven new ESG evaluations and five reviews of existing evaluation in May. These were in the technology, telecommunications, utilities, and tobacco industries.

Twenty-eight companies have a public ESG evaluation score as of May 2021. Detailed analysis for each is available in the public assessments panel on the right-hand side of this page.

National Grid PLC

National Grid PLC (NG) scored 82 on its ESG evaluation with strong preparedness. NG is an energy company headquartered in London with regulated electricity and gas networks and some unregulated operations in the U.K. and U.S. Its climate strategy is more advanced than that of global peers, and its waste management with embedded circular economy principles leads the industry. NG maintains reliable and relatively affordable networks that meet strict regulatory standards and benefits from a diverse workforce with a talent strategy focused on the energy transition. The company's board is diverse with strong expertise and independence. NG also has a strong understanding of risks that could disrupt its strategy of enabling the energy transition and shows sophisticated innovation capabilities.

Worldline

Worldline scored 83 on its ESG evaluation with strong preparedness. Worldline is the foremost provider of payment services in Europe. It is headquartered in France. It has a global presence, with operations in 50 countries. The exposure to environmental risks for this business is relatively limited, and the company has a strong overall performance. Worldline has demonstrated strong talent management and cultural integration in its successive acquisitions. It ensures high system security and data protection for its customers because of the critically important and highly sensitive nature of its activities. Worldline's governance score is supported by a highly diverse board, strong remuneration policy, and extensive reporting. However, it is somewhat offset by the board's large size, acquisition-related uncertainties, and the combined position of its chair-CEO.

PUBLIC ASSESSMENTS IN 2021

- Swedbank Ab, May 2021
- Renewi PLC, May 2021
- Trane Technologies PLC, May 2021
- National Grid, May 2021
- Philip Morris International, May 2021
- Worldline, May 2021
- Freeport LNG, April 2021
- NextEra Energy, April 2021
- Royal Philips, March 2021
- Enagas S.A., March 2021
- Grifols S.A., March 2021
- Telefonica S.A., March 2021
- Algonquin Power and Utilities, March 2021
- Sika, February 2021
- Fluidra, February 2021
- Chorus Ltd., February 2021
- Link REIT, January 2021
- ING Groep NV, January 2021
- SUEK, January 2021
- Repsol S.A., January 2021
- Enbridge Inc., December 2020
- Southwire Co. LLC, August 2020
- Masmovil Ibercom S.A., July 2020
- American Water Works Co. Inc., April 2020
- Thames Tideway Tunnel Ltd., April 2020
- EP Infrastructure, April 2020
- Unilever, December 2019
- TenneT, August 2019

Swedbank

Swedbank scored 75 on its ESG evaluation with adequate preparedness. Swedbank is a leading Nordic retail bank with about €250 billion of assets. The bank has an established ESG integration along its value chain. This is particularly true for its asset management arm, Robur, which is already well advanced in implementing ambitious climate-related targets. Swedbank benefits from high social standards in Sweden. The governance score is constrained by past governance deficiencies, which were brought to light by the bank's 2019 money laundering controversy. Although its new board and executive management have invested heavily to be among the leaders in combating financial crime, we believe these measures will take time to permeate across the entire organization.

Renewi PLC

We revised Renewi's ESG evaluation score to 83 from 75, including strong preparedness. Renewi is a pure-play waste-to-product company that operates mainly in the Netherlands and Belgium, where it generated 87% of its revenues in fiscal year 2020. The company strives to be a leader in a circular economy and actively collaborates with other companies on innovation and advanced technologies to extend the economic life of the waste it handles, including difficult-to-recycle items, such as mattresses. The revision to strong preparedness reflects our view of the board's excellent ability to identify long-term material risks and sector megatrends. We believe this strong oversight will allow Renewi to effectively manage disruptions, which could stem from government regulations or environmental liabilities.

