



GREEN BOND FRAMEWORK

SEPTEMBER 2021

We are #SDGsContributors


















CONTENTS

1. Introduction to ERG	3
2. Green Bond Framework	11
2.1 Use of proceeds	11
2.2 Process of Evaluation and Selection	12
2.3 Management of Proceeds	13
2.4 Reporting	13
3. External review	15
3.1 Second Party opinion	15
3.2 Post issuance external verification	15

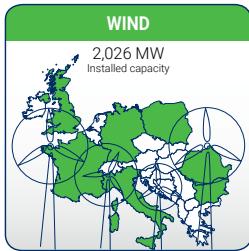
1. INTRODUCTION TO ERG

History

<p>Edoardo Garrone establishes ERG in Genoa.</p>		<p>1938</p>		<p>1947</p>	<p>Production begins at the refinery in Genoa San Quirico.</p>
<p>Production begins at the ISAB refinery in Priolo.</p>		<p>1975</p>		<p>1997</p>	<p>ERG is listed on the Italian Stock Exchange.</p>
<p>ERG – through ISAB Energy – begins to produce and market electricity from the gasification of heavy refinery residues.</p>		<p>2000</p>		<p>2006</p>	<p>ERG enters the renewable energy sector by acquiring EnerTAD.</p>
<p>ERG sells 49% of the ISAB refinery to LUKOIL.</p>		<p>2008</p>		<p>2010</p>	<p>ERG Power's combined cycle power plant starts up (480 MW) fuelled by natural gas. Launch of TotalErg, a joint venture to market petroleum products.</p>
<p>ERG becomes the leading wind power operator in Italy with 1,087 MW of installed capacity, and among the top ten in Europe (overall 1,340 MW). It purchases a company for the running and maintenance activities of the wind farms. ERG sells the ISAB refinery and completes its exit from refining.</p>		<p>2013</p>		<p>2014</p>	<p>ERG sells its ISAB Energy plant and its ERG Oil Sicilia fuel networks.</p>
<p>ERG enters the hydroelectric business with the purchase of the Terni Complex, with plants in Umbria, Marche and Lazio (527 MW). ERG acquires 6 wind farms in France (64 MW) and builds 3 wind farms in Poland totalling 82 MW. Installed wind power at the end of 2015 totals 1,506 MW.</p>		<p>2015</p>		<p>2017</p>	<p>ERG continues to grow in the wind sector: 48 MW in operation in Germany; 16 MW in operation in France. Installed wind power in Europe at the end of 2017 totals 1,814 MW.</p>
<p>ERG enters the solar sector: 30 photovoltaic plants acquired for 89 MW in operation. Definitive exit from the oil sector with the sale of TotalErg. Installed wind power at the end of 2018 totals 1,822 MW.</p>		<p>2018</p>		<p>2019</p>	<p>With the acquisition of 51 MW, total photovoltaic capacity increases to 141 MW. ERG's wind power business grows in Germany (52 MW) and France (34 MW); over 180 MW under construction in the UK.</p>
<p>ERG enters the solar sector in Germany: co-development agreement with AREAM (600 MW). Installed wind power at the end of 2020 totals 1,967 MW.</p>		<p>2020</p>			<p>Installed wind power at the end of 2019 totals 1,929 MW.</p>

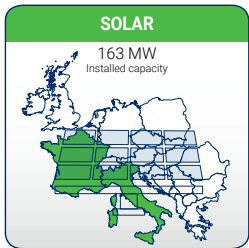
ERG overview

After an energy transition process initiated more than 10 years ago, ERG has become a major independent producer of electricity from renewable sources in Europe with a leadership position in Italy since 2013. The Group has raised its installed capacity to ~3,200 MW with an asset portfolio diversified both technologically and geographically as of 30 June 2021.



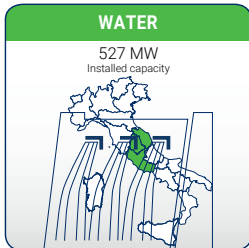
Wind

ERG operates in the wind power generation sector with 2,025 MW of installed power. ERG is the leading wind power operator in Italy and one of the top ten in Europe.



