S&P Global
Ratings

Environmental, Social, And Governance Evaluation

Acciona Energía

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Summary

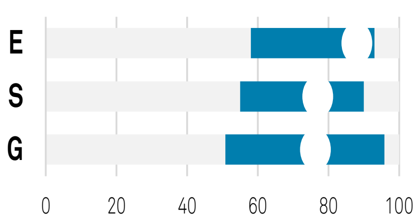
Acciona Energía is an integrated renewable energy operator, which is headquartered in Spain. It is a fully-owned subsidiary of Spanish energy and infrastructure company Acciona S.A., which has more than 30 years' experience in renewables. Acciona S.A. has just launched a partial initial public offering (IPO) of Acciona Energía. Assuming a successful IPO completion, Acciona S.A. will remain the majority shareholder of Acciona Energía with about 75% of the capital, with the remaining 25% being free float. Acciona Energía operates a large fleet of 10.7 gigawatts (GW), mainly wind onshore (8.8 GW), with 57% of its revenues generated in Spain.

Acciona Energía's ESG Evaluation of 86 primarily reflects its stronger-than-peers environmental and social performance, as well as our view that it is well-equipped to execute its long-term strategy and capitalize on opportunities stemming from the low carbon economy. Acciona Energía is enabling the transition to a low carbon economy by generating clean energy. It is also decreasing its greenhouse gas (GHG) emissions by applying efficiency measures and using shadow carbon pricing. It mitigates land use risks arising from renewable energy expansion by taking preventative and enhancement measures. The company also has comprehensive policies and strategies for a gender-balanced workforce, fair remuneration, and community engagement. Assuming a successful IPO and a governance structure as described in the prospectus, we understand that Acciona Energía's newly created board will be very diverse in terms of skills, experience, and gender, with a high proportion of independent directors.

Our ESG Evaluation on Acciona Energía assumes the successful completion of the planned partial IPO of the company, which was announced in February 2021 and launched on June 7, 2021. We could revise or withdraw our ESG Evaluation if we deem appropriate, including upon failure or delay of the IPO, or if the governance structure or executive remuneration were to differ from the structure and remuneration terms described in the IPO prospectus.

ESG Profile Score

80 /100



Company-specific attainable and actual scores

Preparedness Opinion (Scoring Impact)

Strong (+ 6)

ESG Evaluation

86/100

A higher score indicates better sustainability

Component Scores

Environmental Profile		Social Profile		Governance Profile	
Sector/Region Score	**43/50**	**Sector/Region Score**	**40/50**	**Sector/Region Score**	**31/35**
Greenhouse gas emissions	**Leading**	Workforce and diversity	**Strong**	Structure and oversight	**Good**
Waste and pollution	**Strong**	Safety management	**Good**	Code and values	**Strong**
Water use	**Strong**	Customer engagement	**Strong**	Transparency and reporting	**Strong**
Land use and biodiversity	**Strong**	Communities	**Strong**	Financial and operational risks	**Neutral**
General factors (optional)	**None**	General factors (optional)	**None**	General factors (optional)	**None**
Entity-Specific Score	**45/50**	**Entity-Specific Score**	**37/50**	**Entity-Specific Score**	**46/65**
E-Profile (30%)	**88/100**	**S-Profile (30%)**	**77/100**	**G-Profile (40%)**	**76/100**

ESG Profile (including any adjustments) **80/100**

Preparedness Summary

Acciona Energía is a pure renewable energy player with a diversified asset portfolio in Europe, the Americas, and Australia, which supports its resilience to disruption. We believe the planned partial IPO of Acciona Energía, which is currently fully owned by Acciona S.A., will support the execution of its long-term strategy and will facilitate the allocation of capital to future growth opportunities. By focusing on areas of growth acceleration and widening its leadership in new technologies, Acciona Energía is capitalizing on growth opportunities linked to the global transition to a low carbon economy, as well as favorable regulatory developments. Based on its successful track record in innovations and research collaborations in green technologies, we believe the company will remain at the forefront of the low-carbon transition.

