

ERG GREEN BOND FRAMEWORK

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1. Introduction to ERG

ERG S.p.A. ("**ERG**") is an Italian utility company producing electricity mainly by renewable sources across 7 different countries in Europe.

Founded as an oil company in 1938 and listed on Milan Stock Exchange since 1997, ERG just came out of a period of profound transformation from an oil refinery player to a leading renewable independent power producer. ERG is currently the leading wind operator in Italy and it is amongst the main players in Europe in this sector.

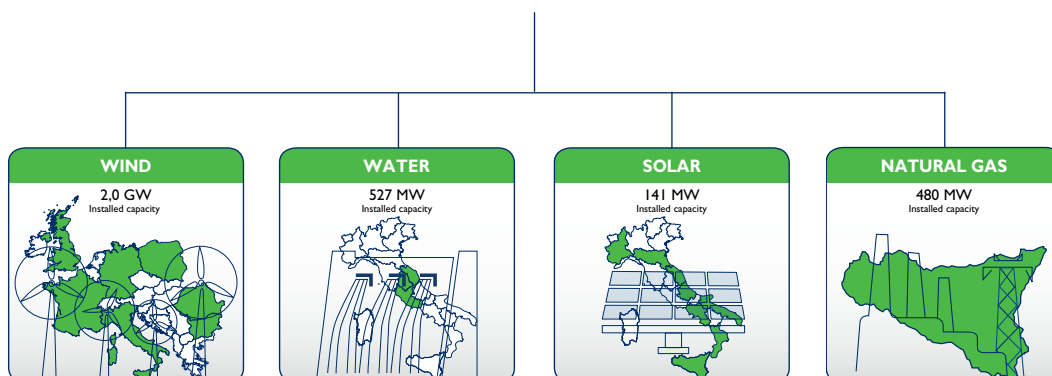
Its mission is "to be a leading renewable operator in the electricity market to seize business opportunities, in a sustainable manner, creating shared value".

ERG has indeed been deeply committed to the renewable energy sector. In 2006, the entry into the renewable sector started with the acquisition of the wind company EnerTAD (later re-named ERG Renew).

In 2008, ERG started the exit process from the oil industry by disposing of a 49% stake in ISAB oil refineries to Lukoil and by 2013 it totally divested its stake held in ISAB. Meanwhile ERG re-invested the refineries disposal proceeds in the wind industry. In 2013, after an intensive growth mix of acquisitions and organic development, ERG became the first wind Italian player after the acquisition of IP Maestrato wind assets from GDF Suez. Since 2013 the wind growth has been mainly focused abroad, especially in France and Germany, reaching the installed capacity of 1.8 GW in Europe.

In 2015, ERG acquired from E.ON the hydro power plants located in Terni (Central Italy) for an installed capacity of 527 MW adding a hydro renewable technology to its generation portfolio balancing its production generation mix between programmable and non-programmable sources.

At the beginning of 2018, ERG kept on pursuing its technological diversification process purchasing 89 MW of photovoltaic plants in Italy and completed the exit from the oil sector by disposing the 51% stake in TotalErg, the third largest Italian player in the downstream sector.



In 2019, ERG had generated 5.5 TWh of power generation from renewable sources (over a total capacity of about 3.0 GW) with the remaining amount represented by a high yield co-generative plant fed with natural gas.

In 2019, ERG acquired an additional 51 MW capacity of solar assets achieving a total PV installed capacity of 141 MW. In the wind sector, ERG acquired 52 MW in France and 34 MW in Germany. Installed wind power at the end of 2019 totals 1,929 MW.

The 2018 – 2022 Business Plan¹, focused on a continuous development of plants producing energy from renewable sources, setting targets on three main sustainability areas:

- Tackling Climate Change with particular focus on the SDG 7 (affordable and clean energy), SDG 9 (Industry, innovation and infrastructure), the SDG 12 (responsible consumption and production), SDG 13 (climate action) through:
 1. avoiding 15 Mt of CO₂ emissions thanks to the production of energy from renewable sources;
 2. reducing the group's carbon index of electricity generated by 14%;
 3. a continuous effort on extracting value from ERG technologies (i.e. technological improvement of assets).
- People enhancing (SDG 4, SDG 8) through:
 1. new leadership model;
 2. skills development.
- Sustainable thinking, sustainable acting (SDG 8, SDG 12, SDG 17), through:
 1. CDP (Carbon Disclosure Project) reporting²;
 2. Integration of HSE certification according to the Group Organisation's Model;
 3. Consolidating relationship with communities;
 4. Technological development.

The theme of sustainability, at the core of the Group's business principles, is headed by the ERG's Chief Executive Officer supported by the ESG Committee, Investor Relation & CSR Department and the CSR Working Groups.

