Assessing and financing railways sustainability

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Vigeo Eiris: The Choice for Responsible Growth

Vigeo Eiris’ Global Network

Presence in **16** countries, including **7** exclusive partners

**240**-strong team of **28** different nationalities

**15+** years’ experience in ESG research

Solutions for Investors:

Decision-making support covering all sustainable and ethical investment approaches, across multiple asset classes and regions:

- Ratings, databases, sector analyses, portfolio analyses, structured products, indices and more
- ESG, Controversies, Climate, Sustainable Development Goals and more
- Up to 7,000 issuers covered: companies, local authorities, states
- More than 300 clients and partners worldwide: institutional investors, asset managers, civil society organisations

Solutions for Companies & Organisations:

Supporting the integration of ESG criteria into business functions and strategic operations:

- Second Party Opinion for sustainable, green and social bonds / loans
- Supporting implementation of ESG-linked revolving credit facilities
- Services for rated companies, including communication tools and benchmarks
- Company solicited sustainability ratings
- CSR evaluations and labels
- More than 700 projects completed in 41 countries since 2002

Vigeo Eiris’ Global Network

- Comprehensive and **proprietary methodology** based on international standards, reviewed by an independent **Scientific Committee**
- Research and analysis processes adhere to the highest **quality standards**

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Sustainability rating

Assessing Environmental, Social and Governance (ESG) performance
Integration of ESG risks in Investment

A global impulsion:

$22 890 bn (2016)
2014-2016: +7%

26% of world AUM

1862 PRI signatories
(AO, AM and Services providers)

Source: GSIA Global Sustainable Investment Review - 2016
Our Rating Framework
Based on international standards and reference texts

International References
► Conventions, Recommendations, Declarations, Guidelines from the UN, ILO, Global Compact, OECD, etc.

6 Domains of Analysis
► 6 domains* of analysis representing the diverse interests of different stakeholders
► Environment, Community Involvement, Business Behaviour, Human Rights, Corporate Governance and Human Resources

Criteria Under Review
► 38 Sustainability Criteria and over 300 principles of action are used to question companies on their integration of ESG factors into their managerial systems

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Sector customization

Criteria weighting method

38 Sustainability Criteria

Each SC is customised, (de)activated and weighted according to its sector importance.

On average around 20 to 25 are activated per sector.
ESG performance

ESG rating method

3 items

Leadership
- Exhaustiveness of policies

Implementation
- Coherence of implementation
- Means allocated

Results
- Efficiency of results

9 angles of analysis

Visibility
- Exhaustiveness
- Ownership

Coverage
- Scope

Indicators
- Stakeholder feedback
- Controversy management

4 levels of performance

- Advanced
- Robust
- Limited
- Weak

100
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Overview of our Transport & Logistics sector

Key findings

**TOP PERFORMERS**

<table>
<thead>
<tr>
<th>Region</th>
<th>Company Name</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>La Poste</td>
<td>72/100</td>
</tr>
<tr>
<td>North America</td>
<td>Canadian National Railway</td>
<td>44/100</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>Kawasaki Kisen Kaisha</td>
<td>47/100</td>
</tr>
<tr>
<td>Emerging Market</td>
<td>EcoRodovias Infraestrutura e Logistica</td>
<td>36/100</td>
</tr>
</tbody>
</table>

**ESG PERFORMANCES**

- Environment: Sector average performance 25, Universe average performance 31
- Social: Sector average performance 26, Universe average performance 28
- Governance: Sector average performance 34, Universe average performance 37

**DOMAIN PERFORMANCES**

- Corporate Governance: Sector average performance 38, Universe average performance 40
- Business Behaviour: Sector average performance 29, Universe average performance 31
- Community Involvement: Sector average performance 25, Universe average performance 27
- Human Resources: Sector average performance 22, Universe average performance 24
- Human Rights: Sector average performance 33, Universe average performance 33
- Environment: Sector average performance 25, Universe average performance 32

**Sector universe:**
124 companies, including:
- Europe: 44
- North America: 20
- Asia-Pacific: 33
- Emerging markets: 27

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# Sustainability Rating approaches

## Solicited ESG Rating

**Requested by issuers to support their market operations (bonds, loans, IPO).**

- **Provides:**
  - consolidated rating, delivering Vigeo Eiris’ opinion on the issuer’s profile and showing its ranking within Vigeo Eiris universe and against its peers from the same sector.
  - support fund raising and financial operations

- **Information used:**
  - publicly available, documented, traceable, From identifiable & relevant sources, Multiple sources
  - includes the additional face-to-face interviews with members of senior management team

- **Update:**
  - annual update (defined schedule) and for every market operation

## Not solicited Sustainability Rating

**Requested by investors to support their investment in line with their SRI strategy**

- **Provides:**
  - take into account ESG factors and support investment decision-making process by investors.