Trane Technologies PLC

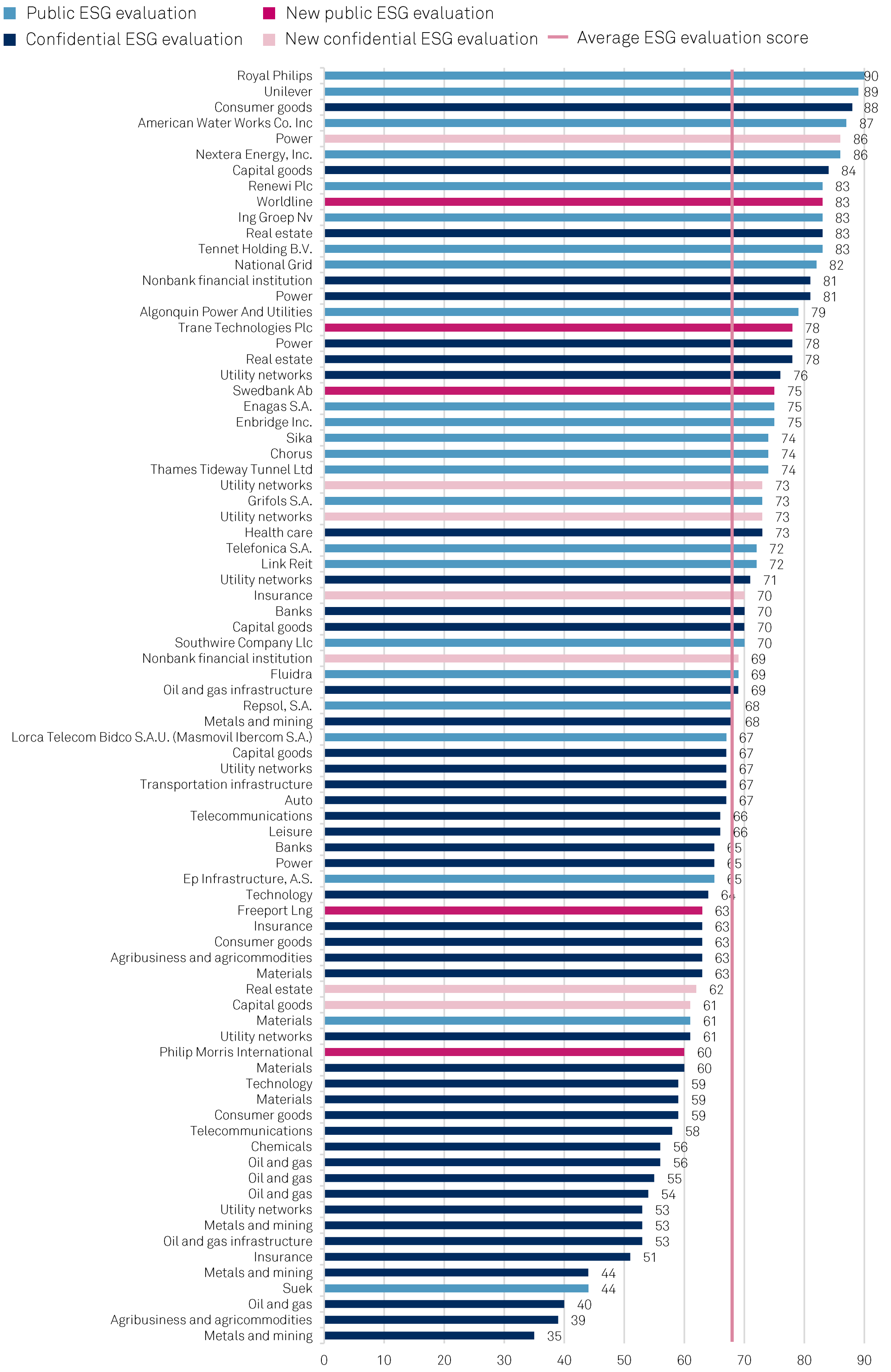
Trane Technologies (NYSE: TT) scored 78, driven by the company's leadership in delivering sustainable products and services to customers and an effective ability to identify long-term trends and spur innovation throughout the company. Trane is improving its environmental profile by setting and achieving ambitious sustainability targets and moving toward low-emission, high-efficiency products to support customer sustainability goals. The company demonstrates workforce and safety performance in line with most of its peers and is strengthening its customer-focused approach. The governance score reflects greater transparency in terms of disclosures, with a good board structure to develop and follow long-term sustainability strategies.

Philip Morris International

Philip Morris International (PMI) scored 60 on its ESG evaluation, with adequate preparedness. PMI is an international cigarette, tobacco, and reduced-risk products manufacturer incorporated in the U.S., but it operates the U.S., mostly in the European Union, Asia, and Australia. PMI has taken steps to transform its business from conventional cigarettes to noncombustible, reduced-risk products. In 2020, 23.8% of PMI's net revenue came from these reduced-risk products, and the company hopes to exceed 50% by 2025. PMI has also taken robust actions to mitigate the environmental and social risks in its tobacco leaf supply chain, which, when combined with its gradual pivot away from combustible tobacco products, differentiates PMI from its peers.

Chart 2

Monitored ESG As Of May 31, 2021



Source: S&P Global Ratings.

ESG Evaluation Breakdown

Chart 3

Average ESG Score By Sector

Sector	Asia-Pacific	EMEA	North America	Latin America	Global sector average
Services		83			83
Health care		82	73		79
Power		78			78
NBFI		69	81		75
Real estate	71	83			74
Utility networks		74	77	53	72
Banks	70	74			73
Capital goods		72	70		72
Consumer goods		74	59		71
Technology		71	64		69
Telecommunications	66	70			67
Auto	67				67
Transportation infrastructure	67				67
Leisure			66		66
Oil and gas infrastructure			65		65
Chemicals	56	74			65
Insurance			61		61
Materials		63		60	61
Oil and gas	55	62	54	40	55
Agribusiness and agricommodities				51	51
Metals and mining	35	44	68	49	49

NBFI--Nonbank financial institution. Source: S&P Global Ratings.

