TCI Fund Management Limited

Mr Maurici Lucena
Chief Executive Officer
Aena SME S.A.
Arturo Soria 109
28043 Madrid, Spain

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Dear Maurici,

## Carbon Emissions Disclosure

TCI Fund Management Limited manages over $30 billion across a range of asset classes. Since inception of the business over 15 years ago, cumulative investment returns have substantially outperformed equity index benchmarks.

TCI is a major shareholder in Aena with a physical holding of around 4%.

**Investment approach and engagement**

As part of our investment process we assess a range of ESG factors, particularly climate change risk.

TCI believes that climate change-related risks, in particular a company's greenhouse gas (GHG) emissions, will have a material effect on a company's long-term profitability, sustainability and investor returns. These risks include regulation, taxation, competitive disadvantage, brand impairment, financing, physical asset impairment and litigation.

We actively engage on ESG to help us understand, quantify and influence a company's exposure to climate change-related risks and the way it is managing those risks.

**Emissions disclosure**

We require companies in which we invest to make appropriate and timely public disclosure of carbon and other GHG emissions. Such disclosure should include targets for emissions intensity reduction and absolute level reduction.

TCI fully supports compulsory disclosure on a standardised basis and the use of the Task Force on Climate–related Financial Disclosure (TCFD) reporting framework (www.tcfdhub.org).

In our view, reporting to CDP (www.CDP.net) is the best way to implement TCFD. **We expect all our portfolio companies to make full annual public disclosure to CDP.**

## Low-Carbon Transition Plans

We expect companies in which we invest to have a credible, publicly-disclosed plan to reduce GHG emissions. This plan should include measurable science-based targets that align with the Paris Agreement, which requires full de-carbonisation of economies (net zero emissions) by 2050.

Actions that should be included in a low-carbon transition plan are to:

1. Change business processes to reduce the company's carbon footprint;
2. Introduce efficient energy management into buildings and factories;
3. Source low carbon energy through direct generation or power purchase agreements;
4. De-carbonise transport fleets, e.g. through electric vehicles;
5. Offset emissions from corporate travel, e.g. through afforestation;
6. De-carbonise supply chains and helping customers lower their carbon intensity;
7. Advocate for regulations which drive the de-carbonisation of their industry to ensure its sustainability.

## Voting

1. **We will typically vote against all directors of companies which do not publicly disclose their emissions and do not have a credible plan for their reduction.**
2. **We will also vote against auditors where the Annual Report and Accounts fail to report material climate risks.**

## Divestment

We will also evaluate divestment where a portfolio company refuses to disclose its emissions and does not have a credible plan for their reduction.

## Aena disclosure to CDP

We are pleased to see that Aena has provided disclosure to CDP for 2018 and 2019 and we have carefully analysed these submissions. **For 2018, CDP awarded Aena an overall B grade,** in-line with CDP's rating for ADP and better than Fraport's C grade.

In our view, while Aena's environmental systems and reporting are relatively strong, the company should be achieving an A grade rating, which represents best practice environmental stewardship and disclosure. (Please see the Appendix for guidance on how to become A grade).

## Aena shortcomings and TCI requirements

There are several shortcomings in Aena's climate-related initiatives and disclosures and initiatives:

1. Aena should implement best practices for the sourcing and management of and achieve 100% renewable sources for purchased and consumed electricity by 2030. Aena has a large amount of

land and solar is efficient in Spain, so Aena has the potential to sustainably reduce its electricity bill if it moves to an all renewable strategy for electricity procurement. Aena should also join the RE100 initiative which commits participating companies to procure 100% of their electricity consumption from renewable sources;

2. Aena should develop a low carbon transition plan incorporating climate scenario analysis based on the approach advocated by CDP and the Science-based target Initiative (SBTI) would provide a more rigorous framework for target setting across all business segments. We therefore, recommend working closely with SBTI to monitor and certify the achievement of emission reduction targets

3. Changes to the EU emissions trading scheme (ETS) in 2021 will impact the transport sector, with implications for profitability across the supply chain. Aena should continue to disclose to its shareholders and CDP the actual and expected financial cost of carbon pricing schemes on the company, and how you intend to manage these costs;

4. Senior management and staff should be incentivised to deliver emissions reduction targets on a timely basis with a meaningful percentage of incentive compensation tied to these targets. Consideration should be given to broadening the scope and scale of the targets and incentives.