- **Information used:**
  - annual update (imposed schedule)

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Sustainability Rating Benefits

Communication to stakeholders
- Investors relations, dialogue and engagement
- Business and supply chain (clients & suppliers)
- Employees and communities

Improvement and benchmark
- Internal tool to identify strengths & Areas of improvement
- Benchmark and ranking

Financing
- Access to the markets
- Incentive financial products

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Sustainable finance solutions

Financing railways sustainability and environmental efficiency
Depending on the needs

Overview

FINANCING CORPORATES’ NEEDS

**Incentive Loan / RCF**  Linked to the ESG score or to specific KPI(s)

- A general purpose bank facility with a resettable price linked to the borrower’s ESG performance or to KPI indicator(s) but without requirement on the use of proceeds

FINANCING SUSTAINABILITY RELATED PROJECTS

**Green/Sustainability Bond**  (Re)Financing Projects on the bond market

- A specific purpose fixed income security where proceeds are invested in projects with environmental and/or social objectives, in accordance with the Green & Social Bond Principles

**Green/Sustainability Loan**  (Re)Financing Projects by bank loan

- A specific purpose bank loan where proceeds are invested in projects with environmental and/or social objectives, in accordance with the Green Loan Principles (closed to Green & Social Bond Principles except for level of disclosure)

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Definition

Overview

- The proceeds of Green Bonds are used exclusively to finance or re-finance projects with environmental benefits.

- Examples of Green Bond projects include renewable energy, circular economy, biodiversity conservation, clean transportation and green buildings.

- Social Bonds are used to raise funds for new and existing projects with positive social outcomes.

- Examples of Social Bond projects include food security, affordable basic infrastructure and access to essential services.

- Target populations include people living below the poverty line, unemployed, elderly or disabled people etc.

- The proceeds of Sustainability Bonds are used exclusively to finance or re-finance a combination of Green and Social projects.

- Other international standards, such as the People’s Bank of China’s Green Bonds Guidelines, also exist.

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**Definition**

Examples of existing sector standards, international conventions or agreements

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**Sector Criteria Available for Certification**

- Geothermal Energy
- Marine Renewable Energy
- Solar Energy
- Wind Energy
- Low Carbon Transport
- Water Infrastructure
- Low Carbon Buildings

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**Universal Declaration on Human Rights**

- International Covenant on Economic, Social and Cultural Rights
- Declaration on the Right to Development

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**GBP Mapping to the Sustainable Development Goals**

17 Goals and 169 targets

GBP Mapping to the Sustainable Development Goals as a broad frame of reference by which issuers, investors and bond market participants can evaluate the financing objectives of a given Green, Social or Sustainability Bond/Bond Programme.
The first syndicated sustainability revolving credit facility (€800 million) in Spain

- Linked, not only to the credit profile of Red Eléctrica, but also to the performance of the company’s environmental, social and good governance parameters

- The interest margin is adjusted depending on the performance of the company’s ESG rating, based on Vigeo Eiris’ annual scores.

The first syndicated sustainable revolving credit facility (€200 million) in Italy

- Bonus mechanism tied to specific environmental objectives and related KPI measures:
  - reductions in the carbon footprint (GHG emissions) from energy production
  - energy efficiency (energy savings)
  - improvements in sorted waste collection

- Vigeo Eiris formulated an independent opinion on the consistency of the selected indicators and on the level of ambition of the established variation for adjusting the margin, which will determine the success of the operation.
The Régie Autonome des Transports Parisiens (RATP) issued a first Green Bond in June 2017, in line with its CSR Strategy.

- The €500 million Green Bond will be used to finance and refinance, in whole or in part, Eligible Green Projects included in 4 categories:
  - Public transport infrastructure maintenance and renovation;
  - Public transport rolling stock renovation and renewal;
  - Public transport stations and spaces modernization;
  - Other public transport low-carbon vehicles.

- Vigeo Eiris provided Second Party Opinion (SPO) on the sustainability credentials and management of the Green Bond, including its alignment with the Green Bond Guidelines.
SNCF Réseau launched a Green Bond Programme and issued a first Bond in October 2016 followed by 2 others in March 2017 and July 2017.

- Use of Proceeds will be used to finance and refinance assets in the field of low carbon rail transportation covering three areas:
  - Investments in maintenance, upgrade and energy efficiency of the rail grid
  - Investments in the creation of new railway lines and the extension of existing ones
  - Investments in climate change adaptation and biodiversity protection projects and/or initiative (No eligible projects in this category for the first Bond)

- In line with the Green Bond Principles, the Programme have been externally reviewed : Second Party Opinion (SPO) provided by Oekom and Climate Bond Initiative certification.
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