KEY SUSTAINABILITY FACTORS

Capital goods

Telecommunications

Paper and forest products

Oil and gas

Power

Consumer goods

Utility networks

Financial services

Metals and mining

Retail and restaurants

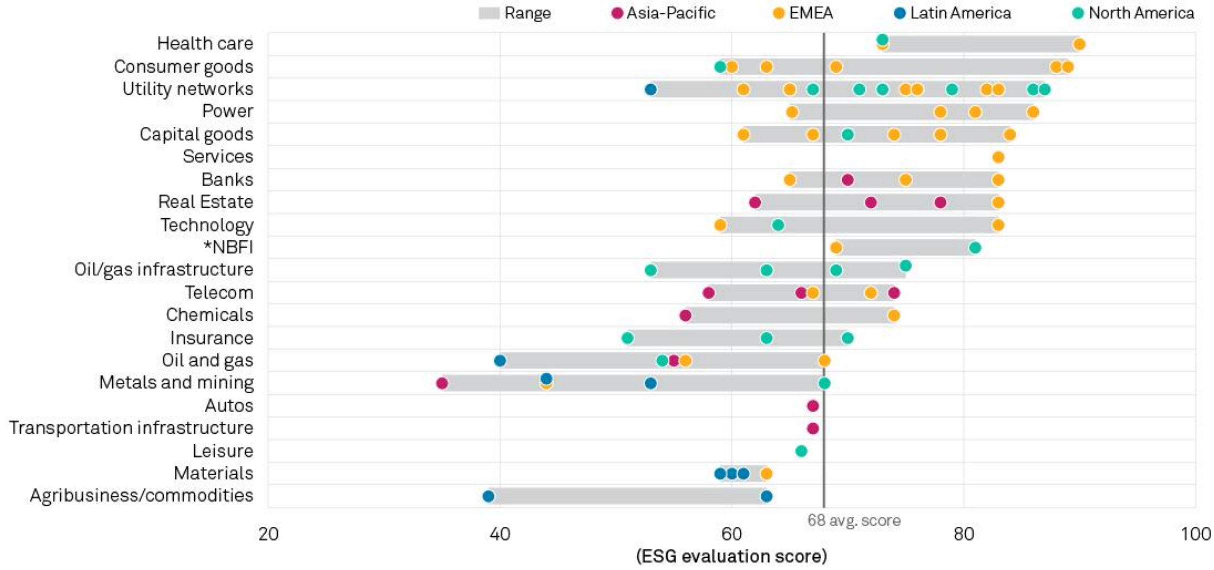
ESG Evaluation Analytical Approach

The highest ESG evaluation score is 90; the lowest is 35. The highest ESG evaluation score is 90 for Royal Philips, a health care company headquartered in the Netherlands. By contrast, the lowest is a metals and mining company headquartered in the Asia-Pacific region with a score of 35. This wide difference can partially be explained by company-specific attributes, as well as by sector and regional exposure. Additionally, we layer on a preparedness assessment; a company with best-in-class preparedness gets significant uplift, while companies with low or emerging preparedness would have points deducted from their profile score.

The three sectors with the highest ESG performers are health care, consumer goods, and utility network companies. By contrast, the weakest ESG performers are in the oil and gas, metals and mining, and agribusiness sectors.

Chart 4

ESG Evaluation Score Distribution



*NBFI--Nonbank financial institution. Source: S&P Global Ratings.

