# ENEL Green Bond Framework

December 2016

## 1. Introduction

Enel and its subsidiaries (the “**Group**” or the “**Enel Group**”) are deeply committed to the renewable energies sector and to researching and developing new environmentally friendly technologies. In 2015, approximately half of the electricity the Enel Group produced was free of carbon dioxide emissions, making it one of the world’s major producers of clean energy. Further, Enel has committed to decarbonize its energy mix by 2050. The Enel Group green business is operated mainly through Enel Green Power S.p.A. (“**EGP**”) and its subsidiaries that have developed and maintain the largest and most diversified portfolio of quality investment opportunities in the renewable energy business.

Enel is the first utility in the world that has replaced conventional electromechanical meters with so-called “*smart meters*”, being modern electronic meters that enable consumption levels to be read real time and contracts to be managed remotely. As of today, approximately 38 million of European customers have an electronic meter developed and installed by Enel. This innovative measurement system is essential to the development of smart grids, smart cities and electric mobility.

The current 2017-2019 Enel Group plan confirms the four strategic pillars introduced in the plan released in November 2015 update namely:

1. operating efficiency
2. industrial growth
3. group simplification
4. active portfolio management

and introduces digitalization and customer focus as two new levers to enable Enel’s strategy to accelerate value creation in a sustainable way.

These levers have been integrated in the Enel Group strategic pillars as follows:

1. operational efficiency: the new digital lever is expected to allow the Group to reduce its nominal cost base by c. 9% by 2019;
2. industrial growth: the Enel Group aims at a total capex of €20.9bn in the 2017-2019 period, 60% of which is earmarked for growth. The asset digitalization plan will drive an increase in investments in networks and retail, primarily into smart meters, remote-control, and connectivity of equipment, as well as investments into digitalizing customer engagement and promoting a more digitally-oriented workforce. Growth in renewables has been so successful that the Enel Group now enjoys a global presence across technologies with 36GW of capacity. Building on the solid track record, the Group is adding to its current operations a less capital intensive build, sell and operate (“**BSO**”) model, reducing risk and accelerating realization.

The Enel Group expects to generate €4bn of cumulative growth EBITDA over the 2017-2019 plan period with increases in:

- renewables: 6.7GW of additional capacity targeted for the next 3 years, including both managed and consolidated assets. The BSO model will allow the Group to capitalize on its 21GW pipeline more quickly, decrease the overall risk profile and crystallize value creation earlier. On top of this, development of new renewable capacity is a crucial step in the Enel Group's path to de-carbonization by 2050;
- networks: 4€bn targeted to asset digitalization, i.e. 70% of the total growth capex in such business line. Meters installed in the plan period will be equal to 18 million, bringing the total number to more than 48 million by 2019. This includes installation of 12 million second generation meters in Italy as a replacement of the first generation ones that have reached the end of their useful life (15 years). The new meter allows interaction thanks to bidirectional flows of energy and opens up a two-way digital channel with the energy community platform;
- retail: new services and the opening up of the regulated market in many of the geographies of presence (i.e. Italy, Latam) will lead the Enel Group to almost double its free market customers.

The 2017-2019 strategic plan still hinges on a long-term shared value perspective along the entire value chain. As a matter of fact, the aforementioned strategic pillars are also mirrored in the sustainability plan as follows:

1. Engaging the local communities
2. Engaging the people we work with
3. Aiming at operating efficiency and innovation
4. Decarbonizing the energy mix

As commented before, digitalization and customer focus, being two levers that will enable Enel's strategy to accelerate value creation in a sustainable way, are also transversal to the sustainability plan pillars.

The commitment of the Enel Group in this sense is also testified by its intention to contribute in achieving 4 of the 17 Sustainable Development Goals adopted by the United Nations in September 2015, namely:

- SDG 4 (quality education): 400,000 beneficiaries by 2020;
- SDG 7 (affordable and clean energy): 3 million beneficiaries by 2020, mainly in Africa, Asia and Latin America;
- SDG 8 (decent work and economic growth): 1.5 million beneficiaries by 2020 (upgraded from 500,000)
- SDG 13 (climate action): <350g$CO_2$ eq/KWh by 2020 (specific emissions), a "Science Based Target".

On top of formal commitment, the sustainability plan of the Enel Group is aligned with several of the UN Sustainable Development Goals.
The Enel Group considers such goals as a business opportunity aiming at delivering value on a long-term basis to all of its stakeholders

Besides the formal commitment to reducing Group $CO_2$ specific emissions to <350g$CO_2$eq/KWh by 2020 the Enel Group has in place several actions to mitigate the impact of its industrial activities on the environment. Namely:

- reducing $SO_2$ specific emissions by ~30% by 2020 (vs 2010);
- reducing $NO_x$ specific emissions by ~30% by 2020 (vs 2010);
- reducing particulates specific emissions by ~70% by 2020 (vs 2010)
- reducing water specific consumption by ~30% by 2020 (vs 2010)
- reducing waste produced by ~20% by 2020 (vs 2015)

## 2. Rationale

As a global leader in the development of clean energy, Enel sees the issuance of Green Bonds as an ideal tool to finance the transition to a low carbon economy. This Green Bond Framework has been created to facilitate transparency, disclosure, integrity and quality of Enel Green Bond issues. This framework is in alignment with the Green Bond Principles, 2016 ("**GBP**"). Enel hopes to broaden its investor base by attracting like-minded investors that seek to target their investments towards environmentally friendly projects. Enel will be broadening its capital market offerings and is responding to specific investors request for green assets.