**Advocating for necessary regulatory changes to de-carbonise aviation**

De-carbonising aviation is a massive challenge and Aena has an important leadership role to play in advocating with regulators and politicians.

Alongside current technological developments in aircraft engine efficiency and airframe design, the development and adoption of low-carbon fuels is particularly important. Aena should be advocating for internationally coordinated regulation and/or carbon pricing through the introduction of:

- A carbon tax on aviation fuel which grows progressively and predictably;
- A "green fuel" mandate that specifies a gradually increasing percentage (to 100% by 2050) of aviation fuel that must be sourced from zero carbon sustainable sources;
- Strict standards and regulatory safeguards to ensure low carbon fuels are truly sustainable;
- Specific aviation sector incentives to ensure greater use of low carbon fuels, in preference to other sectors of the economy where de-carbonisation can be achieved by other means (e.g. autos moving directly to electric vehicles).

Currently, the penalties, taxes and mandates are insufficient to encourage airlines and fuel companies to seriously invest in the production of, and purchase of, alternative fuels. However, it is only a matter of time before tougher regulation is imposed to force the use of alternative fuels.

**It will require all aviation stakeholders to work together and coordinate such initiatives. We recognise that this may create conflicts of interest, however, the alternative is for regulation to be imposed on the industry, including potential bans on old aircraft in certain regions.** Currently, nine EU countries are lobbying the European Commission to introduce a carbon tax on air travel.

Aena must also advocate for greater efficiency of air traffic management (ATM), which in turn will reduce emissions:

- Improving runway throughput via the ATM research programme SESAR;
- Reducing runway occupancy time (ROT) via the SESAR Enhanced Runway Throughput project;
- Reduce aircraft holding times and aircraft separation prior to landing using the Eurocontrol's LORD tool (a recent simulation at Zurich airport showed a 14% increase in runway throughput);
- Mandatory introduction of electric taxiing (being researched by Airbus and Safran).

ATM data and associated emissions should be disclosed.

We appreciate the time and effort Aena is making to de-carbonise its business, although there is much more work to be done. We found the discussion with your team very helpful and we look forward to continuing the dialogue.

Yours sincerely,

Chris Hohn

Philip Green

Jonathan Amouyal

## Appendix - How to become an A grade company in the CDP Climate Change Program

An "A grade" is the highest overall CDP score achievable and demonstrates a company's:

- Strong industry leadership on environmental actions and stewardship;
- Thorough understanding of the risks and opportunities related to climate change;
- Alignment with TCFD disclosure recommendations.

CDP uses its scoring methodologies to incentivise companies to measure and manage environmental impacts through participation in CDP's climate change, water, forests and supply chain programs. Scoring provides a roadmap for companies to achieve best practice.

Companies are assessed and scored across four consecutive levels, as the company moves towards strong environmental stewardship. Minimum scores must be achieved in order to move to the next level. Inclusion on CDP's A grade list requires a high leadership score.

The levels are:

1. Disclosure – every question is scored for quality and depth of disclosure, e.g. emissions, targets, environmental impact, strategy, governance, engagement;
2. Awareness – depth of analysis and understanding on how environmental issues affect the business;
3. Management – Evidence of actions taken to address environmental issues;
4. Leadership – Actions represent best practice as formulated by organizations working with CDP to advance environmental stewardship (e.g. Science Based Target initiative, CEO water mandate, CERES, WWF).

**Help and guidance**

CDP documents available to companies on the CDP website:

1. Scoring Introduction 2019
2. Climate Change 2019: General Scoring methodology Category Weightings

Specific guidance can be obtained from the **CDP Reporter Services Group**, for example, on how to improve the quality of disclosure and the actions required to demonstrate improvement.