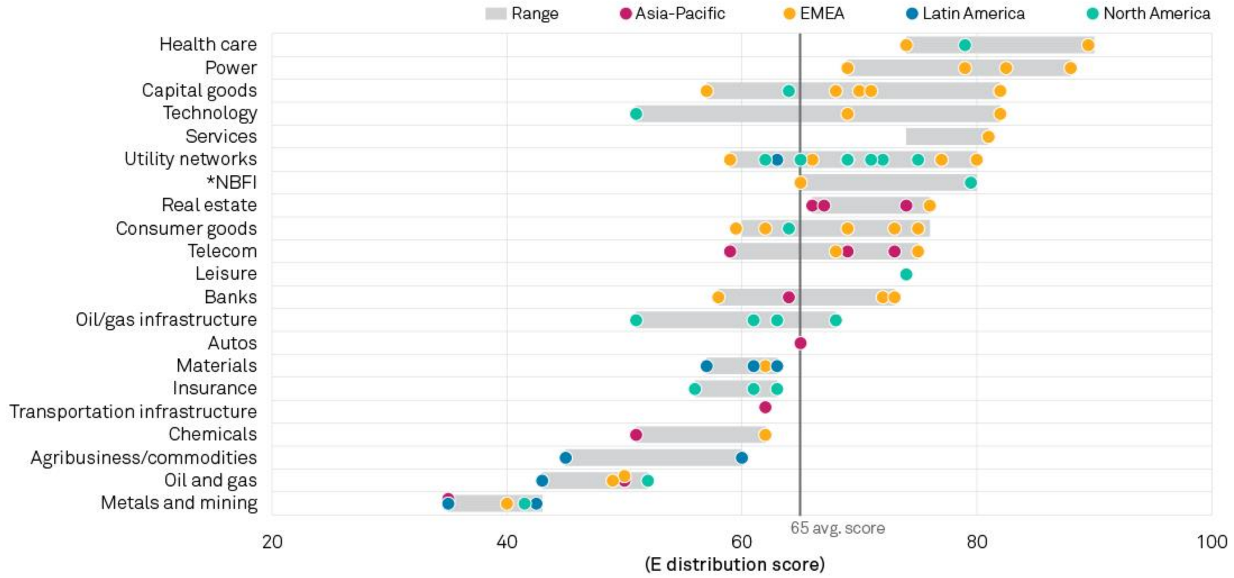
Health care has the highest E-profile score. The highest E-profile score is 90 for a company in the health care sector headquartered in EMEA, while the lowest is 35 for a metals and mining company headquartered in Asia-Pacific.

The health care sector in general has a relatively modest environmental footprint because its main environmental concerns are energy and water usage. The metals and mining sector has significant environmental risk, both in its direct footprint, where it can be a significant polluter and encroach on areas of high biodiversity, and downstream, where some of its outputs are increasingly being scrutinized and regulated for their greenhouse gas emissions.

The sectors with the top E-profile scores are health care, power, technology, and capital goods.

Chart 5

E-Profile Score Distribution

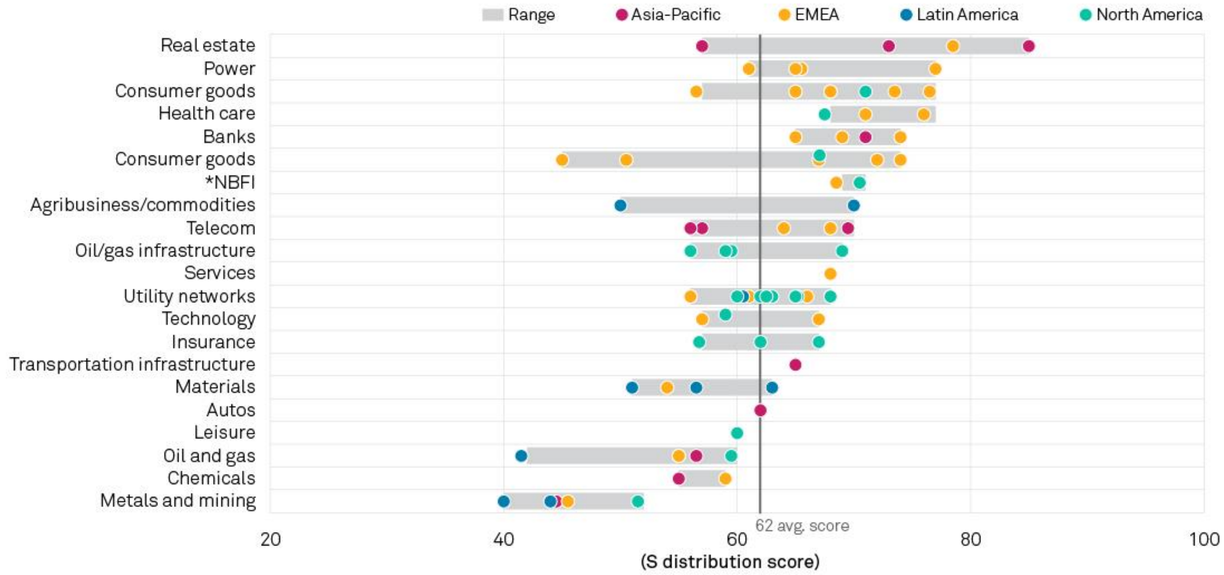


*NBFI--Nonbank financial institution. Source: S&P Global Ratings.

Real estate has the highest S-profile score. The highest S-profile score is 85 for a company in the real estate sector headquartered in Asia-Pacific. The lowest is a metals and mining company headquartered in Latin America with a score of 40. The real estate sector faces somewhat less exposure to social risk, while the metals and mining sector faces significant safety and community issues and challenges related to workforce continuity amid the energy transition and increased automation. The sectors with the top three S-profile scores are real estate, power, and capital goods.

