

# ERG GREEN BOND FRAMEWORK

March 2019



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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".

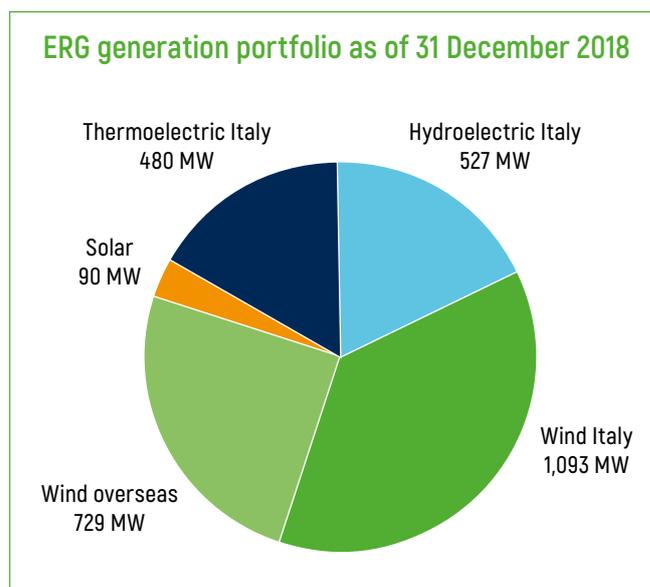
ERG has indeed been deeply committed to the renewable energy sector. The entry into the renewable sector started in 2006 with the acquisition of the wind company EnerTAD (then renamed ERG Renew).

In 2008 ERG started the exit process from the oil industry by disposing of a 49% stake in ISAB oil refineries to Lukoil and within 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 of acquisitions and organic development, ERG became the first wind Italian player after the acquisition of IP Maestrone wind assets from GDF Suez. From 2013 the wind growth was mainly focused abroad, especially in France and Germany, reaching the current installed capacity of 1.8GW in Europe.

In 2015 ERG acquired from E.ON the hydro power plants located in Terni (Central Italy) having 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. By the end of 2018, ERG had over 80% of power generation from renewable sources (over a total of about 2.9 GW) with the remaining amount represented by a high yield co-generative plant fed with natural gas.

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

On January 2019, ERG signed an agreement to acquire an additional 51 MW capacity of solar assets achieving a total PV installed capacity of 141 MW.



The 2018 – 2022 Business Plan<sup>1</sup>, 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), the SDG 9 (Industry, innovation and infrastructure), the SDG 12 (responsible consumption and production), through:
  1. avoiding 15 Mt of CO<sub>2</sub> 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 13), through:
  1. CDP (Carbon Disclosure Project) reporting<sup>2</sup>;
  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 Sustainability Committee, the Sustainability Department and the CSR Working Groups.

The Sustainability 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 managers<sup>3</sup>, 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.

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

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

<sup>2</sup> <https://www.cdp.net/en>

<sup>3</sup> Top managers being members of the Sustainability Committee are: Chief Financial Officer, Chief Human Capital & ICT Officer, Chief Operating Officer, Chief Business Development Officer, General Counsel, Chief Public Affairs & Communication Officer, Chief Engineering Development Officer and the Head of Institutional Affairs.

- 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 period<sup>4</sup>: 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 plan<sup>5</sup>.

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).

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).

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.

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<sup>4</sup> <https://www.erg.eu/en/en/sustainability/sustainable-future/2018-2022-commitments>

<sup>5</sup> <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 Green Bond Principles 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 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  New Projects or Projects in ERG's portfolio	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 <sub>2</sub> emissions
Renewable Energy	Renewable power generation facilities that fall under the following eligibility criteria: · Solar  New Projects or Projects in ERG's portfolio	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 <sub>2</sub> emissions

- **Eligible wind power generation facilities:**

The 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 and located in different European countries (e.g.: Italy, France, Germany, Poland, United Kingdom). Some of them are already in operation, others are under construction and others are on the way to receive the final authorisation. The commercial operation date or the acquisition date of the Eligible wind power generation facilities shall not be prior to February 2016 for ERG inaugural transaction and shall not exceed 36 months prior to the issuance of any ERG subsequent Green Bonds.

All plants have been constructed according to EU and national legislation that requires specific environmental and social screening before receiving the building permit.

The Operation & Management (O&M) of a significant part of the wind farms are performed by ERG internally, while the O&M for the remaining part is carried out by the relevant wind turbine suppliers.

French and German ERG subsidiaries will be certified according to Environmental and Health & Safety standards within end 2020; Polish power plants are managed and operated by the turbine suppliers that operate according to an integrated management system (quality, environmental and Health & Safety).

- **Eligible solar power generation facilities:**

Solar power plants include plant already acquired by ERG or are expected to be acquired during the 24 months following the issuance of Green Bonds. The commercial operation date or acquisition date of Eligible solar power generation facilities shall not exceed 24 months prior to the issuance of the Green Bonds.

The O&M services are either outsourced or internally managed under an integrated Environmental (ISO14001:2015) and Health & Safety (OHSAS18001:2015) management system.

## 2.2 Process of Evaluation and Selection

ERG's Sustainability Committee, in addition to the tasks highlighted in chapter 1 above, will be in charge of monitoring the selection and allocation process as per the eligibility criteria defined in the Use of Proceeds section (2.1).

The Sustainability Committee will be responsible for the following:

1. Reviewing and validating the selection of 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 replace an Eligible Green Project 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 Sustainability Committee deems that an eligible project becomes subject to a major ESG controversy, the Sustainability Committee will analyse it and may decide to exclude and replace such Eligible Green Project,
4. Managing any future update of the Green Bond Framework.

## 2.3 Management of Proceeds

Proceeds will be managed according to the following principles:

### 1. Refinancing operating projects

In this case, considering that projects' costs were fully disbursed in the past, no separate management of proceeds is required. ERG is committed to performing an external assurance of the already invested capital<sup>6</sup> in order to assure the correct use of proceeds.

### 2. Projects under development / construction / future acquisitions

Proceeds aimed at projects under development will be managed as follows:

- For the already disbursed costs of development or construction, no separate management of proceeds is required. ERG is committed to performing an external assurance of the already invested capital<sup>7</sup> in order to assure the correct use of proceeds.
- For future project costs, ERG Green Bond proceeds are managed through a process aiming to ensure traceability. Upon receipt by the ERG treasury department, proceeds from the issuance are invested in cash or cash equivalents until allocation to Eligible Green Projects. Complete allocation of the proceeds from the ERG Green Bond is expected within 24 months from the issuance date. ERG is committed to performing an external assurance of the invested capital once the corresponding proceeds are allocated in order to assure the correct use of proceeds.

## 2.4 Reporting

ERG commits to publish annually an allocation report and an impact report, as detailed below.

The allocation report and the impact report will be provided until full allocation.

### a. Allocation reporting

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

- 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,
- 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:

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<sup>6</sup> Invested capital allocated to Green Bond Proceeds will be net of the bank loans disbursed for the construction, development and acquisition of eligible green projects

<sup>7</sup> See footnote 6

Eligible Green Project category	Eligible criteria	Possible output indicators	Impact indicators
Renewable Energy	Wind energy	Installed renewable energy capacity in MW	Estimated annual CO <sub>2</sub> tons emissions avoided <sup>1</sup>
	Solar energy	Produced Green Energy in MWh	

<sup>1</sup> 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/statisticheeprevisioni.aspx>

Note that the wind or solar power plants targeted in this Green Bond Framework will directly and positively impact on SDG 7 (Affordable and clean energy) by avoiding CO<sub>2</sub> 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).

### 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.

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*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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