

## SECOND PARTY OPINION (SPO)

---

Verification of the Sustainability Quality of the Issuer and Green Financing Framework

Acea S.p.A  
16 January 2021

### VERIFICATION PARAMETERS

---

Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>• Green Bond</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• Green Bond Principles, Green Loan Principles</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• Acea Green Financing Framework (as of January 2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• This SPO is valid as long as the framework remains unchanged.</li></ul>

## CONTENTS

Scope of Work.....	3
ISS ESG ASSESSMENT SUMMARY .....	4
ISS ESG SPO ASSESSMENT.....	5
PART I: ASSESSMENT OF ACEA’S ESG PERFORMANCE .....	5
PART II: ALIGNMENT WITH THE GREEN BOND PRINCIPLES AND GREEN LOAN PRINCIPLES.....	8
PART III: SUSTAINABILITY QUALITY OF THE ELIGIBLE CATEGORIES.....	13
A. CONTRIBUTION OF THE GREEN CATEGORIES TO THE UN SDGs .....	13
B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA OF THE ELIGIBLE PROJECTS .....	15
ANNEX 1: ISS ESG Corporate Rating .....	17
ANNEX 2: Methodology .....	21
ANNEX 3: Quality management processes .....	22
About ISS ESG SPOs.....	23

## Scope of Work

Acea S.p.A. (Acea) commissioned ISS ESG to assist with its Green Financing Framework by assessing three core elements to determine the sustainability quality of the framework:

1. Acea's sustainability performance, according to the ISS ESG Corporate Rating.
2. Acea's Green Financing Framework – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBPs) and Loan Market Association (LMA) Green Loan Principles (GLPs).
3. The eligible project categories' selection criteria – whether the projects contribute positively to the UN SDGs and their performance against ISS ESG's key performance indicators (KPIs) (See Annex 2).

## ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<b>Part 1:</b>  <b>Issuer sustainability performance</b>	The issuer is rated 12 <sup>th</sup> out of 60 companies within the Utilities/ Multi Utilities sector as of 16.01.2021. This equates to a high relative performance, with a Decile Rank <sup>2</sup> of 2.	<b>Status:</b> <i>Not Prime</i>  <b>Decile Rank:</b> 2
<b>Part 2:</b>  <b>Alignment with GBPs and GLPs</b>	The issuer has defined a formal concept for its green financing instrument regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBPs and GLPs.	<b>Positive</b>
<b>Part 3:</b>  <b>Sustainability quality of the eligible projects selection criteria</b>	<p>The overall sustainability quality of the eligible projects selection criteria in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment.</p> <p>The eligible project categories include “circular economy projects” such as wastewater management, anaerobic digestion of bio-waste and/or sewage sludge, waste management, water supply, smart meters, electric vehicles, charging station for electric vehicles, energy efficiency improvement in transmission and distribution networks, and solar PV.</p> <p>These categories have a significant contribution to SDG 6 ‘Clean Water and Sanitation’, 7 ‘Affordable and Clean Energy’, 12 ‘Responsible Production and Consumption’ and 13 ‘Climate Action’. They also have a limited contribution to SDG 3 ‘Good Health and Wellbeing’ and 9 ‘Industry Innovation and Infrastructure’.</p>	<b>Positive</b>

<sup>1</sup> ISS ESG’s evaluation is based on Acea’s Green Financing Framework, on the analysed Eligible Project categories as received in January 2021 and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 24.02.2020).

<sup>2</sup> Rank relative to industry group. 1 indicates a high relative ESG performance, while 10 indicates a low relative ESG performance.

## ISS ESG SPO ASSESSMENT

### PART I: ASSESSMENT OF ACEA'S ESG PERFORMANCE

**Methodological note:** To introduce the assessment of the sustainability quality of this Green Bond, ISS ESG wants to emphasize the current ESG strategy of the issuer. Please note that this section of the SPO is extracted from the ISS ESG Corporate Rating of Acea. As the ESG Corporate Rating does not reflect certain recent developments at the time of publication of this SPO, the assessment below has been partly amended.