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 managers³, is in charge of:

- defining the Group's sustainability directions and promoting consistent practices in the context of corporate social responsibility;
- approving, monitoring and evaluating sustainability objectives and priority areas for actions related to CSR; and
- approving the materiality analysis, timing and media for non-financial reporting and for CSR initiatives;

¹ <https://www.erg.eu/en/investor-relations/business-plan - slide 64>

² <https://www.cdp.net/en>

³ Top managers being members of the ESG Committee are: Corporate General Manager & CFO, Head of Human Capital & ICT, Chief Operating Officer, Chief M&A and Business Development Officer, General Counsel, Chief Regulatory & Public Affairs Officer, Chief Engineering Development Officer, Head of Communication and the Head of Investor Relation & CSR.

- ESG Committee is also appointed as Green Bond Committee.

The CSR Working Groups are transversal to the organisation units and are tasked with:

- identifying and proposing CSR initiatives;
- developing and proposing sustainability objectives and monitoring their achievement;
- identifying the areas to report on in the Sustainability Report;
- defining and collecting key KPIs representing the Group's activities and initiatives; and
- collecting and addressing CSR-related subjects from main stakeholders, also including them in the Group's reporting.

In 2018, ERG updated its commitments towards sustainability by setting up ERG Sustainability Commitments for the 2018-2022 period⁴: the undertaken commitments, in the economic, environmental and social areas, were analysed based on the UN Sustainable Development Goals (SDGs) and are in line with ERG's new 2018-2022 business plan⁵.

The most relevant commitments that will help to minimize the environmental impact of activities are:

- A policy to supply ERG energy needs (e.g. generating assets' auxiliary services) with "green energy",
- Implementing activities to protect biodiversity in the areas where plants are located also thanks to certified management systems,
- Reducing the amount of waste produced by operative processes, maximising the percentage sent for recycling (also through the use of more environmentally compatible materials and substances).

In 2019, ERG launched a "sustainable procurement project" focused on the introduction of new pillars to qualify and monitor the main vendors on environmental, health & safety and human rights performance.

Other notable commitments focus on:

- the environment, work conditions and welfare which will impact on SDG 4 (quality education) and SDG 8 (decent work and economic growth); and
- the implementation, at Group level, of the new Anti-Corruption Policy and the new supplier selection procedures, which will impact on SDG 16 (peace, justice and strong institutions) and SDG 17 (partnerships for the goals).

By the end of 2019, ERG had reduced the carbon intensity of its production by 90% since it entered the renewable energies sector, and by 37% in the last 4 years.

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.

⁴ <https://www.erg.eu/en/en/sustainability/sustainable-future>

⁵ <https://www.erg.eu/en/investor-relations/business-plan>

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, ERG decided to set up this Green Bond Framework, under which ERG can issue Green Bonds.

The ERG Green Bond Framework was established in accordance with the ICMA Green Bond Principles (GBP) 2018 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 2018-2022 Sustainability Commitment	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	 Renewable energy produced Avoided CO ₂ emissions
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	 Renewable energy produced Avoided CO ₂ emissions

- **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 which are already in the Group portfolio or are expected to be acquired during the 24 months following the issuance of Green Bonds and located in different European countries. Some of them 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: O&M services are either outsourced or internally managed under an integrated Environmental (ISO14001:2015) and Health & Safety (OHSAS18001:2015) 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 O&M are managed under an integrated Environmental (ISO14001:2015) and Health & Safety (OHSAS18001:2015).

Additionally, for wind facilities, French and German ERG subsidiaries will be certified according to Environmental and Health & Safety standards until end 2022; Polish power plants are managed and operated by the turbine suppliers in accordance to an integrated management system (quality, environmental and Health & Safety).

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.

2.2 Process of Evaluation and Selection

ERG's ESG Committee, in addition to the tasks highlighted in chapter 1 above, will be 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 can 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) that affects ERG and are 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 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.

During the life of ERG Green Bonds, ERG commits to allocate as soon as reasonably practical any unallocated proceeds from Eligible Projects removed from the Eligible Green Project Portfolio. 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 full allocation.

a. Allocation reporting

The reporting will be produced on a portfolio 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 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	Possible output indicators	Impact indicators
Renewable Energy	Solar energy	Installed renewable energy capacity in MW	Estimated annual CO ₂ tons emissions avoided ¹
	Wind energy	Produced Green Energy in MWh	

¹ The indirect emissions are calculated on the basis of the conversion factors relating to the gross thermoelectric production of each country published by Terna on its website: <http://www.terna.it/en-gb/sistemaelettrico/statisticheeprevisionsi.aspx>

Note that the eligible power plants targeted in this Green Bond Framework will directly and positively impact on SDG 7 (Affordable and clean energy) by avoiding CO₂ emissions. These 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.

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 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 full allocation.

Auditors will in particular 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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