

S&P Global Ratings

An S&P Global Second Party Opinion (SPO) includes S&P Global Ratings' opinion on whether the documentation of a sustainable finance instrument, framework, or program, or a financing transaction aligns with certain third-party published sustainable finance principles. Certain SPOs may also provide our opinion on how the issuer's most material sustainability factors are addressed by the financing. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings. See [Analytical Approach: Second Party Opinions](#).

Second Party Opinion

Aragon's Sociedad Concesionaria Itinerario Jacetania Alto Gallego (Route 5) Social Loan

Sept. 3, 2024

Primary contact

Raquel Rodrigues
Madrid
+34 914 233 222
Raquel.Rodrigues
@spglobal.com

Location: Spain

Sector: International public finance

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Loan Principles, LMA/LSTA/APLMA, 2023

See [Alignment Assessment](#) for more detail.

Strengths

The road infrastructure improvement project addresses connectivity and road safety issues in Aragon. In this region, more than half of the populated areas have transport accessibility issues. Aragon's Extraordinary Road Investment Plan aims to connect isolated rural communities and facilitate their access to essential services by improving and modernizing the road network, which is the region's main transportation infrastructure. Aragon also shows worse road safety indicators than the national average. Therefore, this project is also relevant because it aims to improve roads that are not consistent with safety regulations.

Weaknesses

No weaknesses to report.

Areas to watch

Land expropriation is needed to facilitate road works, though we understand this will be limited and negative social impacts contained. As we understand, population density around the construction area is low. Therefore, this project will not require relocations of the local population. We note some uncertainty regarding potential disruptions to the local population, depending on the execution of the expropriation, and the ultimate impact on local communities. However, the expropriations are regulated under the concession agreement.

The road infrastructure project may add to the region's greenhouse gas emissions. The road infrastructure and construction works can contribute to high emissions from fossil-fuel powered vehicles and high embodied emissions in materials used.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing transaction within its overall strategy.

Entity Description

Sociedad Concesionaria Itinerario Jacetania Alto Gallego SA (the project company) is a special purpose vehicle set up to design, finance, construct, and operate Route 5 Jacetania - Alto Gallego in Aragon under a concession agreement. The Route 5 project is part of Aragon's Extraordinary Road Investment Plan for 2020-2025. The project company is owned by Aceinsa (30%), Acinser (30%), Extraco (15%), Misturas (15%), and Transfer (10%). The government of the Autonomous Community of Aragon granted the administration of the project to Sociedad Concesionaria Itinerario Jacetania Alto Gallego.

Located in northeastern Spain, Aragon covers a surface area of 47,720 square kilometers (km), and has a population of approximately 1.35 million people, about 3% of the national population. Aragon has diverse landscapes, including the Pyrenees mountains in the north, and the Ebro Valley, known for its agriculture. Aragon's urban network includes its three main provincial capitals: Zaragoza, Huesca, and Teruel.

Aragon's economy relies more on the manufacturing sectors (especially the motor vehicle industry) and agriculture than other Spanish regions. The region is also host to significant renewable energy capacity, particularly from wind and solar. Aragon's GDP per capita is one of the highest in Spain, after increasing to 110% of the national average in 2022 from 104% in 2000. Yet, the region's GDP of €41.76 billion in 2022 represents about 3% of the national GDP, ranking it at No. 10 among Spain's 17 autonomous regions according to Spain's National Statistics Institute.

Material Sustainability Factors

Social risks

Governments play a crucial role in ensuring the development of society and economy. Depending on national and local socioeconomic circumstances, governments can prioritize issues of economic advancement, poverty, hunger, reducing inequality, access to essential services or infrastructure, access to clean water and sanitation, or other social goals.

Aragon's GDP per capita (€31,051) is one of the highest in the country and 13.4% above the Spanish average. The region's relative position has improved in recent years, due to economic growth and, above all, low population. However, the latter is an issue for the region, particularly in rural areas, due to a decline in younger habitants and consequently a higher average age. This forces schools to close and makes these areas less attractive to young people. An aging population also means higher health care needs. However, since for more than half of Aragon, accessibility is problematic, making it difficult for the population to access essential services. It also limits economic opportunities and the availability of services, which affects the cohesion of the region. Moreover, road safety is critical because Aragon's death rate due to road accidents is 55% higher than the national average.

Local communities could be disrupted by road infrastructure construction, particularly in cases of redevelopment. Implementing the plan may include demolition of structures and temporary service interruptions for essential utilities and existing transport routes. Aragon's road plan includes solutions for road traffic during the construction work. During operation, projects may cause hinderance to communities, notably due to noise pollution. On the other hand, projects may also improve or extend services for certain communities, bolstering economic productivity. However, these may still face local opposition if benefits or compensation are not sufficiently balanced.