Chart 6

S-Profile Score Distribution

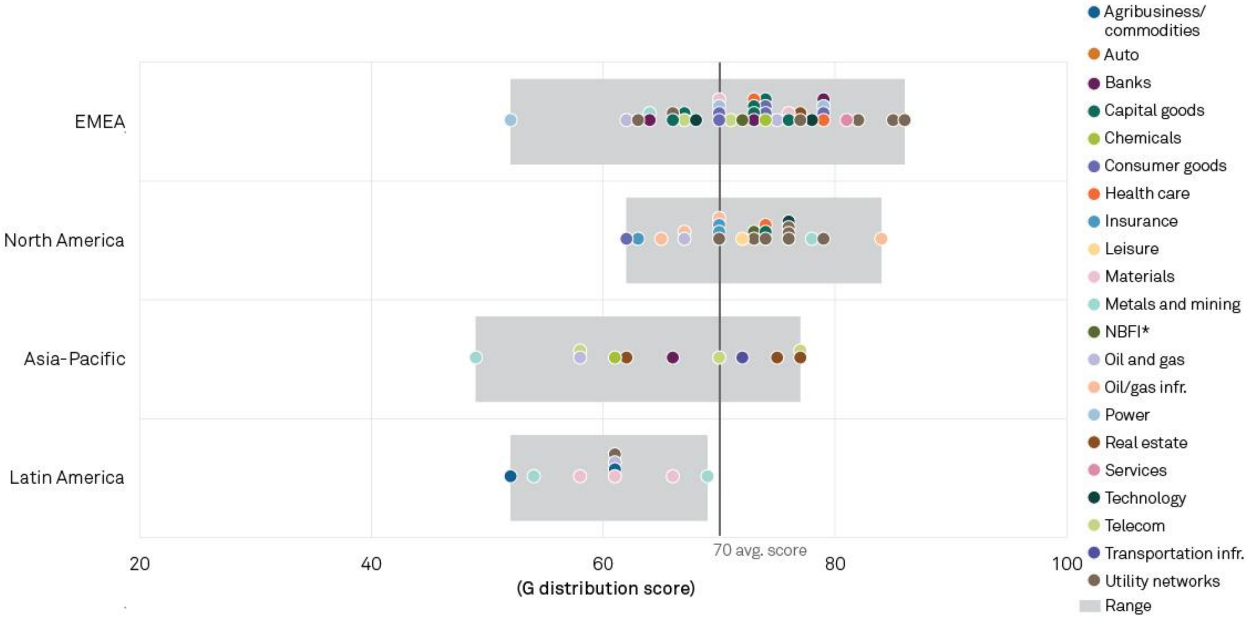


*NBFI--Nonbank financial institution. Source: S&P Global Ratings.

EMEA fares the best in the G-profile. The highest G-profile score is 86 for a company headquartered in EMEA. All the North America-based companies have G profile scores higher than 60. The lowest governance score is held by a mining company in Asia.

Chart 7

G-Profile Score Distribution

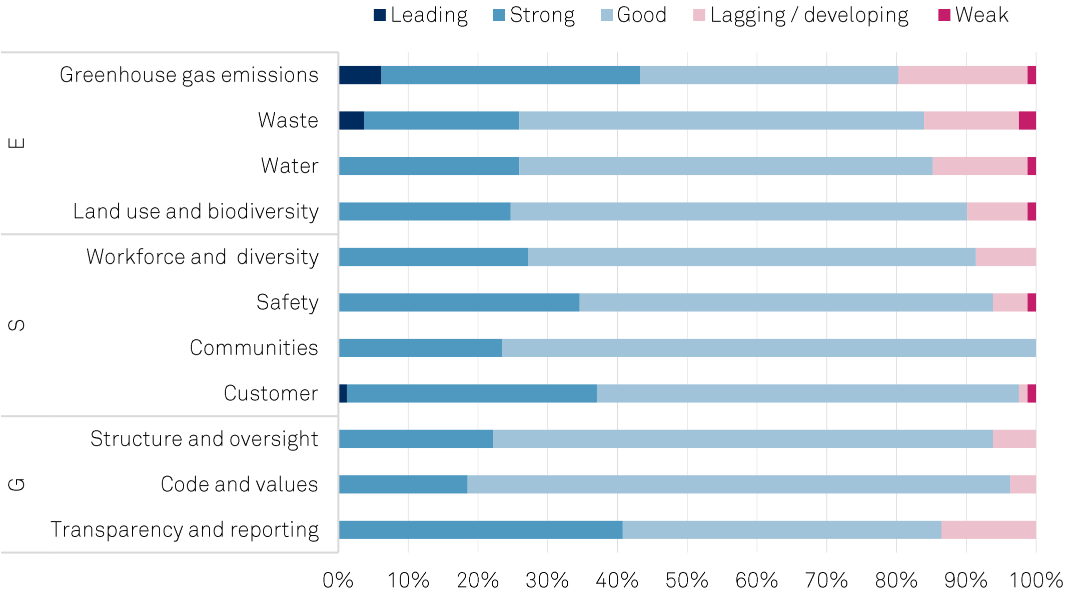


*NBFI--Nonbank financial institution. Source: S&P Global Ratings.

