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## Second Party Opinion

# Mota-Engil SGPS Sustainability-Linked Notes

Dec. 28, 2023

Editor's note: This SPO report is based on S&P Global Ratings' "[Analytical Approach: Second Party Opinions and Transaction Evaluations](#)" dated Dec. 7, 2022, which was partly superseded by S&P Global Ratings' "[Analytical Approach: Second Party Opinions: Use of Proceeds](#)," dated Jul. 27, 2023, following the launch of our integrated use-of-proceeds SPOs.

Mota-Engil, headquartered in Portugal, is a multinational engineering and construction company operating mainly in the infrastructure sector. In 2022, the company derived its €3.8 billion of revenue from its five main business segments: Europe - E&C (Engineering and Construction); Africa - E&C; Latin America - E&C; Environment; and Capital. Mota-Engil operates in 20 countries across Europe, Africa, and Latin America, and has more than 44,000 employees.

In our view, Mota-Engil SGPS Sustainability-Linked Notes issued on Dec. 11, 2023, are aligned with:

 Sustainability-Linked Bond Principles, ICMA, 2023

## Issuer's Sustainability Objectives

Mota-Engil's strategic plan for 2022-2026 includes sustainability and innovation as one of its five axes, which is in alignment with the U.N.'s 2030 Agenda for Sustainable Development and Sustainable Development Goals (SDGs). In May 2023, Mota-Engil concluded its double materiality exercise, which indicated that local employment creation and skills development, health and safety at work, and energy and climate change were the topics with the most significant financial and impact materiality. Mota-Engil has focused on safety to promote the well-being and productivity of its workforce and reduce the frequency and cost of occupational illnesses and workplace absence. The company identified the E&C segment as one where workplace safety is particularly relevant. The company aims to further align its funding strategy with its commitment to improve workplace safety, through its fourth sustainability-linked issuance. In line with this goal, the company established a target to reduce its lost time injury frequency rate (LTIFR) among workers in the E&C segment to 2.76 by Dec. 31, 2026, from 4.39 in 2022 (baseline year).

## Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

KPI	SPT	Baseline	2022 performance
Lost time injury frequency rate (LTIFR)	Reduce LTIFR to 2.76 by Dec. 31, 2026	4.39 (2022)	4.39

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# Second Party Opinion Summary

## Selection of key performance indicators (KPIs)

**Alignment**  Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.


**KPI 1** Lost time injury frequency rate (LTIFR) Not aligned **Aligned** Strong Advanced

## Calibration of sustainability performance targets (SPTs)

**Alignment**  Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.


**SPT 1** Reduce LTIFR to 2.76 by Dec. 31, 2026, from 4.39 in 2022 (the baseline year) for employees in E&C business. Not aligned Aligned **Strong** Advanced

## Instrument characteristics

**Alignment**  Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.

Issuance will be subject to an additional amount of €2.50 per note (corresponding to 25 basis points or 0.25% additional interest on the coupon), payable by Mota-Engil on maturity date, triggered by a failure to reach the SPT on the observation date of Dec. 31, 2026. The confirmation that the issuer has reached the SPT will be assured by an independent external verification statement, and published on the issuer's website, by June 30, 2027.


## Reporting

**Alignment**  Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.

**Score** Not aligned **Aligned** Strong Advanced

Mota-Engil's sustainability report, published annually, will include information relevant to the analysis of the KPI, and the company's performance toward achieving the SPT. This information will be subject to independent external verification.

## Post-issuance review


**Alignment**  Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.

Mota-Engil is committed to having its performance against the selected KPI verified annually by an independent third party, as required by the Sustainability-Linked Bond Principles.

# Transaction Assessment

## Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer’s sustainability disclosures; and how material it is to the issuer’s industry and strategy.

 Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.

**KPI 1**    Lost time injury frequency rate (LTIFR)    Not aligned    **Aligned**    Strong    Advanced

We consider the selected KPI to be aligned, given that the scope, objective, and calculation methodology are clearly articulated in the framework. The KPI addresses a highly relevant matter for the E&C sector, workplace safety, which is also embedded in the company’s sustainability strategy. The KPI’s scope is clearly defined as the company’s employees belonging to the E&C business segment only. Mota-Engil aims to increase workforce well-being, productivity, and motivation, while reducing work-related injuries and absenteeism. The LTIFR per 1 million hours worked is an International Labour Organization (ILO) indicator, which we view positively because it allows for external benchmarking.


The KPI’s scope is limited to employees in the E&C business segment. While E&C accounts for most of the company’s revenue and hours worked in 2022 (84% and 70%, respectively), it only accounts for 38% of lost time incidents (2022). We view the exclusion of the environment segment, which accounted for 65% of incidents, as a limiting factor. The issuer excludes this segment because employees there are most exposed to risks related to traffic and other external factors not controlled directly by the company but still contributing to lost-time incidents. Excluding this segment limits our assessment to aligned, because they are material to the company in terms of workplace safety. Nonetheless, we note that the company plans to set specific corporate targets adjusted to each business segment in the future, to increase transparency regarding its commitment to improve across all areas of activity.

Our assessment is also constrained by the fact that the KPI excludes subcontractors, on which the E&C industry tends to have a high reliance, and that the company does not consistently track subcontractor data. Moreover, we note that the scope of the selected KPI excludes fatal accidents, and that in 2022, four fatal accidents occurred within Mota-Engil’s E&C department.

