

# IREN Sustainable Financing Framework

## 1. Introduction

IREN was established on 1st July 2010 through the merger of Enìa and Iride and is a top player in the Italian multi-utilities sector with a leading position in its business areas, a balanced mix of regulated, semi-regulated and market-based activities and a strong integration between upstream and downstream activities.

Thanks to its business assets, its past and current investments, its positioning in all its business areas in all phases of the energy value chain, and its roots in the local territory, IREN is now one of the major Multi-utilities Groups on the Italian scene.

The IREN Group operates in the following sectors: electricity, gas, district heating, integrated water service and waste, and it also provides other public utility services (public lighting, traffic light services and facility management). It is a diversified business model, characterized by a mix of market-based activities and regulated and semi-regulated activities (the last two generated more than 70% of 2017 EBITDA) which ensures solidity, development prospects and reduced risk levels. IREN is one of the main examples in Italy of a multi-utility oriented towards the provision of services and the creation of infrastructures for enriching and enhancing the territory, with respect for the environment and its customers.

The Group serves a multiregional catchment area with over 7,000,000 inhabitants, has 6,285 employees, revenues of 3,7 billion euros in 2017, a portfolio of around 1.7 million customers in the energy sector and more than 4.8 million inhabitants served in the integrated water and waste cycles.

The IREN Group draws up company strategies on the basis of a system of values which are aimed at applying a business model capable of satisfying the legitimate expectations of the stakeholders in a balanced way and in full respect of the environment and communities in which it operates.

Values on which Iren based its strategy are: Client satisfaction, health, safety, continuous improvement, people enhancement, innovation, sustainable development, responsibility and cooperation with local communities, efficiency in services, quality in supply, environmental protection and rational use of energy.

Taking these values as a starting point, the Iren 2022 Business Plan defines some strategic pillars to further enhance sustainable long-term value creation:

- client/citizen become essential in the study of new innovative offers. The client is not and will no longer be only a passive consumer but takes on an active role in their acquisition choices. Thanks to the technological and digital revolution in progress, the client can acquire information, can make comparisons and decide immediately and independently on the basis of the product's intrinsic characteristics, taking into consideration also the effects on the environment where they live and work;
- development and efficiency to guarantee greater profitability, profits and dividends. The strategic pillars that have guided the Group over the last 3 years are confirmed. The continuous search for maximum integration, the optimisation of processes, agility and effectiveness in decision-making and a uniformity of vision are once more fundamental

elements for achieving the challenging development targets that improve on those set out in the previous plan;

- sustainability and the care of human resources. A renewed attention towards two themes that are increasingly fundamental. Environmental sustainability has always characterised the Group's choices, which already today produces around 86% of its energy through renewable and assimilated sources and this element will be even more important in the future through Iren's contribution to achieving the Sustainable Development Goals defined by the United Nations at 2030. The same attention is paid by the Group towards the management of its human capital with the launch of a series of initiatives aimed at increasing satisfaction, motivation and the awarding of merit.

## 2. Rationale

IREN has been characterized by a "green soul" since its inception. Its strategy, in fact, has always been oriented towards:

- **economic sustainability**, that is, operating in such a way that the company's strategies create wealth to increase the Group's value, guaranteeing its continuity in the long term through the application of an advanced model of corporate governance;
- **environmental sustainability**, that is, minimizing direct and indirect environmental impacts and promoting a culture sensitive to the natural environment, for the benefit of future generations;
- **social sustainability**, that is, promoting ethical behaviour in conducting business and favouring the legitimate expectations of Group's stakeholders in line with the provisions laid down in the Ethical Code.

IREN with this Sustainable Financing Framework, intends to support the financing of investments and activities across the Group which demonstrate positive environmental impacts aligned with the sustainability guidelines of the Group.

According to the Framework, which is aligned with the ICMA Green Bond Principles (GBP) 2018 and the LMA Green Loan Principles (GLP) 2018, IREN can issue debt instruments such as Securities (Bonds or Private Placements) as well as enter into financing relationships (such as but not limited to Revolving Credit Facilities, Committed Bank Facilities, Medium Term Loans) to support its sustainable investments.