Positively, Aragon displays the third lowest risk of poverty across Spain, at 19.2% versus the 26% national average. In addition, its unemployment rate, 8.7% in 2023, is much lower than the national average (13.38%) and only slightly higher than the 6% EU average.

Environmental risks

Physical climate risks can affect many economic activities unless there are adaptation measures, and could disrupt or hinder the availability of essential infrastructure such as roads. If greenhouse gas emissions increase unabated, this will lead to more frequent and severe climate hazards. In Aragon, the length and frequency of droughts are expected to increase. Historically, the most extreme weather events in the region have been heatwaves, droughts, floods, and snowstorms.

Moreover, rising temperatures will have a major impact on agriculture, water resources, and ecosystems. The project company is also subject to climate transition risk, since the road's construction also entails emissions from fossil-fuel-powered vehicles and the use of materials with high embodied emissions. Policymakers have a key role in achieving the drastic cuts in greenhouse gas emissions needed to address climate change.

Although the large number of signatories to the 2015 Paris Agreement provides a basis for global action, current climate pledges fall significantly short of the reductions needed to reach net zero emissions by 2050. Spain, which is responsible for 9% of the EU's total greenhouse gas emissions, has significantly increased its energy transition ambition, moving from a 2020 target of 20% renewable energy in the energy mix to a 2030 target of 42%, in line with the European Green Deal. In 2022, Aragon's emissions accounted for 4.9% of the country's total emissions.

Issuer And Context Analysis

Aragon's investment in Route 5 Jacetania Alto Gallego, under Aragon's Extraordinary Road Investment Plan for 2020-2025, aims to improve the connectivity of the region's rural isolated communities, supporting the region's cohesion, while enhancing road safety. The government of Aragon created this plan to address deficiencies of the region's road network.

The plan encompasses a series of investments in a total of 10 routes that comprise one or several road sections. The plan aims to improve and modernize 1,769 km of Aragon's road network and to maintain the routes for 25 years after signing the concession agreement.

The road network is the main transport infrastructure in Aragon; therefore, its improvement will reduce the number of isolated areas in the region. Road infrastructure is important for mobility of people. However, Aragon's sustainable development strategy, published in 2018, shows that more than half of Aragon's populated areas (54.08%) have problems in this area. On average, each area has about 30 inhabitants and, combined, represent about 2% of Aragon's population. However, poor connectivity has led to the depopulation of the region. There is a high concentration of the population, since about 73% live in 4% of the region, while approximately 11% of the population is spread over 85%. The 10 routes will connect isolated rural communities and facilitate their access to essential services. This investment is aligned with the government's plan to support the UN's Sustainable Development Goal (SDG) 9.1: "develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all." Road infrastructure also plays an important role in the movement of goods. This is particularly important in Aragon because it exports more to other countries (38%) than the national average (26%).

The Extraordinary Investment Plan aims to improve road safety conditions, which is important due to higher road accident fatalities in Aragon than the Spanish and European average.

According to Spain's National Statistics Institute, Aragon's fatality rate from injuries due to road traffic accidents (5.88 per 100,000 inhabitants) are higher than Spain's (3.8) and the EU's (4.6) as of 2022. The plan aims to improve roads that are not consistent with safety regulations in the sections of routes where accidents are concentrated and where the passage of roads through

urban areas can constitute a risk for citizens. Aragon's government commits to supporting the UN's SDG 3.6 "by 2030, halve the number of global deaths and injuries from road traffic accidents" with respect to 2019.

Investments in the road infrastructure are susceptible to acute physical risks, such as droughts, heatwaves, floods, and snowstorms, which have been prevalent in Aragon. These climate events can damage or destroy the road infrastructure, limiting availability to road users and the population's access to essential services and goods. The road construction will be aligned with local regulations, but a specific screening to identify physical climate risks using climate scenarios and the materiality impact of such risks has not been conducted.

The road infrastructure project can contribute to high emissions. These would likely stem from fossil-fuel-powered vehicles and materials used during the road works.

Alignment Assessment

This section provides an analysis of the financing transaction 's alignment to the Social Loan principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

The issuer will use the net loan proceeds exclusively to finance the construction of Route 5 Jacetania-Alto Gallego, under Aragon's Extraordinary Road Investment Plan for 2020-2025. The goal of the project is to enhance the network capacity of existing roads, promote economic development, increase employment generation within Aragon, and improve connectivity. Maintenance and conservation of the road are expected to allow traffic flow under conditions of safety, quality, and adequate service, as well as preserve the road's heritage. Please see the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds.