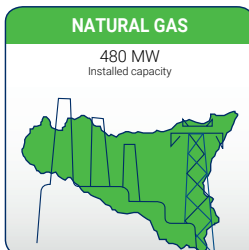
Solar

ERG is active in the generation of electricity from solar sources, with an installed capacity of 163 MW of which 141 MW in Italy with 33 photovoltaic plants located in 9 regions, and 22 MW in France with two plants acquired in the first half of the year.



Hydroelectric

ERG is active in the generation of electricity from hydroelectric sources through an integrated portfolio of assets located in the Umbria, Marche and Lazio regions, with an efficient capacity of 527 MW.



Thermoelectric

ERG is active in the generation of electricity from thermoelectric sources through its CCGT plant (480 MW) at the industrial site in Priolo Gargallo (near Syracuse) in Sicily. It is a high-efficiency, low environmental impact cogeneration power plant (HEC).

TOTAL: 3,195 MW

Wind: **2,025 MW** (1,093 MW Italy and 932 MW Abroad)

Solar: **163 MW**

Hydroelectric: **527 MW**

Thermoelectric: **480 MW**

In construction/RTB: **398 MW**

UK: **249 MW**

Poland: **60 MW**

France: **27 MW**

Sweden: **62 MW**

FRANCE

Wind: 455 MW

Solar: 22 MW

ITALY

Wind: 1,093 MW

Solar: 141 MW

Hydroelectric: 527 MW

Thermoelectric: 480 MW

GERMANY

Wind: 272 MW

POLAND

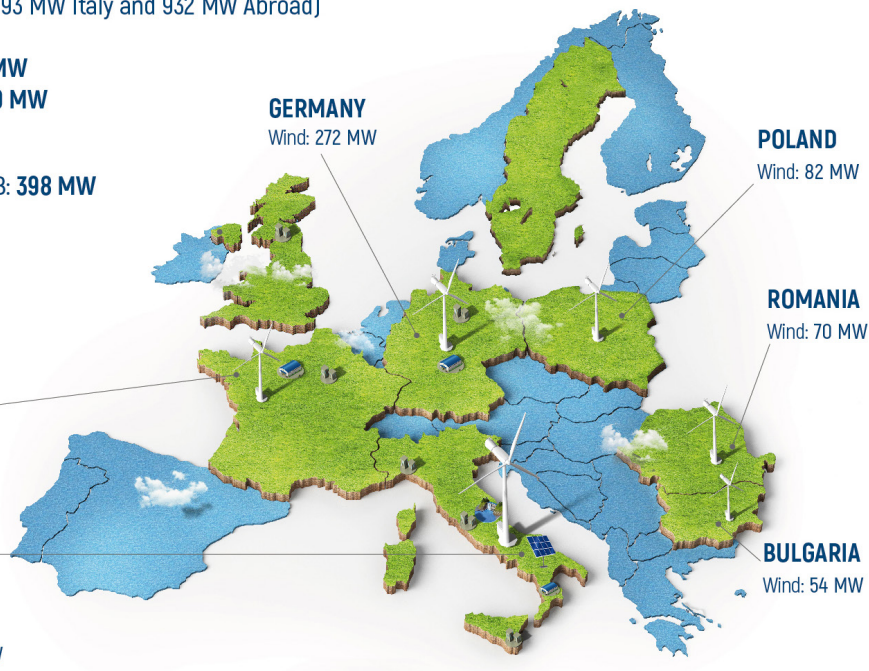
Wind: 82 MW

ROMANIA

Wind: 70 MW

BULGARIA




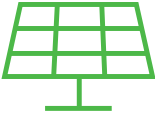

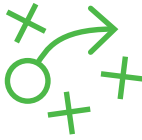

Wind: 54 MW



ERG Strategy

On 14th May 2021, ERG released the Business Plan for the years 2021-2025 continuing to be focused on growth in renewables via a geographical and technological diversification strategy and the progressive securitisation of revenues.