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

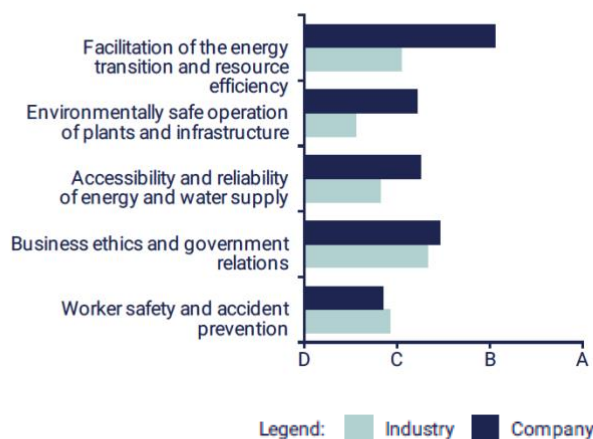
COMPANY	DECILE RANK	TRANSPARENCY LEVEL
ACEA	2	VERY HIGH

#### ESG performance

As of 16.01.2021, this Rating places Acea 12<sup>th</sup> out of 60 companies rated by ISS ESG in the Utilities/ Multi Utilities sector.

Key Challenges faced by companies in term of sustainability management in this sector are displayed in the chart on the right. The issuer performs better than its industry average on 4 out of 5 key ESG challenges relevant for its industry.

#### Key Issue Performance



#### Sustainability Opportunities

Acea S.p.A. (Acea) is a multi-utility company, which is principally engaged in the water, wastewater, energy and waste treatment sector. In 2019, energy supply accounted for over 50% of revenues while 31.3% of the company's revenues were based on water supply. With the purification of water as well as the provision of clean drinking water and sanitary services, the company contributes to the global goal to ensure universal access to water. The company is also engaged in some relevant activities in this regard in Honduras, Peru and the Dominican Republic.

In 2019, Acea's energy generation was mainly based on hydropower (47.1%) and waste-to-energy (39.5%), followed by natural gas (9.8%). Solar power and biogas accounted for 1.2% and 2.2% respectively, and a very low share (0.1%) was also based on diesel. If the biogenic share of waste incinerated is also taken into account the renewable energy share of total generation is comparatively high with 70.2% in 2019. In the 2020-2024 Business Plan presented by Acea in October 2020, the Company has committed to materially increase the proportion of renewable energy installed capacity as evidenced by the increase in FTV installed capacity from 36MW in 2019 to 747MW in 2024. Further, with 374 g/kWh, the carbon intensity of electricity generation is still at a common industry level.

### *Sustainability Risks*

Acea has established clear greenhouse gas emission targets regarding its direct and indirect emissions, but it is unclear whether they are in line with emission reductions required to reach global climate goals, although the Company at the end of 2020 has initiated a project to define a SBT. Further, although the company relies to a large extent on hydropower generation, it does not elaborate on its management approach to reduce related negative environmental impacts. With regard to its water business, the company refers to some relevant measures to ensure sustainable water withdrawal and has taken various measures to reduce leakages from the water distribution system, but its current leakage rate is comparatively high (for example, for Ato 2, Acea's largest water company, the leakage rate was 44% in 2019): the Company is committed to reduce water leakage by 11 p.p. on average by 2024. The company has taken measures to ensure environmentally friendly wastewater management, e.g. with regard to sludge and treatment standards, and to reduce impacts of the operation of waste-to-energy plants.

Although comprehensive health and safety management systems are documented, there may be some deficiencies regarding its implementation, as Acea's accident rate is high. Acea's code of ethics includes general provisions on important issues including corruption and antitrust violation. However, other aspects such as facilitation payments are not covered. Corresponding compliance procedures are in place, e.g. compliance risk assessments, trainings and confidential hotlines.






### *Governance opinion*

Acea is majority-owned by the City of Rome (51.1% of total share capital as at February 3, 2020). The company's governance structure exhibits some deficiencies. While the company's board of directors is mainly composed of independent members, the company's chair Michaela Castelli cannot be classified as being independent (as at December 18, 2019). While largely independent board committees in charge of nomination and remuneration, and in charge of ethics and sustainability, have been set up, 3 out of 4 members of the audit committee are independent. The company discloses its remuneration policy for executives, including long-term components, which could encourage sustainable value creation.

