



## **Green Financing Framework - A2A S.p.A.**

### **A2A Corporate profile**

A2A Group (A2A) is the largest and the most diversified multi-utility in Italy, with an integrated and balanced business mix, well positioned in all sectors where it is present. A2A operates throughout Italy, with a geographical presence concentrated in Northern Italy.

A2A is among the largest electricity generators in Italy, with approximately 9 GW of installed generation capacity and a production mix geared towards renewable sources; hydro production represents around a quarter of installed capacity, while waste-to-energy plants account for approximately 0.4 GW, positioning A2A as the first player in Italy by electricity production through waste-to-energy plants. Moreover, A2A has been continuously strengthening its presence in the photovoltaic sector since 2017, until reaching the existing generation capacity of approximately 100 MW.

In Italy, A2A has also a leading position in environmental services, where it operates along the entire waste management cycle (i.e. spanning from waste collection and street sweeping to the treatment and recovery of materials and energy from waste), and in the district heating sector (i.e. sale of heat, cogeneration, district heating networks and heat management services).

A2A is committed to a constant process of integration in the territories, where it operates, as its objective is creating shared and sustainable value over time with its reference communities, offering and continuously improving high quality services and high efficiency standards. A2A is thus investing on research and development to improve its processes and operations as well as contribute to the smart city of the future.

The solidity of A2A's business model is stemming from the integration of its wide diversified portfolio of assets and services, which enables the group to constantly evolve in line with the changes in the sectors where it operates and, ensuring a long lasting path of sustainable growth.

## **Sustainability: Commitment and policies**

A2A was among the first Italian companies<sup>1</sup>, in April 2016, in redesigning its own sustainability strategy in light of the UN Agenda priorities, defining a Sustainability Plan and a Sustainability Policy through to 2030.

The Sustainability Policy of A2A was aimed at **helping the communities in which it operates to be more sustainable**, through a responsible management of their activities and a solid culture of sustainability. The Policy was the result of a shared process, involving the top management as a whole; started from comparing the 17 UN SDGs with the core business and objectives of A2A: ten SDGs were selected, contributing in setting the priorities and commitments to the 2030.

The SDGs selected were then included into **four pillars** that currently characterize A2A's sectors of activity:



The Sustainability Plan contains the A2A's sustainability objectives quantified over a time horizon consistent with its 5-years Strategic Plan. Any actions included in the Sustainability Plan consists of various indicators aimed at monitoring the progress made in achieving the challenging goals set by 2030. Indeed, the development of the Sustainability Plan is linked to the management incentive systems of A2A.

The real value added of the Sustainability Policy lies in the quantitative definition of KPIs and 2030 targets approved by Board of Directors. The practical approach transforms the Sustainability Policy in a **steering tool** that enable the company to meet its mission statement: *"...a more modern multiutility, leader in the environment sector, smart grids and new energy models, more balanced and profitable, able to seize the opportunities that will open up in the Green economy and Smart<sup>2</sup> Cities".*

<sup>1</sup> [https://www.globalcompactnetwork.org/files/pubblicazioni\\_stampa/pubblicazioni\\_network\\_italia/Report-Italian-Businesses-Practices-Towards-Sustainable-Development.pdf](https://www.globalcompactnetwork.org/files/pubblicazioni_stampa/pubblicazioni_network_italia/Report-Italian-Businesses-Practices-Towards-Sustainable-Development.pdf)

<sup>2</sup> "Smart" indicates a digital city with real-time communication systems leading to GHG emissions reductions.

## **Basis of the A2A Green Financing Framework**

A2A believes that the issuance of Green Financing Instruments could contribute to fostering the transition to a low-carbon economy, giving financial backing to the projects (existing or new ones) enabling this transition.

The use of Green Financing instruments is also in line with A2A's financing policy aimed at continuously diversifying its investor base and broadening its capital markets offerings.

Furthermore, this type of instruments would contribute to further facilitate disclosure and meet the investors' growing request for greener assets and increased transparency as to better allocate their funds and measure their contribution to a more sustainable financial system.

The framework defined by A2A is aligned with the Green Bond Principles (GBP), published by the International Capital Market Association (ICMA) – 2018 version and the Green Loan Principles (GLP) published by the Loan Market Association (LMA) – 2018 version. A2A Green Financing Framework is based on the following 4 pillars: (1) Use of Proceeds, (2) Process for project evaluation and selection, (3) Management of proceeds, (4) Reporting.

Potential Green Financing instruments include green bonds (green use of proceeds bonds), green loans, green project finance and any other financial instruments where an Eligible Green asset or project, or a group of those, are allocated to.

The Framework may, from time to time, be updated and will apply to any Green Financing instruments issued by A2A after its publication.