Climate change, diversity, human capital management, to name a few, are under increasing scrutiny by the financial market that has started to engage companies on those issues asking to know what strategies they are implementing to tackle such issues and the associated non-financial risks. The planning and disclosure of non-financial KPIs or, as more commonly know, ESG (Environmental Social and Governance) factors is gaining relevance alongside pure financial targets.

In 2015, socially responsible investors (so called "SRI") represented 7.7% of Enel's share capital (5.9% in 2014) and 10% of the free float (8.6% in 2014). Their weight is growing over time. The Group, early in 2016, has set up a specific unit within the IR team fully dedicated to the engagement with SRI institutions.

On top of having a Sustainability and Innovation department directly reporting to the CEO, the Enel Group also has a 'Corporate Governance and Sustainability Committee' aimed to assist the Board of Directors in the assessments and decisions relating to the corporate governance of the Enel Group and to sustainability, by carrying out preparatory work for the purpose of making proposals and providing advice.

## 3. Application of Green Bond Principles

The Green Bond Principles, 2016 published by International Capital Markets Association ("**ICMA**") are voluntary process guidelines for best practices when issuing Green Bonds.

The GBP recommend transparency, disclosure and promote integrity in the Green Bond Market. Enel Green Bond Framework will align with the GBP's four pillars: Use of Proceeds, Process for Evaluation and Selection, Management of the Proceeds and Reporting.

For the avoidance of doubt, in the following Use of Proceeds section, reference to the "Guarantor" is a reference to Enel S.p.A, whilst reference to the "relevant Issuer" is a reference to Enel Finance International NV ("**EFI**") as it is currently envisaged that the issuer of Green Bond under the Euro 35,000,000,000 Euro Medium Term Notes Programme (EMTN Programme) of Enel and EFI will be the latter (whilst Enel will act as Guarantor).

### 3.1 Use of Proceeds

Green Bond proceeds will be used to finance Eligible Green Projects (as defined below) or refinance Eligible Green Projects with disbursements occurred during the past 24 months preceding the issue date of the Green Bond.

For the purposes of this section:

"**Eligible Green Projects**" means Renewable Energy Projects and Transmission, Distribution and Smart Grid Projects or Other Projects which meet a set of environmental and social criteria, which prior to the relevant Issue Date will be (i) approved both by the relevant Issuer and, where applicable, the Guarantor and by a reputed sustainability rating agency, and (ii) made available on ENEL's website (www.enel.com) in the investor relations page.

"**Other Projects**" means any projects which meet a set of environmental and social criteria, which prior to the relevant Issue Date will be (i) approved both by the relevant Issuer and, where applicable, the Guarantor and by a reputed sustainability rating agency, and (ii) made available on ENEL's website (www.enel.com) in the investor relations page and may include, *inter alia*,:

a. Clean Transportation Projects which consist in financing or refinancing of, or investments in the electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions,
b. Green Buildings which consist in financing or refinancing of, or investments in the renovation of existing buildings and efficiency improvements; and
c. Decarbonising Technologies which consist in financing or refinancing of, or investments in reduction of CO2 emissions.

"**Renewable Energy Projects**" means the financing or refinancing of, or investments in the development, the construction, repowering and the installation of renewable energy production units for the production of energy through: (i) renewable non-fossil sources and (ii) hydro[1], geothermal, wind, solar, waves and other renewable energy sources. Energy production units include small-scale energy generation systems and utility scale or centralised power generation systems.

**"Transmission, Distribution and Smart Grid Projects"** means the financing or refinancing of, or investments in the building, the operation and the maintenance of electric power distribution, transmission networks and smart metering systems, that contribute to: (i) connecting renewable energy production units to the general network and (ii) improving networks in terms of demand-size management, energy efficiency and access to electricity.

## 3.2 Examples of Eligible Green Projects

As an example of Eligible Green Project, Enel has selected a wind and a solar plant that are testament to the technological and geographical diversification pursued by Enel through its green subsidiary:

a. The Dominica wind farm is located in Charcas in the state of San Luis Potosí, in Mexico. The plant has a total installed capacity of 200 MW from 100 wind turbines, each with 2 MW, and is capable of generating up to 510 GWh per year.
b. the Adams project, a 82.5 MW solar PV plant under construction in South Africa.