Nine percent of companies have at least one leading indicator within the ESG profile, and 2% include at least one weak indicator. Only 1% of companies are considered good across all factors, whereas 54% of the companies have a factor score of good or above. Within the E-profile, 1% of companies are considered weak across all factors, with 19% considered good across all factors and 3% considered above average in all factors. Within the S-profile, 2% of companies are considered strong across all factors, with 17% considered good. And within the G-profile, 6% of companies are considered strong across all factors, with no companies considered leading in any of the governance factors.

Chart 8

ESG Factor Distribution



Source: S&P Global Ratings.

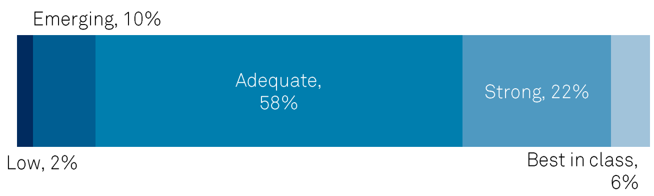
Most companies have a preparedness score of adequate or higher. More than 55% of the companies have received an adequate preparedness score, while only 6% are considered best in class.

Chart 9 and 10

Preparedness Score

	ESG Evaluation Score		
	Min	Average	Max
Best in class	86	88	90
Strong	68	78	86
Adequate	44	66	78
Emerging	39	52	59
Low	35	38	40

Preparedness Score



Source: S&P Global Ratings.

Framework Alignment Opinion

Green Framework Alignment Opinion:

AEDAS Homes Green Financing Framework – May 2021

In our view, AEDAS Homes' green financing framework is aligned with the four components of the Green Bond Principles (GBP) and the four components of the Green Loan Principles (GLP). Founded in 2016, AEDAS Homes is a Spanish homebuilder headquartered in Madrid and listed on the Spanish stock exchange. The company acquires and develops select and high-quality land in regional residential markets in Spain. AEDAS Homes developed its green financing framework to allow its investors to contribute to the company's goal of facilitating a transition to an environmentally sustainable and low carbon economy.

Proposed Georgian Railway Green Bond Framework – May 2021

We provided a framework alignment opinion on Georgian Railway's Green Bond Framework. It is fully aligned with the four components of the Green Bond Principles, in our opinion. The objectives of GR's green bond framework correspond to its sustainability commitments of minimizing and mitigating the environmental effects caused by its activities, as well as improving the overall environmental performance of the country's transportation sector.

GR commits to using the net proceeds of the green bond to fund eligible projects aiming to support the electrification, modernization, and extension of the country's railway infrastructure. Under this framework, GR will strive to allocate total proceeds raised within three years after the issuance. GR's framework also outlines the company's commitment to annually publish a Green Bond Allocation and Impact report until full allocation of the proceeds.

Social Framework Alignment Opinion:

EDF's Social Bond Framework - May 2021

In our view, Electricite de France's (EDF's) proposed social bond framework is aligned with the four components of the Social Bond Principles 2020 (SBP).

EDF is an integrated electric utility company, operating mainly in France and the U.K. In line with EDF's sustainability goal to drive economic development while achieving carbon neutrality and greater wellbeing, the company's social financing framework aims to prioritize contracts with small and midsize enterprises (SMEs) within the value chain.

Sustainability Framework Alignment Opinion:

Qatar National Bank's Green, Social, And Sustainability Bond Framework - May 2021

We provided a framework alignment opinion on Qatar National Bank (Q.P.S.C.)'s (QNB's) green, social, and sustainability bond framework. It is fully aligned with the components of the Green Bond Principles and those of the Social Bond Principles, collectively known as the Sustainability Bond Guidelines. The company has developed the framework to promote and finance sustainable practices across its value chain, while contributing to society beyond financial products and services. To achieve these objectives, the group finances the growth of small-to-midsize enterprises (SMEs), engages in responsible customer communication and marketing, and focuses on socioeconomic development of communities where it operates.