A2A has a centralized approach in accessing to the banking and capital markets with the aim of ensuring the best market conditions and the most efficient use of financial instrument in its group's subsidiaries. In most cases A2A, when financing the investment and activities of the group, is directly issuing the funding instruments; funds are then available to its group's subsidiaries through intercompany agreements, which entitle the parent company to manage cash and funding on behalf of the subsidiaries.

All the Eligible Green Projects are carried out either directly or indirectly through A2A's subsidiaries.

More info about A2A Group (business description, financial profile, strategy and policies) are available on [www.a2a.eu](http://www.a2a.eu) .

## (1) Use of Proceeds

An amount equal to the net proceeds from the issuance of the Green Financing Instruments will be used to finance or refinance, in part or in full, new or existing, **Eligible Green Projects**. Eligible Green Projects may include capital expenditures, operating expenditures related to improvement and maintenance of Eligible Green Projects, research and development, materials acquisition cost, and acquisitions of renewable energy (solar and wind) assets. Where feasible, A2A will disclose in its annual reporting, the year of operation of the acquired asset. A2A intends to prioritise, where possible, newer over older assets.

Eligible Green Projects are included in the following categories, which are also linked to the A2A's Policy Pillars:

### CIRCULAR ECONOMY (SDGs 6, 12, 15):

| Green Sector                                       | Eligible Green Projects   | Environmental Benefits  | SDG Contribution  |
|--|---|---|---|
| <b>Pollution Prevention and Control</b>            | <p>Projects aimed at the construction, development, operation and maintenance of facilities, systems or equipment used to reduce GHG emissions and waste disposal.</p> <p><b>Green Eligible Projects include:</b></p> <ul style="list-style-type: none"> <li>• Plastic selection plants</li> <li>• Waste collection services for municipalities</li> <li>• New waste to energy plant (urban waste) (<math>R1 \geq 0.65</math>)<sup>3</sup></li> <li>• Plants to recover organic fraction (OFMSW)</li> </ul>   | <p>Climate change mitigation</p> <p>-</p> <p>Pollution prevention and control</p> |   |
| <b>Sustainable Water and Wastewater Management</b> | <p>Projects aimed at the construction, development, operation and maintenance of facilities, systems or equipment used for sustainable infrastructure for clean and/or drinking water, wastewater treatment and sustainable urban drainage systems.</p> <p><b>Green Eligible Projects include:</b></p> <ul style="list-style-type: none"> <li>• Wastewater treatment and purification plants, networks and appliances;</li> <li>• Reduction of water losses projects (automatic systems to find leakages, new pipelines, water smart meters)</li> </ul> | <p>Natural Resource Conservation</p>  |    |

<sup>3</sup> Source: Waste Framework Directive 2008/98/EC

## DECARBONIZATION (SDGs 7, 13):

| Green Sector                       | Eligible Green Projects   | Environmental Benefits           | SDG Contribution  |
|------------------------------------|---|----------------------------------|---|
| <p><b>Renewable Energy</b></p>     | <p>Projects aimed at increasing the Group production of renewable energy, through acquisitions, construction or maintenance projects.</p> <p><b>Green Eligible Projects include:</b></p> <ul style="list-style-type: none"> <li>• PV / Wind grid parity green-field</li> <li>• Small hydro power plants (&lt; 25MW of installed capacity)</li> <li>• Photovoltaic onshore plants</li> <li>• Wind onshore farm</li> <li>• Conventional plant reconversion</li> <li>• New plants of biomethane production (through biogas recovery)</li> </ul>  | <p>Climate change mitigation</p> |   |
| <p><b>Energy Efficiency</b></p>    | <p>Projects aimed at systems or products that reduce energy consumption or mitigate greenhouse gas emissions.</p> <p><b>Green Eligible Projects include:</b></p> <ul style="list-style-type: none"> <li>• Storage systems development</li> <li>• Waste to energy efficiency revamping/upgrade (energy production and district heating) (R1 ≥ 0.60)</li> <li>• Services to improve energy efficiency of public lighting from traditional lighting to LEDs technology.</li> </ul>   | <p>Climate change mitigation</p> |  |
| <p><b>Clean Transportation</b></p> | <p>Projects aimed at construction, development, operation, acquisition and maintenance of infrastructure for sustainable mobility and cleaner vehicles with a lower environmental impact, for communities and for the Group's fleet.</p> <p><b>Green Eligible Projects include:</b></p> <ul style="list-style-type: none"> <li>• Low environmental impact waste-collection vehicles (Euro 6; full methane gas; full electric powered)</li> <li>• Low impact cars (full methane gas; full electric powered) used for operations in the DSO activities;</li> <li>• Electric car charging hub</li> </ul> | <p>Climate change mitigation</p> |   |