Finally, the KPI is linked to safety management, one of the most relevant and pressing sustainability issues facing the E&C industry (see "Key Sustainability Factors: Capital Goods," published May 11, 2021, on RatingsDirect).

## Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

 Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.

**SPT 1**    Reduce LTIFR to 2.76 by Dec. 31, 2026, from 4.39 in 2022 (the baseline year) for employees in E&C    Not aligned    Aligned    **Strong**    Advanced

## Second Party Opinion

Year	Baseline			2026
	2020	2021	2022	
LTIFR	5.51	4.55	4.39	2.76
				Equivalent to 37% reduction

The prospectus clearly outlines the SPT, including the timeline for target achievement, the expected observation date, and the trigger event. The SPT's observation date is Dec. 31, 2026, and will consider the LTIFR for that year. The SPT is to reduce the LTIFR to 2.76 by that date from the baseline of 4.39 in 2022. We note that the issuer identifies external factors beyond its control that may affect the SPT, such as natural disasters or road accidents caused by third parties, as required by the Principles.

When setting the level of ambition for the SPT selected, Mota-Engil conducted a benchmarking exercise considering 16 global peers in the infrastructure industry. The exercise provides information on how the issuer's target compares with those of peers, and peers' historical performance on the metric. Peers selected for the benchmarking exercise are in our view comparable with Mota-Engil in terms of business model and geographical footprint. Out of the 16 peers selected, 14 companies were part of the Global Powers of Construction 2022 study, prepared by Deloitte.

The peer benchmarking exercise indicates that the issuer's SPT is within range of sector peers' performance, considering the context in which the company operates. In particular, Mota-Engil is expanding significantly in Latin America and Africa, areas that represent an additional effort for the issuer to improve its LTIFR, given that the safety culture in these regions is not as strong as in Europe. While Europe represented 22% of Mota-Engil's E&C turnover in the first half of 2022, it has decreased to 13% in the first half of 2023. This compares with growth in Africa of 50% and Latin American turnover growth of 208%. We note that in 2022, the LTIFR in Europe (19.57) was higher than in Latin America (4.15) and Africa (2.08). According to the issuer, Portugal contributed 72% of turnover within E&C Europe in 2022 and the high LTIFR reflects the cultural and legislative environment in this region, in which lost time due to occupational injuries is more likely to be recorded.

The SPT is also benchmarked against three years of Mota-Engil's performance, from 2020 to 2022, and the target in 2026 is slightly more ambitious than the historical performance (average decrease of 10.47% versus the future targeted average decrease of 10.95% between the baseline and 2026). We view positively that the historical data, including the baseline year, has been externally verified. Mota-Engil has been publishing its performance on this KPI publicly, within its sustainability report, since 2020.


To meet its target, in 2019 Mota-Engil started incorporating a global certification process (ISO 9001, 14001, and 45001) across all companies with active E&C projects and currently the majority of companies in Latin America, Europe, and Africa are certified according to these three standards.

The company aims to have a single integrated management system at the group level by 2026, including all business units, while also taking into consideration specificities of each country where it operates. Mota-Engil is also focusing on digitalizing processes and safety information, to enable analysis of trends and more effective data tracking. Furthermore, the company is enhancing the promotion of its golden safety rules, a set of guidelines aiming to reinforce and improve safety, through promoting training and awareness campaigns, including videos and brochures, targeted at its employees and subcontractors.

## Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

## Second Party Opinion

 Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.


Mota-Engil discloses under its sustainability-linked notes prospectus that the issuance will be subject to an additional amount of €2.50 per note (corresponding to 25 basis points or 0.25% additional interest on the coupon bond), payable by Mota-Engil on the maturity date, triggered by a failure to reach the SPT on the observation date of Dec. 31, 2026. In our view, a stronger practice would be to validate performance mid-way through the notes' maturity period.

The framework refers to a fallback mechanism, under which, if the issuer fails to provide the verification that it has met its SPT by June 30, 2027, it will pay the additional amount in form of 25 basis points.

In our view, stronger practices would include a reference in the prospectus to potential exceptional events (such as significant change in perimeters through material mergers or acquisitions) or extreme events, including drastic changes in the regulatory environment that could substantially affect the KPI calculation, or bring the need for pro forma adjustments of baselines or KPI scope.

## Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.

## Disclosure score

Not aligned

**Aligned**

Strong

Advanced

We consider Mota-Engil's reporting practices to be aligned with the Sustainability-Linked Bond Principles. The company will include updates on performance versus the SPT, subject to independent external verification, in its sustainability report, which is published annually and available on its website. Mota-Engil also commits to disclosing in its sustainability report any information relevant for the understanding of its KPI and overall sustainability strategy.

In our view, stronger practices would include a commitment to disclose annually the main factors contributing to progress on the KPI, and to disclose any re-assessments of KPIs or restatement of the SPTs.

## Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity, and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

 Mota-Engil SGPS Sustainability-Linked Notes are aligned with this component of the Sustainability-Linked Bond Principles.

Mota-Engil commits to obtain independent and external post-issuance verification of the issuer's performance level against the SPT. The verification will be made available on the company's website by June 30, 2027.

## Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

Mota-Engil's SGPS Sustainability-Linked Notes intend to contribute to the following SDGs:

### KPI

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Lost time injury frequency rate (LTIFR)



**3. Good health and well-being\***



**8. Decent work and economic growth\***

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\*The KPI is likely to contribute to the SDGs.

## Second Party Opinion

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