The key pillars for the Business Plan are listed in the table below:

		KEY 2021-2025 STRATEGIC GUIDELINES	ERG'S 2021-2025 TARGETS
	Growth in scale	Setting high growth ambition RES portfolio	+1.5GW through Repowering, Greenfield and M&A
	Energy Sales / Management	Securing energy sales through PPA/CfD	80% regulated
	Geographical diversification	Positioning over multiple geographies	~10 countries (vs 7 @2020)
	Solar as strategic pillar	Wind and solar as growth drivers, with solar gaining share	+~0.5GW of solar PV
	Seed in innovation	Capturing opportunities in Storage & other technologies	Scouting of opportunities
	Conventional is "legacy"	RES-centricity on asset base and development.	Opportunity of Asset Rotation
	Integration of ESG	ESG fully integrated in business strategy	ESG Plan









ESG Strategy

As of today, ERG is a leader in energy transition, decarbonization, and the fight against climate change. The business model is designed to strengthen the Group's sustainable growth and the areas in which it operates: the new five-year business plan 2021-2025 is fully integrated with ERG's ESG strategy. The ESG strategy is built on 4 pillars:

1. **PLANET:** commitment to fight against climate change through the decarbonization of power generation portfolios thanks above all to the development of energy production from renewable sources;
2. **ENGAGEMENT:** commitment to promote a proactive dialogue with each of the Group's stakeholders to understand their needs and integrate them into the way of doing business;
3. **PEOPLE:** focus on well-being, training, growth and enhancement of people, diversity and inclusion as well as on their health and safety;
4. **GOVERNANCE:** construction of an infrastructure of principles and management bodies that ensures compliance with the applicable laws and all other commitments voluntarily subscribed by the Group, and applies operational best practices as the foundation for a sustainable development model.

The "pillars" are closely related and integrated into our business model. They envisage 13 objectives, clearly defined and measurable through constantly monitored KPIs, designed to ensure a tangible contribution to the creation of value over time for all our stakeholders and achievement of the SDGs laid down by the United Nations.

Within the 13 targets, ERG has identified 8 strategic priorities distinguishing features of our ESG plan and 5 objectives in respect of projects already underway with a view to continuous improvement.

	KEY PRIORITIES	ONGOING PROJECTS
 <p>Planet</p> 	<ul style="list-style-type: none"> • Carbon Neutrality • >98% Circular 	<ul style="list-style-type: none"> • Energy Efficiency
 <p>Engagement</p> 	<ul style="list-style-type: none"> • Education for Next Generation • >1% for the Community 	<ul style="list-style-type: none"> • Trust & Reputation
 <p>People</p> 	<ul style="list-style-type: none"> • Re-skilling & Agile Transformation • Inclusion & Diversity 	<ul style="list-style-type: none"> • Health and Safety always
 <p>Governance</p> 	<ul style="list-style-type: none"> • ESG objectives into MBO and LTI • Enhancing Governance model 	<ul style="list-style-type: none"> • Tax Control Framework abroad • Sustainable Procurement

ESG Governance

The theme of ESG, at the core of the Group's business principles and strategy, is headed by the ERG's Chief Executive Officer supported by the ESG Committee and the ESG, IR & Communication department.

The ESG Committee, chaired by the Chairman of the Board of Directors, and composed of the Executive Deputy Chairman, the Chief Executive Officer and all the top managers¹, is in charge of:

- defines the Group's sustainability guidelines in the medium-long term and promotes consistent practices in the field of corporate social responsibility;
- approves the ESG Initiatives Plan as a constituent part of the Group's Business Plan, oversees its execution, reaching objectives and the priority intervention areas;
- approves the Communication Plan addressed to both the external audience and to employees, and promotes the plan's ESG initiatives, enhancing its increasing strategic relevance;
- manages the preparation and dissemination of the "Non-financial Report" (NFR) and other reporting methods related to ESG issues.

ESG Committee has also been appointed as Green Bond Committee.

The Committee is supported by the IR & ESG department, whose tasks are:

- overseeing the definition of the ESG Plan and periodically checking its progress;
- assessing the need to make changes or additions to the plan in line with changes in the context, proposing any required changes to the ESG Committee;
- monitor reporting of the plan as part of the Non-Financial Report, set out in line with international standards;
- operationally implementing the ESG-related orientations identified by the ESG Committee within the Group;
- defining and periodically updating the guidelines for compiling the information required by ESG rating agencies to ensure uniformity, communicability, and quality of information.