The Green Bond/Loan is further symbol of Iren's focus on respecting the planet, creating at the same time, wealth and development in the territories in which it operates.

It will allow to further optimize Iren Group's financial profile, exploiting favourable market conditions and enabling the funding of several significant projects, which will bring important positive externalities.

More-over it is a signal of the attention of the Group towards a growing segment of investors, who include ESG parameters in their analysis as a tangible element of the sustainability of the investment choice.

This framework rev.01.2018 will apply to any Green Bond/Loan issued by Iren after its publication.

### 3. Application of Green Bond/Loan Principles

The process follows the criteria set out in the ICMA Green Bond Principles (“GBP”) and in the LMA Green Loan Principles (“GLP”) and has four pillars:

1. **Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a Green Bond/Loan must use the funds raised to finance Eligible Projects/Activities. Eligible Projects/Activities should produce visible, relevant and measurable environmental benefits.
2. **Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a Green Bond/Loan should outline the process it follows when determining eligibility of an investment using Green Bond/Loan proceeds, and outline any impact objectives it will consider.
3. **Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a Green Bond/Loan should be tracked within the issuing organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
4. **Reporting.** The Reporting criteria are guided by the recommendation that at least Sustainability Reporting to the Investors/ Financial Counterparties should be made of the use of Bond/Loan proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

A Sustainable Financing Committee will oversee all the Green Bond/Loan process. It will be comprised of Iren’s members from Finance, Business Planning, Accounting and Corporate Social Responsibility departments. The allocation of the proceeds of the Green Bond/Loan will be overseen by Finance department.

In order to provide the market and the stakeholders with disclosure and transparency, Iren will engage an external verifier of the Green Bond/Loan process and also for ongoing periodic verifications.

## **Use of Proceeds**

The net proceeds of Green Bond/Loan will be totally used by Iren to finance or re-finance, in whole or in part, a pool of nominated Eligible Projects/Activities qualified under the terms of the Green Bond/Loan Principles and Climate Bonds Standard.

Iren's Eligible Projects/Activities fall within the following main categories:

### *Renewable Energy:*

- Mini Hydro Power;
- Solar PV Energy Generation;
- Energy Network Development;

### *Energy Efficiency*

- Energy Distribution and Management;
- Cogeneration Facilities;

### *Waste Management Efficiency and Recycling*

- Waste collection and sorting upgrades;

### *Waste Water Treatment*

- Wastewater treatment plant upgrades;

### *Adaptation*

- Water efficiency

### *Transport*

- Electric Vehicles.

By operating responsibly in all these areas of sustainability Iren support many of the Sustainable Development Goals defined by the United Nations at 2030 (SGDs) .

In particular the most material goals that Iren makes a positive contributions to, are :

SDG 6. Ensure access to water

SDG 7. Affordable and clean energy

SDG 9. Built resilient ( Transport , Energy ... ) Infrastructure

SDG 11. Sustainable Cities and Communities

SDG 13. Combat Climate change and Its Impacts

All the Eligible Projects/Activities are carried out directly or/and indirectly through Iren's subsidiaries.

Appendix 1 will include details on allocation of net proceeds of Green Bond/Loan.

### 3.2 Process for Project Evaluation and Selection

All the Eligible Projects/Activities are selected in respect of “Relevant Eligibility Requirements”. The eligible investments projects must have a clear positive environmental impact and shall be aligned with the sustainability policies defined by Iren.

“Relevant Eligibility Requirements” means the requirements / characteristics which grant visible, relevant and measurable environmental benefits associated with defined categories such as: Increase of energy production by non-fossil fuels, Increase of energy efficiency, Improvement of WTE plants for waste treatment, Improvement of wastewater treatment plants, Increase of sorted waste collection and disposal and Reduction of waste disposed in landfills, Reduction of water networks losses and Avoided CO<sub>2</sub> emissions from fossil sources due to electricity production from renewables and to use of electric vehicles.

Appendix 2 will include details on key performance indicators (KPIs) to be used during the process of evaluation and selection of Eligible Projects/Activities.

The Sustainable Financing Committee half yearly reviews the Sustainability criteria (Appendix 3) and key performance indicators (KPIs) to be used during the process of evaluation and selection to facilitate the reporting and to ensure they meet the Green Bond/Loan Principles and the Climate Bonds Standard.

