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Second Party Opinion

Cape Verde Airports Sustainability-Linked Finance Framework

Oct. 27, 2023

VINCI Airports and ANA Aeroportos de Portugal (the sponsors), subsidiaries of French concessions, energy, and construction group VINCI, will, through a special-purpose vehicle develop and finance the expansion and operation of seven airports in Africa under a 40 year concession agreement. The concession for this Cape Verde project includes four international and three domestic airports with passenger traffic of about 2.8 million in 2019. The sponsors have developed the Sustainability-Linked Financing Framework to align the funding strategy for the concession with the sustainability commitments in Cape Verde.

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In our view, Cape Verde Airports' Sustainability Linked Finance Framework, published July 6, 2023, is aligned with:

 Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

Issuer's Sustainability Objectives

Airports are major sources of greenhouse gas emissions due to their energy-intensive operations and heavy reliance on fossil fuels. Airport-controlled activities contribute about 3% of the aviation industry's total emissions. VINCI Airports, one of the leading private operators in the sector, manages 45 airports in 12 countries in Europe, Asia, and the Americas with passenger traffic of 85.8 million at end-2021.

In 2016, VINCI Airports set a target of net zero emissions at all airports by 2050 through several initiatives. Under the Cape Verde concession agreement, work is to be done in two phases. By 2030, the sponsors will implement renewable energy projects at the four international airports, modernize the lighting system at all airports, and install new cooling systems. Beyond 2030, the focus will be on further improving energy efficiency at terminal buildings, potentially adding renewable energy capacities with storage solutions, and green mobility. We understand that storage solutions in some airports (such as BOA Vista) can take place before 2030.

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The company has developed a specific roadmap for each airport in its network to help meet its 2030 goals. This plan includes, on a Vinci groupwide basis, climate transition initiatives to halve scope 1 and scope 2 greenhouse gas emissions by 2030, generate net zero emissions by 2050, and deploying Airport Carbon Accreditation (ACA) standards.

The company's initiatives to achieve its net zero targets include:


- The rollout of solar farms (30 megawatt peak of solar power installed at all airports network at year-end 2021);
- LED light bulbs;
- Replacing heating and air-conditioning units with more energy-efficient systems; and
- Changing to electric service vehicles and runway machinery to further reduce the carbon footprint of airport activities.

Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)


KPI	SPT	Baseline	2021 performance
Certification with ACA (Airports Carbon Accreditation)	Obtain Level 2 ACA certification before the end of 2026, Level 3 ACA certification before the end of 2028, and Level 3+ certification before the end of 2030.	No ACA certification (2023)	No ACA certification
Reduction of scope 1 and 2 emissions (% of total).	Reduce scope 1 and 2 greenhouse gas emissions by 15% by the end of 2026, by 20% by the end of 2027, by 25% by the end of 2028, and by 30% by the end of 2029 versus the 2019 baseline, on an aggregate basis.	2019	+6% year on year; -22% decline versus 2019 baseline

Second Party Opinion Summary

Sustainability strategy


Alignment  Cape Verde Airports' Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.

Selection of key performance indicators (KPIs)

Alignment  Cape Verde Airports' Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.


KPI 1	Certification with Airports Carbon Accreditation (ACA)	Not aligned	Aligned	Strong	Advanced
KPI 2	Reduction of scope 1 and 2 greenhouse gas emissions (% of total emissions)	Not aligned	Aligned	Strong	Advanced

Calibration of sustainability performance targets (SPTs)

Alignment  Cape Verde Airports' Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.


SPT 1	Obtain Level 2 ACA certification before the end of 2026, Level 3 ACA certification before the end of 2028, and Level 3+ certification before the end of 2030, compared with no certification in 2023.	Not aligned	Aligned	Strong	Advanced
SPT 2	Reduce scope 1 and 2 greenhouse gas emissions by 15% by the end of 2026, by 20% by the end of 2027, by 25% by the end of 2028, and by 30% by the end of 2029 versus the 2019 baseline, on an aggregate basis.	Not aligned	Aligned	Strong	Advanced

Instrument characteristics

Alignment  Cape Verde Airports' Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.