Capabilities	
Awareness	**Excellent**
Assessment	**Excellent**
Action plan	**Good**
Embeddedness	
Culture	**Excellent**
Decision-making	**Good**

Preparedness Opinion (Scoring Impact) **Strong (+ 6)**

ESG Evaluation **86/100**

Note: Figures are subject to rounding.

Environmental Profile

88/100

Sector/Region Score (43/50)

Acciona Energía operates exclusively in the renewable power generation sector. This sector is significantly less exposed to GHG emission risks than the rest of the power generation industry. However, renewable assets, especially wind farms, occupy a significant amount of land and turbines can create substantial nonrecyclable waste at the end of their lives. The majority of Acciona Energía's installed capacity is located in Spain (53%), Mexico (12%), the U.S. (11%), and Chile (7%). These countries have a high density of endangered species and are therefore exposed to biodiversity risks.

Entity-Specific Score (45/50)

Note: Figures are subject to rounding.

Greenhouse gas emissions	Waste and pollution	Water use	Land use and biodiversity	General factors
Leading	**Strong**	**Strong**	**Strong**	**None**

Acciona Energía builds its strategy around the transition to a low-carbon economy. As a pure renewable player, it focuses on the growth of its wind and solar production and plans to have 20GW installed capacity in 2025. Therefore, we expect its low GHG intensity will continue to outperform peers in the global power generation sector. Acciona Energía stands out among peers as having been carbon-neutral for scope 1 and 2 GHG emissions since 2016. It has achieved this by applying efficiency measures and offsetting remaining emissions through the purchase of carbon credits from renewable energy projects and nature-based solutions. It reduces its indirect GHG emissions by using an internal carbon price in its tender process. Across its activities, Acciona Energía implements ambitious science-based targets, and we believe it is on track to reduce its scope 1 and 2 emissions by 60% and scope 3 by 47% by 2030, from a 2017 base year.

In terms of waste management, Acciona Energía follows circular economy principles and puts its efforts into lengthening the average life of its wind assets beyond 40 years through predictive maintenance, in line with advanced peers. The company's plants are monitored in real time through the latest technology (control centre) and it uses predictive maintenance to extend the useful life of plant based on big data, machine learning, and artificial intelligence. Additionally, in line with peers, its biomass plants contribute to a circular economy by recycling 100% of waste generated, including ash and slag. Finally, in comparison to its energy peers, Acciona Energía is less exposed to waste because it does not operate coal or nuclear plants.

Acciona Energía sees biodiversity protection as one of its main priorities and compares favorably to peers in terms of land management. Around 70% of its assets are in countries with a high density of threatened species, like Spain, Mexico, and Chile. However, Acciona Energía is managing its biodiversity risk thanks to a comprehensive biodiversity policy, specific action plans covering 100% of its plants, and preventative and mitigation actions. The company applies the mitigation hierarchy to its projects.

Acciona Energía has minimal impact on water resources given its active management and reuse schemes for plants that require cooling, and its lower overall exposure to water scarcity compared with peers. We note that as the company expands hydrogen pilots, water consumption will increase. Acciona Energía recycles most of the water it uses.

Social Profile

77/100

Sector/Region Score (40/50)

Acciona Energía operates in the renewables segment of the power generation sector with a relatively low exposure to social risks. The most material social factors are connected to employees' safety and community relationships, especially during the project development phase. The segment has lower workforce risks because it will not face the challenges associated with reskilling staff that other power generators will (e.g. coal, oil, nuclear). However, as a fast-developing segment, renewables require highly skilled employees.

Entity-Specific Score (37/50)

Note: Figures are subject to rounding.