Our cross-department ESG Working Groups, enhance the management and sharing of sustainability-oriented activities, by:

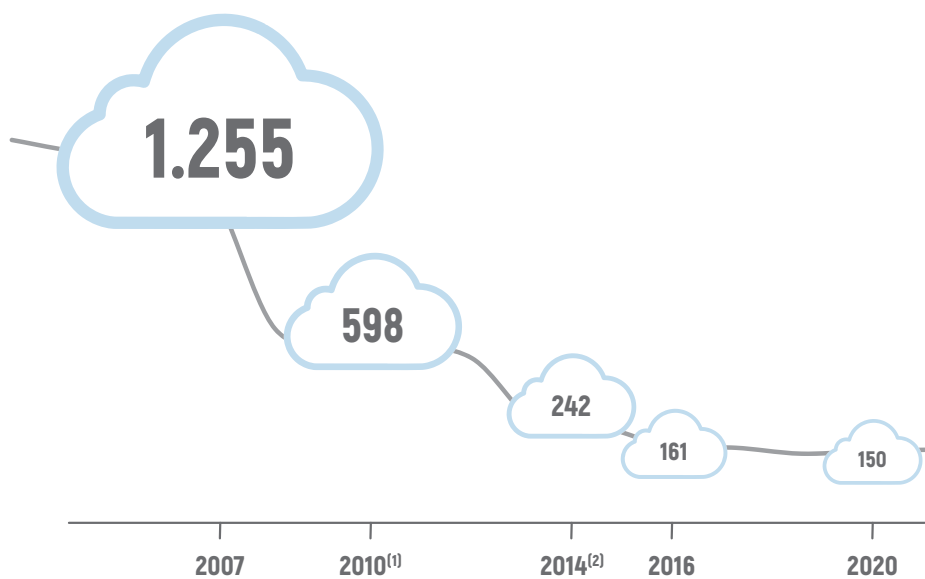
- identifying the reporting areas of the report;
- identifying and monitoring the ESG initiatives included in the Plan;
- defining the Key Performance Indicators (KPIs) to represent the Group's activities;
- identifying initiatives and collecting requests from the main stakeholders to give them appropriate consideration in the Sustainability Report.

¹ Top managers being members of the Sustainability Committee are: CFO, Chief Human Capital & ICT, Chief Generation & Market Officer, Chief Business Development and M&A Officer, General Counsel, Chief Regulatory & Public Affairs Officer, Chief Engineering Development Officer, Chief ESG, IR & Communication Officer.

ESG Performance

By the end of 2020, ERG had reduced the carbon intensity of its production by 90% since it entered the renewable energies sector. Thanks to our green production (wind, hydroelectric and photovoltaic) we have avoided the emission of over 3 million tonnes of CO₂ every year.

As of the end of 2020, the carbon intensity of ERG's generation portfolio stood at 150 gCO₂/kWh lower by 50% than average intensity of Italian generation portfolio and approximately a quarter of the European generation output.



(1) The Carbon index drop in 2010 was due to the entrance into operation of the ERG Power plant which replaced the existing oil fed power plants.

(2) The Carbon index drop in 2014 was due to the sale of the ISAB Energy plant

Our production from renewable sources has also allowed ERG to avoid approx.. 3 million tonnes of CO₂ emissions in 2020. As reward of its ESG profile, ERG is constantly rated by different ESG rating providers as listed in the table below:

ESG Rating Company	Rating
	
	
	74/100
	
	MSCI ESG RATINGS 
	23.6 Medium Risk
	EE+
	
	
	
	ESG Vulnerability Score = Tier ⁽¹⁾

(1) With a score <10 [scale from 0 to 100] ERG is placed at the very top of the utility universe

Furthermore, ERG has been included in the S&P Clean Energy Index with a weight of 0.3%. As a leading European producer of electricity from renewable energy sources, ERG believes that issuing Green Bonds is a key tool in supporting the achievement of its sustainable development targets and to contribute to address major climate change challenges.