The company has established an ethics and sustainability committee, which is composed of 4 independent members (as of 2020). Additionally, members of the executive team are entitled to monetary bonuses for the attainment of sustainability targets. No more detailed information on the targets is available. Acea's code of ethics includes general provisions on important issues including corruption and antitrust violation. However, other aspects such as facilitation payments and insider dealings are not covered. Corresponding compliance procedures are in place, e.g. compliance risk assessments, trainings and confidential hotlines.

*Sustainability impact of products and services portfolio*

Using a proprietary methodology, ISS ESG assessed the contribution of Acea’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to evaluation of final product characteristics and does not include practices along the Acea production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
<b>Water and wastewater services</b>	31.1%	CONTRIBUTION	 
<b>Energy and water supply/wastewater services for residential customers</b>	68%	CONTRIBUTION	
<b>Energy generation based on hydropower &gt;10 MW and renewable share of waste-to energy generation</b>	1%	CONTRIBUTION	 
<b>Others</b>	N/A	NO NET IMPACT	N/A

*Breaches of international norms and ESG controversies*

The company is not facing any controversy.

## PART II: ALIGNMENT WITH THE GREEN BOND PRINCIPLES AND GREEN LOAN PRINCIPLES

### 1. Use of Proceeds

Acea's Eligible Green Projects are divided between four green development axes aligned with the UN 2030 Agenda:

- Water Management
- Energy Efficiency
- Circular Economy
- Green Energy

Each of these four classes are defined as follow:

- **Water management**

ELIGIBLE GREEN PROJECT CATEGORY	DESCRIPTION	ENVIRONMENTAL OBJECTIVES
<b>Water Resource Protection</b>	<ul style="list-style-type: none"> <li>• Investment aiming at reducing at least by 20% water losses and installation of gauges for pressure and flow rate management</li> <li>• Production and installation of water smart meters on the network</li> <li>• Water supply system aimed at increasing the resiliency of the water supply system.</li> </ul>	Sustainable use and protection of water and marine resources

- **Energy efficiency**

ELIGIBLE GREEN PROJECT CATEGORY	DESCRIPTION	ENVIRONMENTAL OBJECTIVES
<b>Resiliency of electricity distribution Infrastructure<sup>3</sup></b>	<ul style="list-style-type: none"> <li>• Investments to reduce networks energy losses</li> <li>• Investments in digital technologies to improve the management and increase the efficiency of the electric grid</li> </ul>	<p>Climate Change Mitigation</p> <p>Climate Change Adaptation</p>

<sup>3</sup> The transmission and distribution infrastructure or equipment in the system is the interconnected European system, i.e. the interconnected electricity system covering the interconnected control areas of Member States Norway, Switzerland and the United Kingdom, and its subordinated systems.



<b>Clean Transportation and Infrastructure for Low Carbon Transport</b>	<ul style="list-style-type: none"> <li>• Installation of charging stations for electric vehicles and related services</li> <li>• Acquisition of zero emissions vehicles</li> </ul>	Climate Change Mitigation
<b>Smart Meters</b>	<ul style="list-style-type: none"> <li>• Production and installation of energy smart meters on the network</li> </ul>	Climate Change Mitigation

• **Circular economy**

ELIGIBLE GREEN PROJECT CATEGORY	DESCRIPTION	ENVIRONMENTAL OBJECTIVES
<b>Wastewater Treatment</b>	<ul style="list-style-type: none"> <li>• Operation of wastewater collection and treatment aiming at reducing sewage sludge</li> </ul>	Sustainable use and protection of water and marine resources
<b>Anaerobic Digestion of Bio-waste and/or Sewage Sludge</b>	<ul style="list-style-type: none"> <li>• New and revamping of the Anaerobic digestion facilities.</li> <li>• Facilities and services related to composting of bio-waste</li> </ul>	Climate Change Mitigation Transition to a Circular Economy
<b>Waste Management</b>	<ul style="list-style-type: none"> <li>• Infrastructure to increase the total waste management capacity<sup>4</sup></li> <li>• Installation of Smart composting systems</li> </ul>	Transition to a Circular Economy