Workforce and diversity	Safety management	Customer engagement	Communities	General factors
Strong	**Good**	**Strong**	**Strong**	**None**

We anticipate that Acciona Energía's recently implemented safety measures will likely translate into further improvement of its overall safety performance, for both employees and contractors. These measures helped to improve the company's safety metrics for employees in 2020 in line with those of peers. However, prior to 2020 the long-term injury frequency rate (LTIFR) for employees was above the sector median and remains so for contractors, despite improvements over the last five years. Acciona Energía's occupational safety policy covers its employees as well as subcontractors. The company maintains the ISO 45001 (international standard) for occupational health and safety management in line with its advanced peers. It also identifies and implements measures to decrease occupational risks.

Acciona Energía proactively engages with communities in line with advanced industry practices. It manages the effects of its projects on local populations, and in doing so prevents community opposition during construction phases. It has developed its own methodology for identifying areas where implemented projects can support community development and provide necessary services. These projects are externally audited and monitored annually to verify social impacts. We believe Acciona Energía's strong supply chain management minimizes any potential human rights violations.

Acciona Energía stands out from its power generation peers, which can be exposed to aging workforce risk, in that it attracts talent of all ages. Alongside its ability to attract new talent, the company also has moderately higher gender diversity (27% versus a sector median of 23%) and its voluntary turnover rate is in line with global peers. It achieves this by implementing gender-based recruitment programs and reducing the gender pay gap. The company has a comprehensive approach to upskilling its employees with a focus on business and technical subjects. We anticipate Acciona Energía will have minimal exposure to upcoming retirements and lost skills due to its strong people management and the overall attractiveness of the renewables sector for prospective employees.

Acciona Energía has a portfolio of B2B customers (large corporates with purchase pricing agreements) that have growth prospects, and it offers value-added services to help its clients to achieve decarbonization targets. It has a strong focus on innovative and sustainable technological solutions for customers (for example, blockchain, which traces the renewable origin of electricity) and a track record of high customer satisfaction (99%).

Governance Profile

76/100

Sector/Region Score (31/35)

Acciona Energía is headquartered in Spain, a country that has a strong rule of law and institutions and relatively robust governance standards.

Entity-Specific Score (46/65)

Note: Figures are subject to rounding.

Structure and oversight	Code and values	Transparency and reporting	Financial and operational risks	General factors
Good	**Strong**	**Strong**	**Neutral**	**None**

Our Governance analysis assumes a successful IPO completion and that the governance structure and executive remunerations will be established as described in the IPO prospectus.

Acciona Energía's newly created board of directors will be very diverse in terms of gender, background, and skills, and provides continuity with the parent company Acciona S.A. with some overlap in board members. Its board will be largely independent (64%) with split CEO and chair roles. The incoming chair, Mr. Jose Manuel Entrecanales, is also Acciona S.A.'s CEO/chair and a member of the founding family, which backs the alignment between Acciona Energía and Acciona S.A. The company will have two committees: audit and sustainability; and appointments and remuneration. Both committees will be chaired by independent directors, which we see as best practice. Women will make up 45% of directors, well above Spain's average of 23%. In addition, the board will have a wide range of skills with directors' backgrounds in line with business needs and representing Acciona Energía's main markets (Spain, the U.S., and Mexico). However, our assessment is restricted by the board's absence of track record.

Acciona Energía operates under the robust values framework of Acciona S.A. The latter applies its values across its operations, with specific training for its employees and acceptance from 100% of its suppliers. It has put in place measures to mitigate risks of bribery and corruption. It has implemented a crime prevention and anti-corruption model that establishes a general control environment following international best practices. There is also a dedicated channel to allow employees, suppliers, customers, and collaborators to anonymously report any irregularities. Assuming a successful IPO completion and if the CEO's remuneration is implemented as laid out in the prospectus, Acciona Energía CEO's annual variable remuneration will be received in cash and linked to objectives set by the board. The CEO's long-term variable compensation will be received in shares (of which around 10% linked to sustainability targets such as CO2 elimination and gender diversity). We view positively the remuneration structure, which incorporates long-term incentives, including sustainability targets, as well as a lower-than-peers CEO to median employee compensation ratio.