For both projects supporting evidence is available on:

- Mapping and analysis of stakeholders needs
- Creating Shared Value (CSV) planning covering both the project development needs and the stakeholders needs identified through the activity at point a);
- Examples of how Enel shares the plan, based on actions to meet social needs, with its stakeholders. Moreover, the actions identified apply as much as possible an holistic view integrating, business, social and environmental issues.

[1] Hydro projects up to 25 MW in installed capacity or, if larger than 25 MW, satisfying the following international sustainability best practices:

- International Finance Corporation (IFC) Standards – Publicly stated commitment to meet the requirements outlined by all eight IFC performance standards

## 3.3 Process of Evaluation and Selection

Enel will establish a Green Bond Committee by June 2017 to oversee the Green Bond implementation and allocation process. It is expected to be comprised of members from Treasury, Accounting and Sustainability departments. The allocation of the proceeds of the Green Bond will be overseen by the Sustainability and Treasury departments. Enel has established policies and procedures consistent with ISO 14001:2004 Environmental Management Systems. Appendix 1 includes details on Environmental and Social Criteria to be used during the process of evaluation and selection of Eligible Green Projects.

## 3.4 Management of Proceeds

EFI, the issuing entity, will grant an amount equal to the net proceeds to the subsidiaries in charge for the Eligible Green Projects via intercompany loans, with the purpose to finance the disbursements in connection with the Eligible Green Projects.

The above mentioned process will be monitored along the entire period in which the expected capex/opex will be incurred. The Green Bond Committee will review the allocation to the projects to ensure it meets the Environmental and Social Criteria set forth in the Green Bond Framework.

Until full allocation, on each reporting date, Enel will disclose the amount equal to the net proceeds not yet allocated to Eligible Green Projects which will be held temporarily by EFI in form of Cash, Time Deposit with Banks or Other form of available short term funding sources (i.e. Commercial Paper Programme, Bank Credit Line).

In the case of divestment or if a project no longer meets the eligibility criteria, the funds will be reallocated to other Eligible Green Projects.

Payment of principal and interest will be made from our general account and not be linked to the performance of the Eligible Green Projects.

## 3.5 Reporting

Annually, and until the maturity of the Enel Green Bonds issued, Enel will provide to investors on its website www.enel.com or within Enel's annual Sustainability report:

(i) annual updates to investors including brief project descriptions and the amounts allocated to the Eligible Green Projects
(ii) relevant impact metrics related to the Eligible Green Projects; for example, expected avoided greenhouse gas emissions, number of the social actions implemented, numbers of beneficiaries of the social actions implemented, expected electricity output in GWh. Enel could substitute any of the proposed impact metrics where appropriate to facilitate the reporting on the amount equal to the net proceeds to the selected Green Projects
(iii) the outstanding amount of net proceeds yet to be allocated to projects at the end of the reporting period. An independent auditor appointed by Enel will review that the allocation of the Green Bonds is done in accordance with Enel's Green Bond Framework.

## 3.6 External Review

### Second Party Opinion

Enel has retained Vigeo Eiris to provide a second party opinion on Enel's Green Bond Framework. Vigeo Eiris has reviewed Enel's Green Bond Framework for its sustainable and green qualities as well as its alignment with the Green Bond Principles, 2016. The objective of the Second Party Opinion is to provide investors with an independent assessment. The Second Party Opinion, as well as the Green Bond Framework hereof, will be published in the fixed income section of Enel's website Investor Relations page.

## Annual Assurance Report

An independent auditor will be appointed by Enel to provide an annual assurance report, until all the proceeds of the bonds have been allocated, confirming that an amount equal to the net proceeds of the bonds has been allocated in compliance with all material respects of the Eligible Green Projects criteria set forth in the Green Bond Framework and with the "Use of Proceeds" section of the final bond documentation.

## Appendix 1: Environmental and Social criteria

The ESG due diligence will consider the following issues:

ENVIRONMENT

- Environmental strategy and Eco-design
- Protection of biodiversity
- Pollution prevention and control throughout the project life-cycle (air, soils, water resources, transportation)
- Management of environmental impact from end-of-life equipment / dismantling

SOCIAL ISSUES

- Respect for human rights standards and prevention of violations
- Respect for labour rights
- Employment conditions (labour relations, training, health and safety, respect of working hours)
- Promotion of local social and economic development
- Societal impacts of project

PROJECT GOVERNANCE - BUSINESS BEHAVIOR

- Integration of environmental and social factors in the supply chain - Responsible procurement
- Business ethics (prevention of corruption and money laundering, fraud, anti-competitive practices)
- Audit & internal control

## Appendix 2: Examples of impact metrics to assess Eligible Green Projects effectiveness

Climate change mitigation

- Reduction of greenhouse gases emissions

Natural resources protection

- Water consumption
- Number and description of actions to protect/restore biodiversity

Social impact

- Number of social actions implemented
- Number of beneficiaries of the social actions implemented