• **Green Energy**

ELIGIBLE GREEN PROJECT CATEGORY	DESCRIPTION	ENVIRONMENTAL OBJECTIVES
<b>Renewable Energy</b>	<ul style="list-style-type: none"> <li>• Construction, acquisitions and development of photovoltaic plants and development of greenfield photovoltaic plants</li> </ul>	Climate Change Mitigation

Eligible Green Projects include refinancing and new financings of capital expenditures, selected operating expenditures such as maintenance costs related to green assets and, where applicable,

<sup>4</sup> where the activity converts at least 50 %, in terms of weight, of the processed separately collected non-hazardous waste into secondary raw materials that are suitable for the substitution of virgin materials in production processes.

research and development expenditures. In the case of operating expenditures, this includes a look-back period of up to 3 calendar years prior to the issuance of Green Bonds.

Through the Green financing instruments in the scope of this framework, Acea will not finance and/or refinance any projects related to fossils fuel activities and any energy production facilities with an energy intensity above 100gCO<sub>2</sub>e/kWh.

**Opinion:** *ISS ESG finds that the Use of Proceeds description provided by Acea aligns with the GBPs and GLPs. Expected environmental benefits are clearly displayed and the eligible categories are aligned with the broader strategy of the issuer toward sustainability. Moreover, the issuer built these macro investment areas along the lines of the UN 2030 Agenda. Regarding the operating expenditures, ISS ESG suggests to decrease the look-back period from 3 to 2 years, as per market best practices.*

## 2. Process for Project Evaluation and Selection

Acea's Green Finance Working Group is composed by members of Finance, Planning & Control and Sustainability Planning & Reporting departments. It is chaired by the CFO. Acea's Green Finance Working Group will be in charge of monitoring the selection and allocation process as per the eligibility criteria defined in the Use of Proceeds section above.

As such, the Green Finance Working Group will be responsible for the following:

- 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,
- Monitoring the Eligible Green Project portfolio during the life of the transaction. The working group or Committee can decide to replace an Eligible Green Project if it no longer meets the eligibility criteria,
- Monitoring any ESG controversy (such as controversies that may impact local communities or changes in ecosystems) that are directly related to an Eligible Green Project.
- If the Sustainability department deems that an eligible project becomes subject to a major ESG controversy, the Green Finance Working Group will analyze it and may decide to exclude and replace such Eligible Green Project,
- Managing any future update of the Green Financing Framework.

**Opinion:** *ISS ESG finds that the Process for Project Evaluation and Selection provided by Acea aligns with the GBPs and GLPs. Through the creation of a working group, Acea is ensuring that relevant internal stakeholders are involved in this process. The issuer sets a structured and transparent project selection process, including monitoring for eventual changes or controversies in projects.*

### 3. Management of Proceeds

An amount equivalent to net proceeds of each Green financing will be allocated to disbursements for Eligible Green Projects and managed by the Green Finance Working Group. For Bond issuances, Acea endeavors on a best effort basis to reach full allocation within two years following the issuance of each Green Bond.

The Green Finance Working Group will monitor and track the net proceeds through a dedicated reporting. Pending full allocation, unallocated proceeds may temporarily be invested in accordance with Acea’s investment guidelines in cash, deposits and money market instruments or SRI Investment.

**Opinion:** ISS ESG finds that the description of the Management of Proceeds provided by Acea aligns with the GBPs and GLPs. Appropriate tracking of the proceeds is in place and intended types of temporary investment instruments for unallocated proceeds are disclosed, reflecting good market practices.

### 4. Reporting

Acea 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.

#### 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 Acea’s website.

#### Impact Reporting

Acea will provide an impact report to support the allocation report described above.

Key environmental impact indicators per Eligible Green Project Category will include estimated expected impact reporting metrics when feasible, such as:

Pillar of Acea’s business plan	Possible output indicators	Impact indicators
Water Management	<ul style="list-style-type: none"> <li>• Volume of water distributed (m<sup>3</sup>)</li> <li>• Numbers of gauges installed for pressure and flow rate management</li> </ul>	Estimated annual reduction in volume of water losses (m <sup>3</sup> /year)

