

Green Framework Alignment Opinion

## Metropolitano de Tenerife S.A. Green Bond Framework

July 8, 2021

### Green Bond Framework Overview

In our view, the Metropolitano de Tenerife S.A. (Metrotenerife) green bond framework, published on July 8, 2021, is aligned with the four components of the Green Bond Principles (GBP).

Metrotenerife is a public transport company created in 2001, headquartered in Spain, and owned by the Tenerife Island Government. Its goal is to develop alternative transport solutions. It aims to build a railway network to serve Tenerife and to improve the existing transportation facilities. It wants to provide clean transportation and promote the use of renewable energy, in line with the UN's Sustainable Development Goals (SDGs).

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### Framework Alignment Overview



#### 1. Use of proceeds

Metrotenerife's green bond framework is aligned with this component of the GBP because the company commits to using the proceeds to finance projects that belong in the clean transportation and renewable energy categories.



#### 2. Process for project evaluation and selection

Metrotenerife's green bond framework is aligned with this component of the GBP because the framework sets out the green bond committee's proposal, to the board of directors, regarding financing projects in line with the defined eligibility criteria, and how the committee will monitor the green portfolio.



#### 3. Management of proceeds

Metrotenerife's green bond framework is aligned with this component of the GBP because the issuer commits to track and monitor the use of proceeds and ensure that the total value of the green bonds exceeds the number of eligible green projects, to ensure sufficient funds for the projects.



#### 4. Reporting

Metrotenerife's green bond framework is aligned with this component of the GBP because it commits to report the allocation of proceeds and the environmental effects of the eligible green projects, including impact metrics, annually.

## Issuer Sustainability Objectives

Metrotenerife recognizes the role it can play in meeting the EU's goal of reducing GHG emissions by at least 40% by 2030, as well as achieving climate-neutrality by 2050. As a public transport provider, Metrotenerife has an environmental mandate at the local level to provide effective and environmentally sustainable solutions that are accessible to all. Its sustainability strategy includes various measures such as obtaining the ISO 14001 certification in 2012, updating its Environmental Management System (EMS) in 2017, and developing innovative solutions for safer and more efficient transport.

## Framework Description

### 1. Use of proceeds



The GBP stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green projects. According to the GBP, eligible projects will seek to achieve at least one of five environmental objectives, including: 1) climate change mitigation, 2) climate change adaptation, 3) natural resource conservation, 4) biodiversity conservation, and 5) pollution prevention and control.

Metrotenerife committed to allocate the net proceeds of financing issued under its framework exclusively to green projects. In our view, both categories mentioned in Metrotenerife's framework--clean transportation and renewable energy--meet the GBP's environmental objectives. Metrotenerife's projects include investing in extensions and new tram lines and stations, acquiring electric vehicles, developing technologies for enhanced services/frequencies and signaling and station upgrades, and integrating solar photovoltaic cells into the transportation system infrastructure.

### 2. Process for project evaluation and selection



To align with the second component of the GBP, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects, including exclusionary criteria, if applicable, and the overall sustainability objectives that underpin the selection process.

Metrotenerife's green bond framework comprises a description of the process to approve and oversee eligible projects. The issuer has established a green bond committee, comprising the CFO, the project director, and the maintenance director. The committee proposes green financing projects to the board of directors, selects and monitors the projects that will **constitute the green portfolio**, and also validates the green bond reporting. In addition, the committee reviews and updates the framework and is responsible for removing green projects that no longer comply with the clean transportation and renewable energy eligibility criteria, and replacing them with eligible ones.

In addition, the issuer states that the projects selected are part of sustainable activities as defined by the European Commission's EU Taxonomy.

### 3. Management of proceeds



The GBP require a seeker of finance to monitor the net proceeds of all outstanding green bond transactions, which includes appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible green projects. The GBP also require a seeker of finance to disclose to investors the intended types of temporary placement they intend to use for unallocated proceeds.

Metrotenerife's green bond framework lays out the issuer's resolution to allocate all proceeds issued under the framework to a selection of eligible green projects. The proceeds will be deposited in the general account and earmarked for green projects.

In addition, Metrotenerife will use an internal tracking system to monitor the allocation of the proceeds to the green portfolio.

The green bond committee will be responsible for ensuring that the total value of the green bonds sufficiently covers the funding needs of the eligible green projects. Unallocated proceeds will be invested in cash or cash equivalent instruments according to Metrotenerife's treasury management policy.

### 4. Reporting



The GBP stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental impact.

Metrotenerife has committed to annually report on the allocation of the green bond proceeds and on the relevant environmental impact measures when feasible. The issuer will respect that engagement until the bond proceeds are fully allocated.

The annual allocation reporting will include information on the green bonds issued (ISIN, pricing date, maturity date, and so on) as well as the total amount of the net proceeds allocated to the green portfolio as per the eligible green projects category. The breakdown will be based on project category, and financing and refinancing. The issuer also plans to include in its reporting an analysis of the green portfolio by eligible green projects category and the balance of any unallocated proceeds. Metrotenerife has selected a range of impact metrics to include in the reporting. The estimated annual avoided GHG emissions (in tCO<sub>2</sub>e/year) will be the disclosed environmental metric. For the clean transportation category, metrics will include the number of passengers transported annually, the average number of passengers transported per day versus number of inhabitants, kilometers of infrastructure constructed or renovated, the estimated time savings per day within the network thanks to enhanced services, and the number of app users. For the renewable energy category, metrics will be the capacity installed (MW) and the expected renewable energy generation (MWh/year).

## Additional Features Of The Framework

This section of the report provides additional information on whether the framework incorporates recommended aspects of the GBP and goes beyond minimum requirements. This section does not affect our view of the framework's alignment with the stated principles.

Metrotenerife's green bond framework provides information on the incorporation of the recommendations made by the GBP. The issuer has disclosed additional aspects of implementation in its green bond framework.

- Metrotenerife adheres to the European Commission's EU Taxonomy Regulation and delegated acts.
- Metrotenerife says that an independent external auditor will provide a limited assurance on the allocation of the green bond proceeds to the eligible green projects.
- Metrotenerife is adopting quantitative project performance metrics, such as the estimated annual avoided GHG emissions (in tCO<sub>2</sub>e/year), and other measures such as the number of passengers transported annually, the average number of passengers transported per day versus number of inhabitants, and the expected renewable energy generation (MWh/year), depending on the eligible project category.

Offsetting the above strengths are the following limitations:

- Metrotenerife's framework does not disclose the underlying methodology used to calculate quantitative impact metrics. However, we understand Metrotenerife will disclose, when feasible, the relevant methodology in the reporting.

## Conclusion

Based on our assessment of Metrotenerife's green bond framework, we regard it as being aligned with the four components of the GBP given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of the bonds to eligible green projects, as defined by the seeker of finance;
- Use clear green criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Commit to regular reporting of the environmental impact and use of proceeds.

## Mapping To The UN's Sustainable Development Goals

The SDGs were set up by the United Nations in 2015 and form an agenda for achieving sustainable development by 2030. The Metrotenerife green bond framework intends to contribute to the following SDGs:

### Use of proceeds

### SDGs

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*Clean transportation*



**11. Sustainable cities and communities**



**9. Industry, innovation and infrastructure**



**13. Climate action**

*Renewable energy*



**13. Climate action**



**7. Affordable and clean energy**

## Green Framework Alignment Opinion

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