|  |  |  |  |
|--|--|--|--|
|  | <ul style="list-style-type: none"> <li>• Biomethane filling station for vehicles.</li> </ul> |  |  |
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**SMART NETWORKS AND SERVICES (SDGs 9, 11):**

| Green Sector   | Eligible Green Projects   | Environmental Benefits   | SDG Contribution  |
|--|---|--|---|
| <p><b>Transmission and Distribution Networks</b></p> | <p>Projects aimed at connecting renewable sources, enhancing distributed energy, improving smart grids (efficiency and reliability), decreasing electricity losses and gas leakages of the existing networks.</p> <p><b>Green Eligible Projects include:</b></p> <ul style="list-style-type: none"> <li>• Investments in smart grid</li> <li>• New district heating development</li> <li>• Smart meters installation (electricity and gas)</li> <li>• Investments with the aim to reduce gas leakages of the existing networks (replacement of parts of gas networks, new system to predict gas losses)</li> <li>• New primary electric stations to improve the resilience of grid</li> <li>• Investment aimed at reducing electricity losses in the networks (replacement of network joints on the electricity grid).</li> </ul> | <p>Climate change mitigation</p> <p>-</p> <p>Natural Resource Conservation</p> | <br> |

If for any reason a project were no longer eligible, A2A will use its best effort to substitute any assets that are no longer eligible, and/or if any material and critical controversies emerge<sup>4</sup>, as soon as practical once an appropriate substitution has been identified giving evidence in the allocation report. Moreover, all potential projects will be evaluated and monitored by Enterprise Risk Management process that include ESG issue during all their life.

A2A Group will exclude any project that does not meet the international acknowledged sustainable best practices such as for example, Global Compact or International Labour Organization.

Any project, asset, expenditure or investments (included unallocated proceeds) related to the following activities will be excluded:

- Fossil energy generation
- Nuclear energy generation

<sup>4</sup> For example: losing of environmental licenses and permits, extended violation of the law that cause plant downtime, exceeding air emissions limits imposed by the law that could lead to penal sanctions, and failure to respect A2A’s Code of Ethics and Anticorruption Policy.

## **(2) Process for Project Evaluation and Selection**

Since 2015 A2A has put in place, as part of the Board of Directors, a dedicated **Sustainability and Territory Committee**, tasked with playing an evaluative, advisory and propositional role in assisting the Board of Directors, Chairman and Chief Executive Officer of the Group in defining guidelines and initiatives relating to the promotion of a strategy and tools that integrate sustainability into the business process.

To further strengthen the integration of sustainability into its Business Model, A2A has set up a dedicated cross-departmental Green Financing Committee (GFC) aimed at identifying and selecting Eligible Green Projects.

The GFC will be comprised of members from the following departments:

- ✿ Finance
- ✿ Corporate Social Responsibility
- ✿ Strategy
- ✿ Planning & Control
- ✿ Innovation
- ✿ Subsidiaries/Business Units involved, relating to specific project.

The Committee meeting will take place on a semi-annual basis and as and when the situation requires. Minutes of the meetings will also be prepared.

After approval by the Committee, potential eligible projects will be recorded in the Green Financing Register.

The GFC's role will be to:

1. Review, select, validate and monitor the pool of Eligible Green Projects, based on Sustainable Policy, enterprise risk valuation and the Green Financing Framework;
2. Identify the proper impact metric that best describes the environmental benefits;
3. Draft, verify and validate annual reporting for investors;
4. Monitoring the on-going evolution related to the Sustainable Capital Markets in terms of disclosure/reporting in order to be in-line with market best practices; and
5. Review the Framework to reflect any changes about the Company's sustainability strategies and initiatives.

## **(3) Management of the Proceeds**

The net proceeds from A2A's Green Financing Instruments will be allocated in the general account and an amount equal to the net proceeds will be earmarked for allocation to the Eligible Green Projects as selected by the GFC. The process will be in accordance with A2A's Green Financing Framework.

Net proceeds will refinance Eligible Green projects disbursed, delivered or acquired up to 36 months before the issuance of a Green Financing instrument.

A2A's Treasury will allocate the financing instrument proceeds to the corporate entities in charge of the projects via intercompany loans or equity capital, with the purpose to finance the disbursements in connection with the Eligible Green Projects carried out by A2A's subsidiaries.

Pending the allocation or reallocation, as the case may be, of the net proceeds, A2A will invest the balance of the net proceeds, at its own discretion, in cash and/or cash equivalents and/or other liquid marketable instruments which will not include GHG intensive activities as per the company's financial policy.

The payment of principal and interest on any financing instrument issued by A2A under the Framework will be made from its general funds and will not be linked to the performance of any Eligible Green Project.