✓ Process for project evaluation and selection

The government of Aragon, as a part of its Extraordinary Road Plan, aims to finance construction and operation of Route 5 Jacetania-Alto Gallego through Sociedad Concesionaria Itinerario Jacetania Alto Gallego, to renovate and improve the road network in Aragon to boost connectivity and enhance road safety. The loan documentation refers to the fulfillment of the Equator Principles, a financial industry benchmark, to identify, evaluate, and manage environmental and social risks linked to the project. Furthermore, during the construction period, on a quarterly basis, the issuer will report on progress of the construction along with the degree of compliance with the Equator Principles. Additionally, an environmental impact assessment has been conducted to manage environmental risks associated with the project.

✓ Management of proceeds

The project company commits to placing the proceeds of the social loan in a dedicated account and earmark them for use on Route 5 Jacetania-Alto Gallego. The loan proceeds will be drawn in stages throughout the construction phase (2.5 years) and be fully used during that time frame, or by the maturity date of the social loan. Therefore, there will be no temporary investments of unallocated proceeds.

✓ Reporting

The project company commits to producing a progress report on a quarterly basis throughout the construction period. On an annual basis, the project company will also produce an allocation report confirming that the use of proceeds conforms with the social loan principles and the impact achieved for the target population. In the event that the issuer is unable to fulfil its reporting commitments, the loan would lose the social label. As is customary in project finance transactions, a technical advisor will review the construction and operating reports. Furthermore, the impact report will include information on the number of people in the target population that benefited from the project and number of local jobs created.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

According to the loan agreement, the project company will allocate 100% of the loan proceeds to design, finance, and construct Route 5 under a concession agreement. The concession was awarded to the project company by the Regional Ministry of Territorial Planning, Housing, and Mobility of Aragon.

Social project categories

Affordable basic infrastructure – Route 5, the Jacetania to Alto Gallego route

The 25-year concession consists of the construction and operation of Route 5 Jacetania-Alto Gallego (comprising 136 km), as part of the Aragon's Extraordinary Road Investment Plan for 2020-2025. The works of the project are planned to start in July 2024 and are expected to be completed within 30 months, with an estimated date of December 2026/January 2027.

Analytical considerations

- The social project is specific to Route 5 of Aragon's Extraordinary Road Investment Plan for 2020-2025. Route 5, the Jacetania to Alto Gallego route, encompasses three roads of the region's "basic road network", defined as roads that connect with the neighboring autonomous communities or with France; all in Huesca province. The roads will serve the inhabitants of the province of Huesca in Aragon, in particular the inhabitants of isolated villages and communities around and connected by Route 5. The roads will be free of charge to road users, ensuring the affordability of the project to the local population.
- The Plan aims to improve the network capacity of existing roads and improve connectivity. 54.21% of the region's settlements have "problematic accessibility," according to Aragon's sustainable development strategy, released in 2018. Approximately 2% of Aragon's population live in these communities. The road network is important for connectivity in Aragon due to the lack of complementary transport infrastructure in some areas and obstacles for building one. For instance, the geological characteristics of the region, which encompasses the mountainous area of Pirineos, makes it challenging to build other types of transport infrastructure, such as railways. Route 5 will enable better access to 13 health facilities and education centers in the region, most of which are in the surrounding areas of Zaragoza. Therefore, the project will also help improve access to essential services.
- Through refurbishment of parts of the road network that are not consistent with safety regulations, the project aims to improve travel conditions in the region. We consider this relevant because Aragon has one of the highest death rates from road traffic accidents in Spain. Data from Spain's National Statistics Institute shows that, in 2022, Huesca had a mortality rate from road accidents of 8.8 per 100,000 habitants, more than twice the national average of 3.8.

Second Party Opinion: Aragon's Sociedad Concesionaria Itinerario Jacetania Alto Gallego (Route 5) Social Loan

