

enel



# Enel's General Purpose SDG Linked Bond

## Context and Principles

September 4th, 2019

# Index

  
3  
The urgent need  
to act fast and now

  
4  
Enel's Mission,  
Leadership and  
Actions on the United  
Nation's Sustainable  
Development Goals  
("SDGs")

  
6  
Sustainability  
is Value Framework

  
8  
Enel's view  
on sustainable  
finance  
"Scale up to trigger  
the premium"

# The urgent need to act fast and now

It is becoming increasingly evident that **actions to limit global warming to 1.5°C are no longer a choice**. As stated by the IPCC Special Report, we are running out of time and, in order to **avoid the devastating impacts of climate change, GHG emissions need to be reduced by 45% by 2030** and our economy must be fully decarbonized by 2050.

Companies and governments must be ready to lead the change by setting challenging targets and developing flexible strategies, also aimed at influencing customer behaviour. **Companies will be expected to serve as an example of worldwide best practices and are a fundamental part of the solution to the equation that "Sustainability is Value Creation"**.

To accelerate the transition, **three strands of action will need to be progressed** (i) making **clean and affordable electricity** the mainstream energy technology of choice; (ii) boosting **sustainable and digital infrastructure development** whilst ensuring maximum **resilience**; (iii) making **electricity the energy vector of the future**, thus transforming mobility and lifestyles, digitalizing real estate and cities.

# Enel's Mission,

## Leadership and Actions on the United Nations Sustainable Development Goals ("SDGs")

The world is facing multiple challenges that the UN has identified by defining the Sustainable Development Goals (SDGs) as a universal call for action for governments and companies, to be tackled by 2030.

Enel is the leading global energy transition private player, both industrially (1st for Renewables installed capacity, Energy Distribution customers served and retail customers base, operating > 6 GW of Demand Response) and financially speaking (2nd utility globally in terms of market capitalisation and 1st in terms of EBITDA and net income).

Enel's mission is to solve the greatest challenges of the world, to build a future of progress for all, by opening up to more people; to new technologies; to new ways of managing and using energy, and to new partnerships.

# SUSTAINABLE DEVELOPMENT GOALS

Enel's strategy and Business Plan have a direct impact on 4 SDGs which account for >90% of capital spending and generate >90% of value in terms of EBITDA for the period 2019-2021

## 7 AFFORDABLE AND CLEAN ENERGY



**SDG 7**  
**"Affordable and clean energy"**, with 12€Bn of Capex on Renewables and over 11.6GW of additional capacity

## 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



**SDG 9**  
**"Industry, innovation and infrastructure"** with 11€Bn on power grid infrastructure, over 46.9mn smart meters and 5.4€Bn of Digital Capex on innovation and digitalization across the Company

## 11 SUSTAINABLE CITIES AND COMMUNITIES



**SDG 11**  
**"Sustainable cities and communities"** with over 2€Bn Capex for retail power and new electrification-oriented energy services to reach, among others, 9.9 GW of demand response and 455k charging points for eMobility

## 13 CLIMATE ACTION



**SDG 13**  
**"Climate action"** for the commitment on climate action and the reduction of its power mix's carbon intensity to <0,345k-g/kWheq in 2021 and 0,230kg/kWheq in 2030, which ultimately includes the previous direct actions

Enel indirectly contributes to other SDGs and will use **SDG 17 "Partnerships for the Goals"** as a reference point to tackle the world's multiple challenges and the SDG financing gap

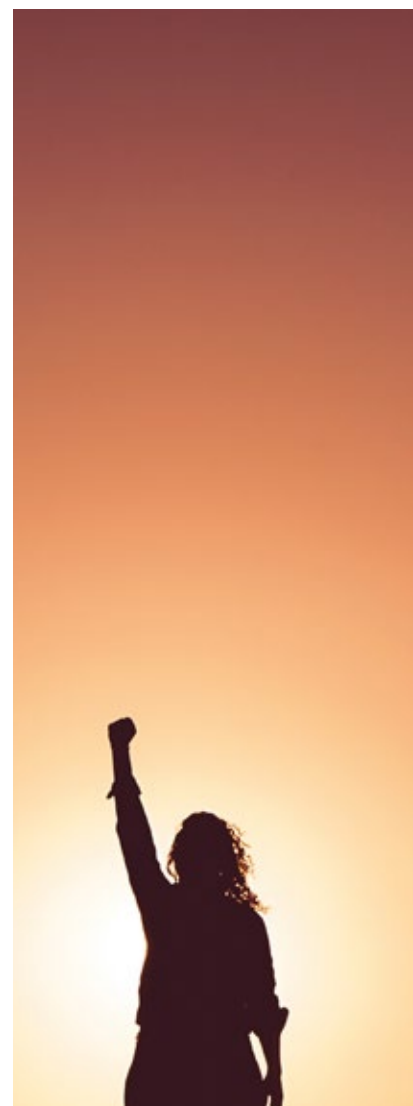
# Sustainability is Value Framework

## Sustainability and value creation are not mutually exclusive

If you plan and act for Sustainability, you generate value by means of superior performance, attracting both those that are traditionally Sustainability-oriented and those who still have to understand what is the value behind such a choice. Such a framework is the strategy **that everybody should follow** (customers, investors, rating agencies, bondholders, etc.) **to address the challenges we face and generate value at the same time.**