The internal process for evaluation and selection involves:

Technical assessment:	each project is proposed with a technical card describing characteristics, environmental benefits (KPI) and annual financial data ( in Appendix 4);
Accounting /Planning assessment:	annual data are checked and reported in respect of accounting and planning procedures;
Sustainability assessment:	each project is selected according to key performance indicators (KPIs) and in respect of Sustainability criteria set and will be reported in Appendix 3
Finance assessment:	each project is selected according to finance criteria and objectives

At the end of this process, if all assessments are positive, the project will be included in a portfolio of Eligible Projects/Activities (Portfolio of Eligible Projects/Activities).

### **3.3 Management of Proceeds**

To secure the Green Bond/Loan and the coverage through the bond maturity, the Portfolio of Eligible Projects/Activities is greater than the booked proceeds.

The net proceeds after issue have to be distributed and invested in Eligible Projects/Activities possibly within 18 months of issue date of the Green Bond/Loan.

In case of asset divestment or cancellation of a project, Iren will use the net proceeds to finance other Eligible Projects/Activities.

In the event of pending application of the net proceeds toward financing of Eligible Projects/Activities, Iren will hold such amounts, at its discretion, in cash or other liquid marketable instruments in its liquidity portfolio. Until full allocation, on each reporting date, Iren discloses the amount equal to the net proceeds not yet allocated to Eligible Projects/Activities.

The above mentioned process will be monitored along the entire period in which the expected capex/opex will be incurred. The Sustainable Financing Committee half yearly will review the allocation of proceeds to ensure it meets the Green Bond/Loan Principles.

### **3.4 Reporting**

As long as Financial Debt qualifying as “Green Bonds/Loans” are outstanding, annually Iren will provide on its website and in a dedicated appendix in the non-financial report (today the “Sustainability Report”), which will be verified by an independent third party:

- the list of Eligible Projects/Activities refinanced with the net proceeds of the Bond/Loan;
- information on key performance indicators (KPIs) related to such Eligible Projects/Activities;
- an update of the allocation of the net proceeds described above.

The details of the disbursement and the outstanding value will be tracked using Iren’s internal financial reporting system (Accounting System – SAP and Treasury System – Piteco).

Iren will establish a register of all Eligible Projects/Activities, updated on a periodic basis with relative KPI monitored, which will identify each Eligible Projects/Activities and will track funds invested in each of these Eligible Projects/Activities.

DNV GL has been appointed by Iren to act as an external verifier of the Sustainable Financing Framework and in order to provide a Second Party Opinion which represents an independent opinion as to whether the established criteria have been met.

DNV GL will be appointed by Iren to provide also an annual assessment report, until all the proceeds of the Bond/Loan have been allocated, confirming the respect of all material ICMA Green Bond Principles (“GBP”) and in the LMA Green Loan Principles (“GLP”)

All the annexes mentioned in this Framework rev.01.2018 will be made available on Iren’s corporate website in connection with any Green Bond/Loan issued by Iren after its publication.

Appendix 1: Use of Proceeds in Eligible Projects/Activities Financed for Iren Green Bond/Loan

Appendix 2: Eligible Projects/Activities Financed and KPIs

Appendix 3: Eligibles Green Categories and minimum levels for KPIs (Sustainability criteria)

Appendix 4: Analytics Card Eligible Projects/Activities Financed

Date	Version	Revision
10 October 2017	Initial	
3 August 2018	Rev.01	<p>2.Rationale : Addition of New Green Debt Instrument in respect to LMA Green Loan Principles (“GLP”) 2018</p> <p>3.1 Use of proceeds: Addition of Electric Vehicles projects related to Transport new eligible category and of Water efficiency projects relate to Adaptation new eligible category. Indication of UN SGDs supported by the Eligible Projects</p> <p>3.23.2 Process for Project Evaluation and Selection: Addition of Reduction of water network losses and Avoided CO2 emissions from fossil sources</p> <p>3.3 Management of proceeds: Extension of the period for net proceeds allocation from 6 months of issue to 18 months of issue date of the green Bond</p>