Korea Express Way Corp.'s Sustainable Finance Framework - May 2021

We provided a framework alignment opinion on Korea Expressway Corp.'s (KEC's) Sustainable Finance Framework. It is fully aligned with the Green Bond Principles, Social Bond Principles, and Green Loan Principles, in our opinion. The company has developed a sustainable finance framework

Recent Framework Alignment Opinions

with sustainability agenda focuses on energy and road safety. KEC targets to achieve energy self-sufficiency and rely exclusively on renewable sources to power its operations by 2025. The company plans to build solar photovoltaic power and hydrogen charging systems at highway service areas to support the country's transition to a zero-carbon economy by 2050, which includes having 1.13 million electric vehicles and 200,000 hydrogen cars on the roads by 2025, up from 91,000 and 5,000, respectively, in 2019.

SA Taxi Sustainable Bond Framework - May 2021

In our view, SA Taxi's sustainability bond framework is aligned with the four components of the Green Bond Principles 2018 (GBP) and the four components of the Social Bond Principles 2020 (SBP), collectively referred to as the Sustainability Bond Guidelines. SA Taxi Holdings Proprietary Ltd., with its group of companies (SA Taxi or the group), is a subsidiary of Transaction Capital Ltd. (TC Group). SA Taxi provides financing to minibus, micro, very small, small, or medium enterprises (SMMEs) in South Africa. It has developed a sustainable bond framework to define and select eligible green and social projects that support its financing efforts in the minibus taxi industry.

Key Sustainability Factors

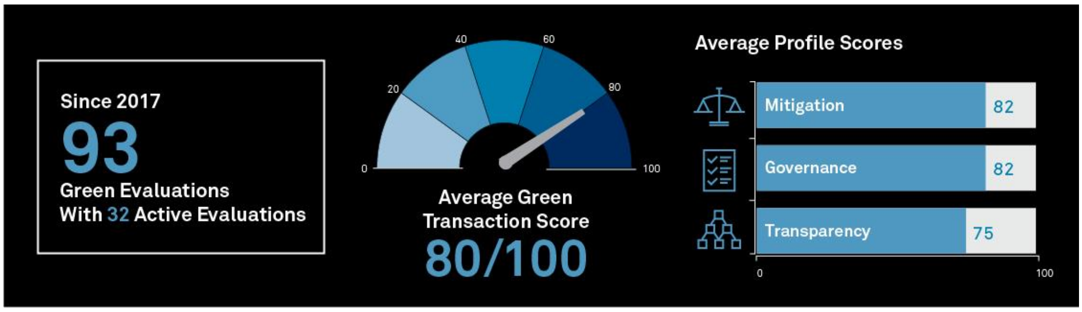
Key Sustainability Factors

Capital Goods Sector – May 2021

Our recent Key Sustainability Factors article on the capital goods sector addresses relevant environmental and social risks for a wide variety of companies in the engineering and construction (E&C), aerospace and defense (A&D), diversified industrial companies, and companies operating in the industrial equipment, components, and services segment. On the environmental side, companies in this sector are exposed to regulatory risks associated with product emissions and efficient and the management of manufacturing waste and end-of-life products. In addition, supply chain activities, such as raw material sourcing, product manufacturing, distribution, and delivery can have significant land, water, emission, and pollution effects. Further, the labor-intensive manufacturing aspects of this sector exposes companies to public scrutiny and potential workforce-related risks in direct operations and the supply chain. Product safety issues could also damage a company's reputation and financial performance if improperly managed.

Sustainable Finance External Reviews And Opinions

Green Transaction Evaluation Summary



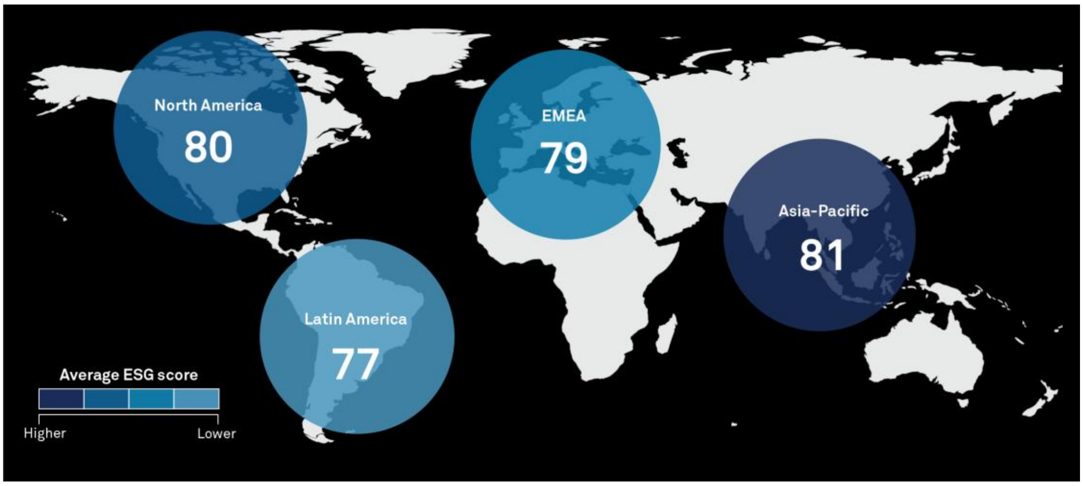
The global sustainable debt market is growing, and despite broadening of the market, green bonds constituted the largest contribution in 2020, at about $270 billion. We expect this figure to grow in coming years as corporations, public entities, and financial institutions attempt to collectively limit greenhouse gas emissions. Our green transaction evaluation scores the governance and transparency features of an issuance (whether labeled green or not), and it assesses the environmental impact of the issuance.