## Planning & delivering for sustainable, long-term value creation on the basis of key macro-trends grants a prospective and long-lasting sustainable value pool

Enel's value creation model is based on a long-term vision that aims to take advantage of opportunities in the energy transition in three main areas: (i) the **decarbonization of generation capacity**; (ii) **infrastructure development** and new **customer solutions** connected to **electrification and urbanization**; and (iii) **the digitalization of assets, customers, and human capital.**





## Value drivers of a sustainable company

Enel is committed to a strategy based on meeting the objectives of the Paris Agreement (COP21). By way of strategic planning and risk management integrated with Sustainability and climate-related opportunities, the Enel Group has been creating **sustainable value over the long term**. Over the last four years (2015-2018), the Group has increased profitability while achieving objectives related to decarbonization, digitalization, and customer service. **ROIC-WACC has expanded from 120bps to 250 over such period; Net Income/EBITDA has reached 25% (vs 19%) and DPS 0.28€/share vs 0.16**. The Group's Strategic and Business Plan 2019-2021 (the "Plan") continues on this pathway, based on a long-term view and the achievement of a series of objectives aiming to reach **a 400bps ROIC-WACC, a 29% Net Income/EBITDA and DPS of 0.39€/share by 2021**. Our market capitalization has passed from 35€Bn in 2014, to more than 65€Bn today.

## Cash generation (FCF) constantly growing, predictable and with low volatility

Enel Group EBITDA and net income have been steadily growing (+8% and 40%), in some cases beyond what was planned in the previous Business Plan, thus proving to be predictable and resilient to variable market conditions.

## A fully sustainable business contributing to a lower risk profile

Among other indicators, Enel Group share  $\beta$  (a measure of the volatility, or systematic risk, of an individual stock vs. risk of the market) has decreased by more than 45% from 1.14 in December 2014 to 0.62 in August 2019.

## Sustainable finance to pave the way for a lower cost of debt

We believe that a Sustainability strategy and the scale up of sustainable finance may help to improve credit metrics and may have a positive influence on the cost of debt, thanks to the weighting of a sustainability factor in a debtor's risk profile by investors and rating agencies.

# Enel's view on sustainable finance

“Scale up to trigger  
the premium”

## An overview on sustainable finance so far

Sustainable finance today is **mainly driven by financial products that embed an ESG component** in the structuring: **Green Bonds represent the lion's share** (~180\$Bn issued in 2018), with Social / Sustainability Bonds, Green loans and ESG-linked bank facilities also growing in volume. Green, Social and Sustainability Bonds have **specific requirements** in terms of «**use of proceeds**», that have to be invested in sustainable activities and require a specific level of **reporting**.

## Enel's leading role in the Green Bond space

Since 2017, **Enel has issued 3 Green Bonds for a total amount of 3.50€Bn outstanding**: 1.25€Bn in 2017, 1.25€Bn in 2018 and 1.00€Bn in 2019.

Enel has committed to investors to allocate its Green Bonds to sustainable activities only, which, according to its Green Bond Framework, means **renewables, infrastructures and network and Enel X projects**, with a total alignment between the asset development strategy and the financial strategy.

Over the last 3 years, Enel has experienced **a constantly growing demand** for its Green Bonds by investors.





## Still a (green) drop in the (fixed-income) ocean

Nevertheless, despite the evident trajectory of growth, it is estimated that **Green, Social and Sustainability Bonds account for less than 2% of global fixed-income issuance**. It is fair to say that **Green Bonds** (and use-of-proceeds bonds more in general) **represent useful tools for those companies that have a segregated sustainable business** that they would like to develop. For those companies like Enel, instead, where the strategy and business model are clearly sustainable, we strongly believe that innovative **general corporate purpose financing products which create financial incentives for the company to fulfill its sustainable business model** are the best way to progress the evolution of sustainable capital markets.

## A dual (and complementary) approach to scale up the sustainable finance market and trigger the Sustainability premium

Therefore, the challenge will consist in **linking the Sustainability strategy of the issuer (or borrower) to the terms of general corporate purposes debt**, incentivizing the achievement of pre-determined Sustainability performance targets.

This kind of approach will **complement the “use of proceeds” model of Green, Sustainable and Social Bonds** and accommodate for a more diverse range of corporate contributions to the sustainable investments. Therefore, it will produce beneficial effects like **expanding the scale of sustainable finance** and providing investors with an **understanding of the impact of the investment** in the context of a company’s overall strategy.

Our challenge will be to **engage the financial community**, in order to invite investors to **weigh ESG factors in their capital allocation** and **Rating Agencies to incorporate sustainability in their methodologies more holistically to assess credit ratings**, resulting over the long term in a **lower cost of capital for the best-performing companies**.