2. GREEN BOND FRAMEWORK





In line with ERG's 2018-2022 sustainability commitment of consolidating the Group's leadership in the production of electricity from renewable sources and strengthened by the new 2021-2025 business plan objectives, in 2019 ERG decided to set up this Green Bond Framework, governing any further Green Bonds issue. Then ERG updated its Green Bond Framework in 2020 and 2021 in order to be constantly aligned to EU taxonomy and ICMA Green Bond Principles update.

The ERG Green Bond Framework was established in accordance with the ICMA Green Bond Principles (GBP) 2021 and their four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds, and
4. Reporting

2.1 Use of proceeds

An amount equal to the net proceeds of the ERG Green Bonds issued from time to time will be used to finance and/or refinance an Eligible Green Project Portfolio composed of new and/or existing Eligible Green Projects (as defined below).

Eligible Green Project category	Eligibility criteria	Environmental benefits	ERG 2021-2025 ESG Targets	UN Sustainable Development Goals
Renewable Energy	Renewable power generation facilities that fall under the following eligibility criteria: · Wind	GHG emissions reduction --- Climate change mitigation and adaptation through development of renewable energies	GHG emission reduction thanks to renewable energy production Contributing to reducing global warming emissions by replacing carbon-intensive energy sources	 Increase the share of renewable energy in the global energy mix  Taking urgent action to combat climate change and its impacts by reducing GHG emission
Renewable Energy	Renewable power generation facilities that fall under the following eligibility criteria: · Solar	GHG emissions reduction --- Climate change mitigation and adaptation through development of renewable energies	GHG emission reduction thanks to renewable energy production Contributing to reducing global warming emissions by replacing carbon-intensive energy sources	 Increase the share of renewable energy in the global energy mix  Taking urgent action to combat climate change and its impacts by reducing GHG emission

- **Eligible solar and wind power generation facilities:**

The solar power plants and wind farm projects to be financed / re-financed by the net proceeds of ERG Green Bonds are already in the Group portfolio or are expected to be acquired during the 24 months following the issuance of Green Bonds. All eligible projects are located in different European countries. Some of these plants are already in operation, others are under construction and others are on the way to receive the final authorisation.

All plants have been or have to be built according to EU and national legislation requiring specific environmental and social screening before receiving the building permit.

The Operation & Management (O&M) of solar and wind power are either outsourced or internally managed:

- Solar: Italian O&M services are internally managed under an integrated Environmental (ISO14001:2015) and Health & Safety (ISO 45001:2018) management system.
- Wind: O&M services are for a significant part of the wind farms performed by ERG internally while the O&M for the remaining part is carried out by the relevant wind turbine suppliers. Italian and German O&M activities are managed under an integrated Environmental (ISO14001:2015) and Health & Safety (ISO 45001:2018) management system.

Additionally, for wind facilities, French ERG subsidiaries will be certified according to Environmental and Health & Safety standards by end of 2022; power plants in Poland, Romania, Bulgaria, United Kingdom and Sweden are managed and operated by the turbine suppliers

Before any ERG Green Bond issue under the Green Bond Framework, ERG will disclose the estimated refinancing share of any ERG Green Bonds' proceeds and the applicable look back period with a maximum of 24 months.

In any case ERG commits to have a refinancing share of any ERG Green Bond proceeds in the region of 50% of total allocation.

2.2 Process of Evaluation and Selection

ERG's ESG Committee, in addition to the tasks highlighted in chapter 1 above, has been appointed Green Bond Committee; in charge of monitoring the selection and allocation process as per the eligibility criteria defined in the Use of Proceeds section (2.1).

The ESG Committee will be responsible for the following:

1. Reviewing and validating the identification of the Eligible Green Projects in accordance with the defined Eligible Green Project Categories listed in the Use of Proceeds section,
2. Monitoring the Eligible Green Project Portfolio during the life of the transaction. The Committee may decide to remove an Eligible Green Project from the Eligible Green Project Portfolio, if it no longer meets the eligibility criteria,

3. Monitoring any ESG controversy (such as controversies that may impact local communities or changes in ecosystems) affecting ERG and directly related to an Eligible Green Project. If the ESG Committee deems that an eligible project becomes subject to a major ESG controversy, the ESG Committee will analyse it and may decide to exclude such Eligible Green Project from the Eligible Green Project Portfolio,
4. Managing any future update of the Green Bond Framework

2.3 Management of Proceeds

The net proceeds of any green bonds issued by ERG are managed on a portfolio or project basis by the ERG treasury department.

