

# IREN Sustainable Financing Framework

(rev 02. 09.09.2019)

## 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 2018 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 7,042 employees, revenues of 4,0 billion euros in 2018, a portfolio of around 1.9 million customers in the energy sector and more than 5.1 million inhabitants served in the integrated water and waste cycles.

## 2. Iren's Sustainability: commitment, policies and strategic objectives

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.

The Group's mission and vision underline the will to integrate environmental and social sustainability into the development plans.

**Mission:** offer our customers and areas the best integrated management of energy, water and environmental resources, with innovative and sustainable solutions in order to create value over time. For everyone, every day.

**Vision:** improve people's quality of life. Make companies more competitive. Look at territorial growth with a focus on change. Merge development and sustainability into a unique value. We are

the multi-utility company that wants to build this future through innovative choices. For everyone, every day.

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.

In line with its mission and vision, the values on which the Iren Group bases its strategy are: responsibility, belonging, customer satisfaction, employee growth and enhancement, teamwork, transparency, change, flexibility and sustainability.

Taking these values as a starting point, the Iren 2023 Business Plan defines some strategic pillars to further enhance sustainable long-term value creation:

- **Customers:** the redefinition of the role of the customer/citizen, increasingly active and participative in purchase decisions, guides investments towards digital customer relations processes and towards a plan for the development of innovative services with high added value (electrical mobility, energy efficiency and New Downstream);
- **Organic growth:** generated by the development of the integrated water service, to activities in favour of customers, to district heating, waste treatment plants and participation in gas tenders;
- **Efficiency:** with a further action to increase efficiency in addition to the synergies already achieved in the previous three years. The Performance Improvement initiatives, 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;
- **Environmental Sustainability:** the definition of ESG (Environment, Social, Governance) targets in response to SDGs set by the United Nations at 2030. The commitments made concern climate change, water resources, the circular economy, decarbonisation and resilient cities;
- **People:** strong focus on skills and on a flexible and efficient organisation, through improving the Talent & Performance Management processes in terms of intelligent selection of human resources, growth through training and incentives for the same. Major generational turnover supported by the recruitment of new resources to a greater extent with respect to the numbers leaving;
- **Digitalization and Innovation:** the direct creation of Industry 4.0 and digitisation projects (200 million Euro) in order to increase efficiency and offer services to customers/citizens in line with the needs arising. A Corporate Venture Capital programme in a structured open innovation process must be added to this.

The Business Plan defines - in addition to economic ones - explicit environmental and social objectives.

## Environmental objectives

	WATER SOURCES		CIRCULAR ECONOMY		DECARBONIZATION		RESILIENT TOWN	
		 					 	
<b>CLIMATE ACTION</b>	<ul style="list-style-type: none"> <li>Excellence in water networks</li> <li>Reduction in network leaks</li> <li>Reduction in drinking water taken from the environment</li> <li>Higher purification capacity and quality</li> <li>Re-use of purified water for agriculture</li> </ul>		<ul style="list-style-type: none"> <li>Higher sorted waste percentage</li> <li>Extension of «pay-as-you-throw» systems</li> <li>Higher recycling in Group's plants</li> <li>Energy production from non-recoverable waste</li> <li>Zero landfill for urban waste</li> </ul>		<ul style="list-style-type: none"> <li>Reduction in GHG emission</li> <li>DH networks development</li> <li>Renewables</li> <li>Energy efficiency in production</li> <li>Energy efficiency services for Clients</li> <li>Education towards sustainability</li> </ul>		<ul style="list-style-type: none"> <li>Electricity storage systems</li> <li>Smart grid</li> <li>Smart metering</li> <li>LED in public lighting</li> <li>Distributed photovoltaic generation</li> <li>Sustainable mobility</li> <li>Industry 4.0</li> </ul>	
<b>2023 MAIN TARGETS</b>	Wastewater treatment capacity	+14%	Recoverable waste treated in our plants	43%*	CO <sub>2</sub> emissions	-5%	District heated volumes	+11%
	Reduction in network leaks	+5%	Sorted waste for inhabitant	+18%	Energy savings (ToE)	+10%	Eco-vehicles on the total fleet	26%*

\* Percentage reached in 2023

Setting these objectives Iren support many of the Sustainable Development Goals (SGDs) defined by the United Nations at 2030. 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 12. Responsible consumption and production
- SDG 14. Life below water.