We expect Acciona Energía's financial and nonfinancial disclosures to be timely and available publicly. More generally, we expect Acciona Energía's reporting practices will be in line with the comprehensive and robust reporting of parent, Acciona S.A. This includes disclosures under global reporting initiative standards and being audited externally. Acciona Energía has a track record of diverse financial and nonfinancial metrics that it has reported via the sustainability/integrated reports of Acciona S.A. Additionally, Acciona S.A. discloses targets and policies that cover Acciona Energía's operations and its internal carbon price and climate scenarios, which we view as advanced practice.

Preparedness Opinion

Strong
(+6)

Preparedness	Low	Emerging	Adequate	Strong	Best in class

Acciona Energía is a pure renewables player with a diversified asset portfolio in Europe, the Americas, and Australia, which makes it more resilient to disruption. We believe the planned partial IPO of Acciona Energía (currently fully owned by Acciona S.A.) will support the execution of the strategy, and will help allocate capital for future growth. By focusing on growth acceleration and widening leadership in new technologies, Acciona Energía is capitalizing on growth opportunities linked to the global energy transition, as well as favorable regulatory developments. We believe its successful track record in innovations and research collaborations in green technologies will see it remain at the forefront of the low-carbon transition.

Acciona Energía demonstrates excellent awareness of potential future disruptions and has a proactive approach to capitalizing on low carbon growth opportunities, seen in its early adoption of onshore wind farm technology in Europe. Currently, the absence of board track record limits our awareness assessment--although senior management has been leading the Acciona Energía subsidiary for more than 30 years and has deep expertise. Acciona Energía was one of the first movers in the market and its considerable experience helps it anticipate future trends. The company highlights increasing market competition, cybersecurity, and grid limitations as the main challenges for the industry. In terms of opportunities, Acciona Energía aims to double its installed capacity by 2025, focusing its capital expenditure on onshore wind and solar in its core markets (Europe, the U.S., Australia, Mexico, and Chile). In the long term, it sees opportunities in hybrid technologies (24/7 renewable platforms for example) and smart combinations of technologies such as pumped-storage hydropower and battery storage. Acciona Energía is aware that its long-term strategic strength relies on expanding its asset base into new geographies, i.e. Africa and Asia. As such, it is preparing for such projects by seeking regulatory approvals and establishing a regional presence. We believe Acciona Energía will be able to leverage its existing knowledge of emerging market penetration to achieve its ambitions.

Acciona Energía has advanced risk assessment systems inherited from its parent, Acciona S.A. The company's risk framework involves in-depth quantitative and qualitative risk analysis and risk scenarios. Cyber threats pose risks for the industry; these are constantly evolving and require strong and prompt assessment. Acciona Energía's risk management system has proven effective in its assessment and mitigation of cyber risk.

Acciona Energía's capacity to innovate and engage in diverse partnerships supports its long-term strategy. For example, it signed a joint-venture agreement with Plug Power aiming for a 20% market share of green hydrogen production in Spain and Portugal. It also collaborates with start-ups by allowing them to test new technologies and materials at its facilities. This symbiosis allows start-ups to improve their products in a real environment, while at the same time Acciona Energía gains knowledge of new technologies. Such collaborations allow Acciona Energía to leverage innovative solutions and to stay at the cutting edge of technological advancements. This is supported by its track record of being one of the first companies to commercialize new technologies such as floating solar plant, hybridization of solar panels with wind power, and using blockchain to certify renewable origin.

Finally, Acciona Energía promotes a culture of innovation across the company. We believe its extensive scientific and industry network, high level of investment in R&D, and innovation programs for employees enable it to attract and nurture talent.