The financial performance and/or structural characteristics of the loans issued under Cape Verde Airports' Sustainability-linked Finance Framework will be linked to progress on the KPIs relative to the two SPTs, which have been specified up to 2028; new targets will be added for 2030 onward through a rendezvous clause. The loans will be subject to a margin step-up, step-down, or no variation. The margin adjustment will be specified in the loan documentation issued under this framework. There is also a reference to a fallback mechanism under which, if the issuer fails to provide the observation report on the due date, it will have to pay the margin step-up.


Reporting

Alignment  Cape Verde Airports' Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.

Score Not aligned **Aligned** Strong Advanced

Cape Verde airports commits to providing annually to lenders a report prepared by an independent auditor with up-to-date information on progress on the KPIs versus the two SPTs for the previous calendar year. The issuer also commits to providing relevant information to enable lenders to monitor the progress of the SPTs. There is also a commitment to report annually the impact from the performance against the SPTs on the loan's economic characteristics, and the timing of that impact.

Post-issuance review


Alignment  Cape Verde Airports' Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.

Cape Verde airports commits to having its performance against each SPT externally verified by an independent party annually.

Framework Assessment

Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer’s sustainability disclosures; and how material it is to the issuer’s industry and strategy.

 Cape Verde Airports’ Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.

We view both KPIs to be intrinsically linked, targeting the same sustainability challenge, albeit they are not mutually exclusive. For achieving Level 2 ACA certificate in KPI 1, for example, a carbon management plan is required, which is linked with KPI 2. However, for Level 3 ACA certificate (KPI 1), a stakeholder engagement plan is additionally required, even though this is not related to KPI 2.

KPI 1	Certification with Airports Carbon Accreditation (“ACA”)	Not aligned	Aligned	Strong	Advanced
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We believe this KPI is aligned with the Principles because its scope, objective, and calculation are clearly articulated in the framework. While, in our view, the KPI tackles a relevant sustainability issue faced by the sector (climate transition risks) and is integrated into the group’s sustainability strategy, we believe the KPI to be somewhat constrained by the limited disclosure on the path to achieve the greenhouse gas emission reductions required for improved ACA certification levels. The ACA is a voluntary carbon management certification program for airports, governed by the Airports Council International and administered by WSP Global Inc. For Level 2,3, and 3+ accreditation, airports are required to have third-party verification of their scope 1 and 2 carbon footprint and set a reduction target.

We view as positive the aim of achieving carbon neutrality for scope 1 and scope 2 emissions and obtain ACA level 3+ certification, notably since 79% of the airport accreditations globally are Level 3 or weaker. At the same time, there is no explicit reference to the required greenhouse gas emission reduction targets to achieve level 3+ certification, which we view as a limitation. Although there is no defined amount of greenhouse gas emission reductions Cape Verde Airports has to achieve to obtain the targeted certification, we note that level 3+ requires a management plan to achieve scope 1 and 2 emissions neutrality, which supports the materiality and environmental benefit of the KPI.

We believe this KPI is also important to the sector because airport operations are energy intensive and produce significant greenhouse emissions from their activities (see “Key Sustainability Factors: Transportation,” published July 13, 2021). However, aircraft movements (such as take off and landing) represent the majority of greenhouse gas emissions. In this sense, the industry’s most material environmental effect is indirect and stems from emissions affiliated with aircraft travel (scope 3). In addition, although the contribution of the selected KPI to climate change mitigation is relevant, it isn’t as material as a target to reduce scope 3 emissions, which account for the bulk of the group’s greenhouse gas emissions exposure.