The particular Iren's targets and objective linked to the previous goals, contributes also both directly and indirectly to the SGD 13. Combat climate change and its impacts. Iren considers the SGD 13 transversal to the four focus areas related to environmental sustainability defined in its business plan: water resources, circular economy, decarbonization and resilient town.

## Social objectives

	CUSTOMERS / CITIZENS	IREN PEOPLE
<b>TARGETS TO 2023</b>	<p><b>Digital approach for retail services</b></p> <ul style="list-style-type: none"> <li>50% digital operations by 2021</li> <li>full digital process based on "always on" service and enrichment of the smart products portfolio</li> <li>30% self care operations by 2021</li> <li>new concept of stores and front offices for a multichannel experience</li> </ul> <p><b>Digital approach for waste services</b></p> <ul style="list-style-type: none"> <li>smart equipment, optimization of logistics and real time monitoring to address customer needs and improve quality of life in the cities</li> <li>easier interaction and full service traceability to improve citizens relationships</li> </ul>	<p><b>Skills development</b></p> <ul style="list-style-type: none"> <li>training and reskilling digital skills</li> <li>hiring of millennials and topic experts for new competencies (i.e. analytics, mechatronics, digital models)</li> </ul> <p><b>Agile &amp; Smart Organization</b></p> <ul style="list-style-type: none"> <li>lean processes and structure</li> <li>collaboration, smart working &amp; diversity inclusion</li> <li>smart workflow &amp; excellence</li> </ul> <p><b>Talent and performance management</b></p> <ul style="list-style-type: none"> <li>Group job system</li> <li>performance management</li> <li>talent selection and development</li> </ul>

### 3. Rationale and Basis of Iren Sustainable Financing Framework

IREN with this Sustainable Financing Framework (here after the “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 any financial 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.

All Green Financing Instruments are 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 and 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.

To ensure the best conditions in the use of financial instrument Iren has a centralized approach to the banking and capital market and funding is raised by Iren SpA and then made available to all the companies of the Group through intercompany agreements.

The Framework has been created to facilitate transparency, disclosure and integrity of Iren’s Sustainable Financing Activities and the new version rev.02.2019 will apply to any Green Instruments issued by Iren after its publication.

The Framework is based on the four pillars described below.

#### 3.1 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 are coherent with the development strategy and fall within the following main categories

Eligible category	Contribution to UN-SDGs
<i>Renewable Energy</i> <ul style="list-style-type: none"> <li>• Mini Hydro Power</li> <li>• Solar PV Energy Generation</li> <li>• Energy Network Development</li> </ul>	 
<i>Energy Efficiency</i> <ul style="list-style-type: none"> <li>• Energy Distribution and Management</li> <li>• Cogeneration Facilities</li> </ul>	 
<i>Waste Management Efficiency and Recycling</i> <ul style="list-style-type: none"> <li>• Waste collection and sorting upgrades</li> </ul>	 
<i>Waste Water Treatment</i> <ul style="list-style-type: none"> <li>• Wastewater treatment plant upgrades</li> </ul>	 

Eligible category	Contribution to UN-SDGs
<i>Adaptation</i> <ul style="list-style-type: none"> <li>• Water efficiency</li> </ul>	 
<i>Transport</i> <ul style="list-style-type: none"> <li>• Electric Vehicles.</li> </ul>	 

By operating responsibly in all these areas of sustainability Iren confirms its strategic support to UN-SDGs.

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.

A Sustainable Financing Committee oversees all the process and it comprises representative members of Finance, Business Planning, Accounting and Corporate Social Responsibility departments. The allocation of the proceeds of the Green Bond/Loan is supervised by Finance department.

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 24 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.02.2019 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	
9 July 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>3.2 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>
	Rev.02	<p>2. Addition of section “2. Iren’s Sustainability: commitment, policies and strategic objectives”</p> <p>3.1 Use of proceeds: Addition of contribution to UN-SDGs connected to Eligible category</p> <p>3.3 Management of proceeds: extension of the period for net proceeds allocation from 6 months of issue to 24 months of issue date of the green Bond</p>