The transaction evaluation is not a credit rating, a measure of credit risk, or a component of our credit rating methodology.

We rated one green Spanish transaction, Aries Solar Termoelectrica S.L., in May 2021.

Chart 11

Green Transaction Geographic Distribution



RECENT PUBLIC ASSESSMENTS

Green Transaction Evaluations

Aries Solar Termoelectrica S.L. May 2021

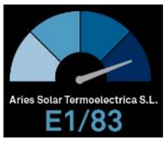
KfW, April 2021

Nelnet Inc., March 2021

San Francisco Municipal Transportation Agency, February 2021

Green Transaction Evaluation

Aries Solar Termoelectrica S.L.'s Proposed €351.4 Million Green Term Loan Facilities – May 2021



Aries Solar Termoelectrica S.L.'s proposed €351.4 million green term loan facilities green transaction evaluation scored E1/83 on the green evaluation scale of E1 to E4, with robust transparency and excellent governance. We expect Aries Solar Termoelectrica will use its €351.4 million green term loan facilities to refinance two brownfield concentrated solar power (CSP) plants in the central Spanish province of Ciudad Real. The CSP assets' high position on our methodology relative to fossil-fuel-fired generation technologies lead to the high score, and, we feel, position the transaction well to contribute to the systemic decarbonization of the Spanish economy.

Chart 12

Average Green Evaluation Score

The overall average global green evaluation score across all projects is 80. For the utilities sector, water-based projects within Europe record the highest average score of 89. The utilities sector for fossil fuel records the lowest score of 33.

Project	Asia-Pacific	EMEA	North America	Latin America	S&P Global sector average
Utilities					
Energy: renewable	85	82	82	78	82
Energy: fossil fuels		33			33
Water	73	89	84	68	83
Facilities					
Green buildings	81	71	79	77	78
Energy efficiency	86	56	72		72
Transport					
Green	67	67	76		72

We have evaluated US$66 billion total in green financings. Renewable energy and the water projects within the utility sector compose more than half of the evaluated projects. More than 55% of our green transaction evaluations come from EMEA.

Chart 13

Total Green Financing Amount Evaluated By Project Classification (Bil. $)

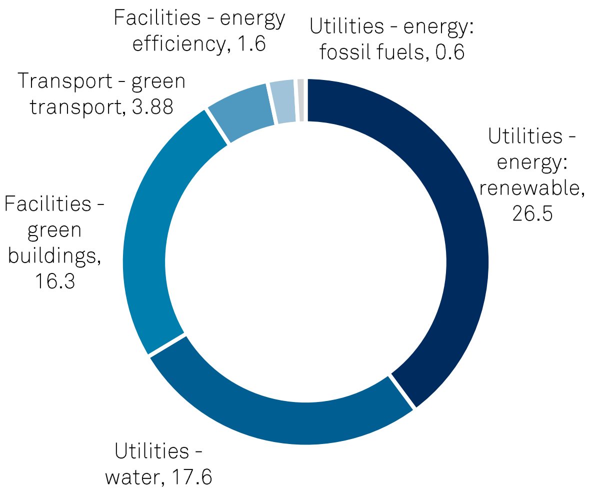
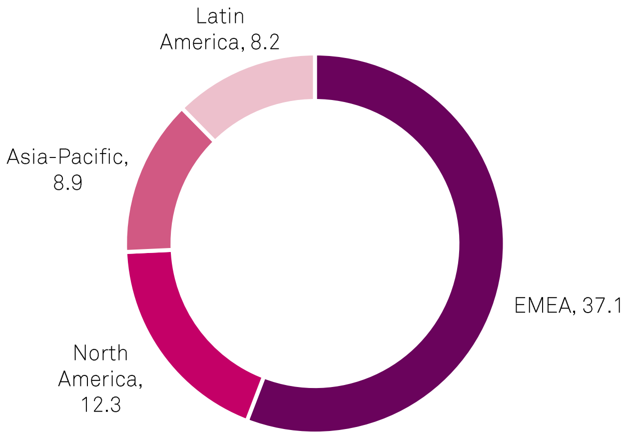


Chart 14

Total Green Financing Amount Evaluated By Region (Bil. $)



spglobal.com/ratings