- Other social benefits from this project include supporting the local economy and providing local jobs. The construction and maintenance of the road will be carried out by local contractors, since the concession agreement requires that sponsors have at least 10% of local shareholding. Some of the works will be carried out by locals, supporting local employment.
- Solutions for preventing occupational health and safety risks during the construction and conservation and maintenance work will be included in the approved construction projects. The construction contractor will need to develop a health and safety plan that must be approved by the concessionaire.
- Compulsory purchase or expropriation of land will be required to execute the project, due to the justified grounds of public interest, and owners affected are to receive compensation. Expropriations in Spain are regulated by the Spanish Civil Code, the Compulsory Purchase Law, and the Land Act. The issuer has stated that the negative impact on local populations is expected to be limited because there will be no relocation of people, since the construction works will be performed in areas where no people live or where the population is very low. However, the overall social impact remains unclear given the lack of an independent social impact assessment.
- Even though this does not influence our social impact analysis, we note the risk of emissions from fossil-fuel-powered vehicles on road infrastructure projects and the impacts on pollution. In addition, the construction of roads and stations might require the use of materials carrying high embodied emissions, such as cement, which can contribute to land use and biodiversity risks. The plan does not include an assessment of physical climate risks, but it will follow local regulations.

Related Research

- [Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023](#)
- [FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023](#)
- [Analytical Approach: Shades of Green Assessments, July 27, 2023](#)
- [S&P Global Ratings ESG Materiality Maps, July 20, 2022](#)

Analytical Contacts

Primary contact

Raquel Rodrigues
Madrid
+34 914 233 222
Raquel.Rodrigues
@spglobal.com

Secondary contacts

Irina Velieva
Stockholm
+46 70 957 07 31
Irina.Velieva
@spglobal.com

Francesca Pisaroni
Milan
+39 347 242 7606
Francesca.Pisaroni
@spglobal.com

Luisina Berberian
Madrid
+34 666 584 462
Luisina.berberian
@spglobal.com

Research contributor

Sreenidhi Hegde
Pune

Second Party Opinion: Aragon's Sociedad Concesionaria Itinerario Jacetania Alto Gallego (Route 5) Social Loan

Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P) receives compensation for the provision of the Second Party Opinions product (Product). S&P may also receive compensation for rating the transactions covered by the Product or for rating the issuer of the transactions covered by the Product. The purchaser of the Product may be the issuer.

The Product is not a credit rating, and does not consider credit quality or factor into our credit ratings. The Product does not consider, state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product encompasses Use of Proceeds Second Party Opinions and Sustainability-Linked Second Party Opinions. An S&P Global Use of Proceeds Second Party Opinion provides an opinion on an issuer's sustainable finance instrument, program, or framework, and considers the financing in the context of the issuer's most material sustainability factors, the issuer's management of additional sustainability factors relevant to the sustainable financing, and provides an opinion regarding alignment with certain third-party published sustainable finance principles ("Principles"). An S&P Global Ratings Sustainability-Linked Second Party Opinion considers features of a financing transaction and/or financing framework and provides an opinion regarding alignment with relevant Principles. For a list of the Principles addressed by the Product, see the Analytical Approach, available at www.spglobal.com. The Product is a statement of opinion and is neither a verification nor a certification. The Product is a point in time evaluation reflecting the information provided to us at the time that the Product was created and published, and is not surveilled. The Product is not a research report and is not intended as such. S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P and any third-party providers, as well as their directors, officers, shareholders, employees, or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness, or availability of the Product. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for reliance on use of information in the Product, or for the security or maintenance of any information transmitted via the Internet, or for the accuracy of the information in the Product. The Product is provided on an "AS IS" basis. S&P PARTIES MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDED BUT NOT LIMITED TO, THE ACCURACY, RESULTS, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE PRODUCT, OR FOR THE SECURITY OF THE WEBSITE FROM WHICH THE PRODUCT IS ACCESSED. S&P Parties have no responsibility to maintain or update the Product or to supply any corrections, updates, or releases in connection therewith. S&P Parties have no liability for the accuracy, timeliness, reliability, performance, continued availability, completeness or delays, omissions, or interruptions in the delivery of the Product.

To the extent permitted by law, in no event shall the S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence, loss of data, cost of substitute materials, cost of capital, or claims of any third party) in connection with any use of the Product even if advised of the possibility of such damages.

S&P maintains a separation between commercial and analytic activities. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

For PRC only: Any "Second Party Opinions" or "assessment" assigned by S&P Global Ratings: (a) does not constitute a credit rating, rating, sustainable financing framework verification, assessment, certification or evaluation as required under any relevant PRC laws or regulations, and (b) cannot be included in any offering memorandum, circular, prospectus, registration documents or any other document submitted to PRC authorities or to otherwise satisfy any PRC regulatory purposes; and (c) is not intended for use within the PRC for any purpose which is not permitted under relevant PRC laws or regulations. For the purpose of this section, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

For India only: Any "Second Party Opinions" or "assessments" assigned by S&P Global Ratings to issuers or securities listed in the Indian securities market are not intended to be and shall not be relied upon or used by any users located in India.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.