KPI 2	Reduction of Scope 1 and 2 GHG emissions, in %.	Not aligned	Aligned	Strong	Advanced
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We consider this KPI to be aligned with the Principles because its scope, objective, and calculation are clearly articulated in the framework.

This KPI tackles a relevant sustainability issue faced by the sector (climate transition risks) and is integrated into the group’s sustainability strategy. The calculation of scope 1 and 2 emissions is based on the GHG Protocol Corporate Accounting and Reporting Standard. Additionally, we see the expression of the KPI in terms of absolute reduction (versus intensity) as a strength.

Second Party Opinion

Although this KPI addresses a relevant issue, as does KPI 1, it only includes scopes 1 and 2 emissions, which are minimal contributors to overall emissions (at about 3%) compared with scope 3 emissions.

We believe this KPI is also important to the sector because airport operations are energy intensive and produce significant greenhouse gas emissions from their activities (see “Key Sustainability Factors: Transportation”). However, aircraft movements (such as take off and landing) represent the majority of the sector’s greenhouse gas emissions. In this sense, the industry’s most material environmental effect is indirect and stems from emissions affiliated with aircraft travel (scope 3).

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

✓ Cape Verde Airports’ Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.

SPT 1 Obtain Level 2 ACA certification before the end of 2026, and Level 3 ACA certification before the end of 2028, and Level 3+ certification before the end of 2030, compared with no certification in 2023.

Not aligned

Aligned

Strong

Advanced

We believe the ambition, clarity, and characteristics of this SPT are aligned with the Principles. The framework outlines the baseline year (2023), the expected observation dates (in 2026, 2028, and 2030; bi-annual dates are to be set before 2030 through the rendezvous clause), and the relevant trigger events, such as failure to achieve the SPT on the target observation date. We note that, based on the ACA manual, level 2 accreditation is renewed annually but verified every two years (until 2026) and level 3 is renewed annually and reviewed every three years. For this reason, we consider there is a sufficient rationale for not having annual SPTs.

The SPT is benchmarked against the relative positioning of similar airports in Africa, and also targets to achieve neutrality (Level 3+) by 2030, noting that only one airport in Africa has achieved Level 3+ ACA accreditation. To obtain level 2 accreditation (Reduction), the company needs to show quantified emissions reductions and provide evidence of effective carbon management procedures. To obtain level 3 (Optimization), the company needs to include third-party emissions and demonstrate sufficient evidence that it is supporting the development of high-quality carbon credit through nature-based solution projects.

We regard this SPT as ambitious in the regional context, also considering the status of development in Africa’s electricity sector. However, we see as a weakness the limited disclosure on greenhouse gas emissions reduction targets for higher ACA levels and use of carbon credits to achieve neutrality. For SPT 2, targets beyond 2030 will be established on the first sustainability KPI rendezvous date in 2028, and periodically thereafter. This is mainly because there is limited relevant information and visibility on the development of Cape Verde’s energy sector to set the targets. In the case of lack of agreement on the targets, the loan would not be considered a sustainability linked loan, thereby canceling potential margin step-up and step-down mechanisms. As a result, it’s difficult to give an opinion on the ambition of the SPTs beyond 2030.

Baseline

Obtain ACA certification

Second Party Opinion

2023	2026	2028	2030
No certification	Level 2	Level 3	Level 3+

SPT 2	Reduce scope 1 and 2 GHG emissions by 15% by the end of 2026, by 20% by the end of 2027, by 25% by the end of 2028, and by 30% by the end of 2029 vs baseline 2019, on aggregated basis.	Not aligned	Aligned	Strong	Advanced

We believe the ambition, clarity, and characteristics of the SPT are aligned with the Principles.

The framework outlines the baseline year (2019), expected observation date (in 2026, 2027, 2028, and 2029, and further target dates to be established from 2028), and the relevant trigger events, such as failure to achieve the SPT on the target observation date.