Sector And Region Risk

Primary sector(s)	Power
Primary operating region(s)	Spain United States Australia Mexico Chile

Sector Risk Summary

Environmental exposure

The primary environmental risk facing power generators stems from the sector's production of GHG emissions, accounting for about 40% of global emissions (source: IEA). This implies governments are likely to increasingly regulate these emissions as they seek to stem the effects of anthropogenic climate change. The magnitude of this risk varies sharply depending on generation type, ranging from coal-fired, which faces an existential threat in many parts of the world, to renewable energy, which is seen as necessary for energy transition. The sector also faces growing risks around waste and pollution, with coal generation again highly exposed due to its creation of coal ash and particulates, both of which have come under increased regulatory scrutiny and can be costly to remediate, while nuclear generation leads to vast stores of radioactive waste that can't be easily, quickly, or inexpensively disposed; other subsectors still face pollution risks but are less exposed in the near term. Conventional generators also rely heavily on access to water as a cooling fluid. In water-stressed regions, generators may face difficulty or increased costs procuring water, especially as climate change creates longer and more severe droughts. As power generation is a broad sector grouping, certain subsectors face bespoke risks. Nuclear power is carbon-free, but carries significant low-probability, high-impact event risk that can have wide-ranging and enduring reputational consequences. The safe and permanent disposal of radioactive nuclear waste is another highly complex and difficult environmental problem yet to be solved. As for renewable projects, hydro-power may have near-zero emissions during the use phase but occupies more land than other generation types, sometimes in areas of high biodiversity. Large hydro-power plants can mean the forced resettlement of local communities. Wind and solar also occupy a significant amount of land, and, over time, will likely increasingly rely on battery technology, which creates indirect exposure to environmentally-taxing metals extraction. These projects can also create substantial non-recyclable waste at the end of their lives.

Social exposure

Safety management is a critical risk for generators; safety metrics have generally improved in the sector, but there is still exposure to financial and reputational liability stemming from workplace fatalities, as well as to major accidents, notably for coal and nuclear facilities, that spill beyond the generating facilities. These are less common but can weaken a company's social license to operate, and can damage a company's community standing. Generators sometimes face community backlash on environmental grounds, while plant closures can also be highly disruptive to communities. One of the more acute social risks that generators face relates to the workforce. As energy transition takes hold globally, and generation types transform in response to regulation, required skills will also change; consequently, generators with limited age diversity face some exposure and costs associated with reskilling workforces. Unlike regulated utilities in the U.S., the need for direct customer engagement is comparatively low, in part because generators have historically produced a commoditized product. However, as end-users increasingly vet generation for its environmental footprint, this relationship will become more central to generators' decision making. This risk could become more pronounced, too, for integrated utilities, as well as for pure generators who are acquiring retail operations. While utilities are the direct guarantors of reliability and affordability to customers, they are also unable to ensure this without strong and efficient operating performances by generators, who can often be penalized, financially, for an inability to perform.

Regional Risk Summary

Spain

Spain has a strong rule of law and institutions despite undergoing important internal political challenges including from regional independence movements. Spain's corporate governance framework for listed companies has two components: binding provisions from the company law and voluntary recommendations of the Spanish Corporate Governance Code published in 2015 by the Comisión Nacional del Mercado de Valores (CNMV), Spain's national securities commission. In January 2020 the CNMV started to review the code, proposing amendments to executive pay, voting rights, and increasing gender quotas on boards to 40% from 30%--all on a comply-or-explain basis only. The code followed significant legal reforms such as the Law 31/2014, which included binding votes on remuneration policy, stricter regulations on directors' classifications, and new ownership thresholds for shareholders' rights. By law, Spanish boards must establish committees for audits, remuneration, and nominations. Companies must disclose an annual corporate governance report. While the stock exchange does not have specific ESG requirements in its listing rules, companies of over 500 employees are implementing the EU Non-Financial Reporting Directive's recommendations, which mandate disclosing ESG (including diversity) risk.