#### **(4) Reporting**

On an annual basis, at least until full allocation or in case of material changes, A2A will provide the following reporting on its Green Financing instruments(s):

- ✿ **Allocation reporting:** detailing the financing instrument proceeds allocation by category of Eligible Green Projects; the proportion of net proceeds used for financing versus refinancing; if feasible, the co-financing share; and, the balance of any unallocated proceeds. The Allocation report will be available on the company's website.
  
- ✿ **Impact/Performance reporting:** A2A will report, where feasible, on a number of impact metrics by category of Eligible Green Projects for projects funded with the net proceeds of the Green Financing instrument. Impacts, methodologies and assumptions of indicators are disclosed in the annual Non-Financial Disclosure Report that is available on the company's website.

**Examples** of relevant metrics could include:

| Type of Project                                    | Environmental Benefit  | UN SDGs Support | Amount allocated to the Green Financing Investment (€) | Metrics  |
|--|--|-----------------|--|--|
| <b>Pollution Prevention and Control</b>            | Climate change mitigation<br>-<br>Pollution prevention and control | 6; 12 ;15;11    | €  | <ul style="list-style-type: none"> <li>- Waste treatment capacity (municipal + special waste) aimed at recovering material (kt/year)</li> <li>- Waste-to-energy treatment capacity (kt/year)</li> <li>- CO<sub>2</sub> avoided thanks to WTE energy production (tons)</li> <li>- Increase of recycling capacity (tons)</li> <li>- Increase of collection capacity (tons)</li> </ul>  |
| <b>Sustainable Water and Wastewater Management</b> | Natural Resource Conservation                                      | 6; 12 ;15;11    | €  | <ul style="list-style-type: none"> <li>- Reduction in linear water losses (m<sup>3</sup>/km/days)</li> <li>- Improvement in BOD (tons)</li> <li>- Improvement in COD (tons)</li> <li>- Water saving (m<sup>3</sup>)</li> <li>- Reduction hexavalent chromium concentration (µg/L)</li> </ul>   |
| <b>Renewable Energy</b>                            | Climate change mitigation  | 7;13            | €  | <ul style="list-style-type: none"> <li>- Percentage of thermal energy produced from renewable sources and process recovery with respect to total thermal energy collected into the district heating network</li> <li>- RES installed capacity (MW)</li> <li>- Energy production from RES (MWh/year)</li> <li>- Co<sub>2</sub> emission avoided (tCO<sub>2</sub>eq)</li> </ul>  |
| <b>Energy Efficiency</b>                           | Climate change mitigation  | 7;13            | €  | <ul style="list-style-type: none"> <li>- Number of new LED light points installed on public lighting</li> <li>- Energy saving thanks to LED light points installation (MWh/year)</li> <li>- CO<sub>2</sub> avoided thanks to interventions to promote energy efficiency in end uses (tons)</li> <li>- Waste-to-energy treatment capacity (CO<sub>2</sub> avoided thanks to WTE energy production)</li> <li>- Improvement in energy efficiency (ton/kWh)</li> </ul> |
| <b>Clean Transportation</b>                        | Climate change mitigation  | 7;13            | €  | <ul style="list-style-type: none"> <li>- Number of new low environmental impact Group's vehicles (by category)</li> <li>- Number of electric vehicle charging stations installed</li> <li>- Km travelled at zero emissions thanks to the electricity supplied by the charging points with 100% renewable energy supplied</li> </ul>  |

|   |   |      |   |  |
|---|---|------|---|--|
|   |   |      |   | <ul style="list-style-type: none"> <li>- CO<sub>2</sub> emissions per Km</li> <li>- NO<sub>x</sub> emissions avoided per Km (tons)</li> </ul>  |
| <b>Transmission and Distribution Networks</b> | Climate change mitigation<br>-<br>Natural Resource Conservation | 9;11 | € | <ul style="list-style-type: none"> <li>- Number of Smart Grid projects</li> <li>- CO<sub>2</sub> avoided thanks to the reduction of methane leakages from existent distribution networks (tCO<sub>2</sub>eq)</li> <li>- Total energy savings (MWh)</li> <li>- CO<sub>2</sub> avoided thanks to the extension of district heating (tons)</li> </ul> |

## **Second Party Opinion**

A2A has appointed Vigeo Eiris to provide a Second Party Opinion on this Green Financing Framework.

This Second Party Opinion is available on A2A's website.

## **External Review**

External auditors appointed by A2A will verify on an annual basis and until the full allocation, the allocated proceeds to Eligible Green Projects and the remaining balance of unallocated proceeds, within the annual report review.

Auditors will also verify the compliance of the allocated proceeds with the Eligible Project categories. The auditors' report will be made available on A2A's website.

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