An amount equivalent to the net proceeds will be used to (re) finance Eligible Green Projects which are part of Eligible Green Project Portfolio.

During the life of any Green Bonds, if a project ceases to fulfil the eligibility criteria, ERG's ESG Committee will remove the project from the Eligible Green Project Portfolio. ERG commits to allocate as soon as reasonably practical any unallocated proceeds from Eligible Projects removed from the Eligible Green Project Portfolio. ERG's ESG Committee will review any potential ESG controversy on an annual basis.

Unallocated proceeds from the issuance are invested in cash or cash equivalents until allocation to Eligible Green Projects. Complete allocation of the proceeds from ERG Green Bonds is expected within 24 months from the issuance date.

Unallocated proceeds will not finance GHG intensive activities, controversial activities, or activities facing material ESG issues.

2.4 Reporting

ERG commits to publish annually an allocation and impact reporting, as detailed below. The allocation and the impact reporting will be provided until each ERG Green Bond maturity.

a. Allocation reporting

The reporting will be produced on a portfolio or project basis. It will provide:

- the list of outstanding ERG Green Bonds;
- the amount of net proceeds allocated per Eligible Green Project Category;
- the percentage of co-financing;
- the percentage of refinancing in existing projects,

- the amount of unallocated proceeds, if any, at the date of reporting;
- the average life of the projects or portfolio which green bond proceeds have been allocated to;
- the Eligible Green Project Portfolio breakdown per Eligible Green Project Category, location and status of the projects.

This information will be publicly available on the ERG website and/or in ERG's non-financial reporting.

b. Impact reporting

ERG intends to publish an impact reporting that will provide information on the expected output and environmental benefits of the selected projects. The relevant metrics will include:

Eligible Green Project category	Eligible criteria	Output indicators	Impact indicators
Renewable Energy	Solar energy	Installed renewable energy capacity in MW	Estimated annual CO ₂ tons emissions avoided ²
	Wind energy	Produced Green Energy in MWh	

The eligible power plants targeted in this Green Bond Framework will directly and positively impact on SDG 7 (Affordable and clean energy) and SDG 13 (Climate Action).

The avoided emissions can be accounted as Scope 1 avoided emission (or as Scope 3 according to the location-based principle).

In addition, during their idle time, the power plants use electricity acquired from the grid. According to ERG Group policy, the power plants will be supplied with green energy (guaranteed by Certification of Origin). Therefore, the Scope 2 emissions will be almost 0 tons (according to "marked based" principle).

In case of material developments or ESG controversy relating the Eligible Green Projects, any controversy or replacement of Eligible Green Project will be reported on an annual basis.

² Impact reporting: the quantity of CO₂ avoided is determined according to ERG's sustainability reporting procedures, by multiplying actual production to the carbon factor per MWh, as extracted from TERNIA reporting system and according to the following formula: CO₂ avoided emission (tons)= Project yearly actual production (MWh) x Emission Factor (kg CO₂/MWh) / 1.000..

3. EXTERNAL REVIEW

3.1 Second Party opinion

ERG has appointed Vigeo Eiris to provide a Second Party Opinion on this Green Bond Framework. This Second Party Opinion document is publicly available on ERG's website.

3.2 Post issuance external verification

External independent auditors appointed by ERG will ensure that the Allocation Report is consistent with ERG Green Bond Framework, on an annual basis until each ERG Green Bond maturity.

Auditors will review the compliance of the selected Eligible Green Project and reporting metrics, with the Green Bond Framework.

DISCLAIMER

The information and opinions contained in this Green Bond Framework are provided as at the date of this document and are subject to change without notice. ERG S.p.A. does not assume any responsibility or obligation to update or revise any such statements, regardless of whether those statements are affected by the results of new information, future events or otherwise.

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