United States

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations and social indicators. Income inequality is higher than in other OECD countries and has been so for over a century. Social services are similarly less generous than in most wealthy countries. Governance is characterized by a very stable political system, strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally high. The U.S. follows a rules-based approach to corporate governance focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. State corporate law is also a key source of corporate governance, particularly Delaware where over half over all U.S. listed companies and close to 70% of Fortune 500 companies are incorporated. Exchanges mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors and have separate remuneration and nomination committees. However, formal requirements on ESG reporting are not as established as they are in European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular. This can undermine management oversight. Remuneration continues to be a contentious point, because U.S. executive pay dwarves global pay levels. The CEO-to-worker pay ratio is ever-increasing, leading to social tensions and shareholder criticism.

Australia

A strong rule of law and regulatory oversight ensures Australia's high corporate governance standards, evidenced by its focus on compliance and accountability. The Hayne Royal

Commission into the financial sector found lapses in governance and risk management and effectiveness of financial regulation. Despite this, governance standards remain strong by global standards. Besides extensive regulations, namely from the Corporations Act and the listing rules of the Australian Stock Exchange (ASX), companies have largely accepted the non-binding principles approach to governance defined in the ASX Corporate Governance Principles. The fourth edition of these principles became applicable on Jan. 1, 2020, on a comply-or-explain basis. They particularly focus on director accountability and set a target of 30% female board members for ASX 300 companies. Private and public sector corruption levels are low. Australia ranks 12 on the Transparency International 2019 Corruption Perceptions Index.

Mexico

Mexico's public institutions suffer from shortcomings that limit their effectiveness in providing basic public services, ranging from law and order to contract enforcement to proper regulation and supervision. High levels of violence and perceived corruption increase the risks of doing business.Despite regular elections and changes of government, the quality of governance has remained poor, contributing to the country's weak GDP growth in recent years. Mexico has comparatively high levels of perceived corruption, ranking 130 out 180 on the Transparency International 2019 Corruption Perceptions Index. More than half the workforce is in the informal sector, with low wages and few social benefits. The poverty rate has remained high despite a stable economy with low inflation. Mexican politics has been divisive, reflecting social gaps and divisions. Despite significant governance improvements enacted in the Capital Markets Law, dual-class share structures, cross-holdings, and pyramidal structures are common and often to the detriment of minority shareholders rights. Local retirement fund administrators have been a strong proponent of better governance practices. In 2018, the pension regulator, Comisión Nacional del Sistema de Ahorro para el Retiro, published guidelines for funds to explicitly integrate ESG in their investment processes.

Chile

Chile is one of South America's most stable and prosperous economies with strong political consensus on key economic policies. It enjoys good rule of law and high institutional effectiveness. It is one of only two South American members of the OECD following a two-year compliance period with the organization's mandate. Corporate governance reforms tend to be driven by regulatory initiatives. There is no corporate governance code but various laws and regulations outline governance rules (e.g. The Corporations Act). Chile's Comisión para el Mercado Financiero is the main regulator. In 2015, it instituted the disclosure of information regarding corporate governance standards on a comply-or-explain basis. However, governance requirements still lag behind international markets. Ownership concentration is high and pyramidal ownership structures common. Regulations require local pension funds (Administradoras de Fondos de Pensiones [AFPs]) to consider governance when making investment decisions and be active owners. Over the years, AFPs have helped improve governance practices. Chile ranks much better than other Latin American countries on corruption at 26 out of 180 on the Transparency International 2019 Corruption Perceptions Index.

Related Research

- "The ESG Risk Atlas: Sector And Regional Rationales And Scores," published July 22, 2020
- "Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide," published July 22, 2020
- "Environmental, Social, And Governance Evaluation: Analytical Approach," published December 15, 2020
- "How We Apply Our ESG Evaluation Analytical Approach: Part 2," published June 17, 2020

This report does not constitute a rating action.