The SPT is benchmarked against the group's greenhouse gas emissions performance in 2019, before the COVID-19 pandemic led to a sharp decline in passenger numbers globally; traffic at Cape Verde's airports declined by 27% year on year in 2020. We expect Cape Verde's air passenger numbers to recover over the next few years, creating a higher demand for electricity and, consequently, greater exposure to scope 2 emissions. In this sense, we understand that the expected drop in greenhouse gas emissions, compared to 2019, captures the benefit of implementing increased renewable energy sources, and will show the improvement of sustainability performance on annual operating performance compared to historical results, and a business-as-usual scenario.

Although data for 2019-2021 is influenced by several outliers, including the pandemic, and the expansion of two airports in 2019 that led to higher greenhouse emissions compared with 2018, we calculate that, over 2022-2029, the average annual increase in greenhouse gas emissions will be slightly lower. This, in addition to the ACA level 3+ certification--targeting neutrality by 2030--should help offset weaknesses from limited available historical data and challenges within the power sector in Cape Verde, which in turn reduce visibility on targets.

At the same time, lack of external sector benchmarking comparisons somewhat limits our ability to assess the ambitiousness of the SPT. Despite limited public information on relevant peer data, we estimate--based on internal benchmarking--that the targets are somewhat within the range we observe for peers. Similarly, Cape Verde Airports has a limited track record in public sustainability reporting. Scope 1 and 2 emissions for 2019 onward are being made publicly available for the first time as part of the framework.

Baseline	scope 1 and 2 carbon emission reduction in %			
2019	2026	2027	2028	2029
	15% reduction	20% reduction	25% reduction	30% reduction
4,900 tons of CO2 (carbon dioxide)	Equivalent to about 4,200 tons of CO2	Equivalent to about 3,900 tons of CO2	Equivalent to about 3,700 tons of CO2	Equivalent to about 3,500 tons of CO2

Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

- ✓ Cape Verde Airports' Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.

Cape Verde Airports discloses in the documentation for its sustainability-linked loan framework that instruments issued under the framework will be subject to a margin step-up, step-down, or no variation triggered by observed performance against the stated SPTs.

If Cape Verde achieves both SPTs, the margin of the loan will decrease as of the next observation date. If the issuer only manages to achieve one SPT, there will be no margin variation. If the issuer does not achieve any of the SPTs, it will have to pay to a non-governmental organization the margin step-up surplus. The specific margin adjustment will be specified in the documentation for debt issued under this framework. The documentation will also include the calculation methodologies.

The framework refers to a fallback mechanism, under which, if the issuer fails to provide the observation report by the due date, it will have to pay the margin step-up to a non-governmental organization.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

- ✓ Cape Verde Airports' Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider Cape Verde Airports's overall reporting practices to be aligned.

Cape Verde airports commits to providing annually to lenders a report prepared by an independent auditor with up-to-date information on the KPIs relative to the SPTs for the previous calendar year. The issuer also commits to providing relevant information to enable lenders to monitor the progress of the SPTs. There is also a commitment to report annually the impact from the performance against the SPTs on the loan's economic characteristics, and the timing of that impact.

Post-issuance review

The Principles require post-issuance review commitments, including the type of post-issuance third-party verification, periodicity, and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

- ✓ Cape Verde Airports' Sustainability-linked Finance Framework is aligned with this component of the Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023.

Cape Verde Airports commits to obtaining, annually, independent and external post-signing verification of its performance against each SPT for each KPI.

Issuer information referenced

- Cape Verde Airports Sustainability-Linked Finance Framework, June 7, 2023

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

Cape Verde Airports' Sustainability-Linked Finance Framework intends to contribute to the following SDGs:

KPI	SDGs
Certification with Airports Carbon Accreditation (ACA)	 13. Climate action*
Reduction of GHG emission (Scope 1 and 2), in %	 13. Climate action*

*The KPI is likely to contribute to the SDGs.

Second Party Opinion

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