<p><b>Energy Efficiency</b></p>	<ul style="list-style-type: none"> <li>• Number of charging point for electric vehicles installed</li> <li>• Number of users of the e-mobility platform</li> <li>• Number of smart meters installed</li> </ul>	<p>Estimated annual reduction in energy consumption (% or MWh/year)</p> <p>Estimated annual reduction in GHG emission (tCO<sub>2</sub>e/year)</p>
<p><b>Circular Economy</b></p>	<ul style="list-style-type: none"> <li>• Volume of water treated (m<sup>3</sup>)</li> <li>• Volume of sludge produced (t)</li> <li>• Amount of waste recycled (tons)</li> <li>• Amount of biogas/biomethane produced (m<sup>3</sup>)</li> <li>• Number of composting points installed</li> </ul>	<p>Estimated sludge reduced (t)</p>
<p><b>Green Energy</b></p>	<ul style="list-style-type: none"> <li>• Installed energy capacity (MW)</li> </ul>	<p>Estimated annual reduction in GHG emission (tCO<sub>2</sub>e/year)</p>

**Opinion:** ISS ESG finds that the Acea’s Reporting description is aligned with the GBPs and GLPs. The issuer gives details about level, frequency, scope and duration of reporting for both allocation and impact reporting. Impact indicators are well defined, and intended public disclosure further enhances the quality of the reporting.

## External review

### Second Party Opinion

A leading Second Party Provider will issue a Second-Party Opinion on the Framework, to confirm the alignment of the Framework to the ICMA’s Green Bond Principles and LMA’s Green Loan Principle. The Second Party Opinion document will be made available on Acea’s website.

### Post issuance external verification

An external verification on the allocation reporting will be provided, by Acea’s auditors, on an annual basis and until the complete allocation of proceeds. The external auditor will verify that the proceeds of the bonds are either allocated to Eligible Projects or invested in approved financial instruments. This will be published on Acea’s website.

## PART III: SUSTAINABILITY QUALITY OF THE ELIGIBLE CATEGORIES











### A. CONTRIBUTION OF THE GREEN CATEGORIES TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green Financing Framework and using a proprietary methodology<sup>5</sup>, ISS ESG assessed the contribution of the use of proceeds to the Sustainable Development Goals defined by the United Nations (UN SDGs). For certain project categories, this evaluation differs from the ISS ESG proprietary methodology and is based on the sub-targets of relevant UN SDGs.

This assessment is displayed on 5-point scale (see Annex 2 for methodology):





<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
------------------------------------	--------------------------------	--------------------------	---------------------------------	-------------------------------------

Each of the Green Bond's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Circular Economy projects such as wastewater management, anaerobic digestion of bio-waste and/or sewage sludge, and waste management	Significant contribution	   
	Limited contribution	
Water supply	Significant contribution	
	Limited contribution	
Smart meters	Limited contribution	  

<sup>5</sup> This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs.

<sup>6</sup> The internal ISS ESG methodology assessment can sometimes differ from ACEA's own UN SDG mapping present in its framework.

Electric vehicles	Limited contribution	
Charging stations for electric vehicles	Limited contribution	
Energy efficiency improvements in transmission and distribution networks	Limited contribution	
Solar PV	Significant contribution	

## B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA OF THE ELIGIBLE PROJECTS

### ISS ESG KEY PERFORMANCE INDICATORS

The ISS ESG KPI ensures that environmental and social risks attached to the projects financed are taken into consideration and have been minimized. This assessment is based on the issuer's policies and strategy regarding ESG risks minimization in its assets selection process.

#### ASSESSMENT AGAINST ISS ESG KPI

##### ESG risk minimisation of selection process

The issuer confirms it underwent an appropriate and detailed selection process aiming at reducing material physical risks in all projects. All projects are implemented in Italy, where environmental and social impact must be minimized according to national legislation. Therefore, climate risk assessments such as Environmental Impact Assessments have been carried out when required by legislation.

- ✓ Acea has established a Green Finance Working Group monitoring the Eligible Green Project portfolio during the life of the transaction for any ESG controversy (such as controversies that may impact local communities or changes in ecosystems) that are directly related to an Eligible Green Project.

The issuer has implemented an Environmental Management System (ISO 14001).

##### Labour and Health & Safety

All projects provide for high labour and health and safety standards for construction and maintenance work (e.g. ILO core conventions).

- ✓ The company has implemented an Internal Control and Risk Management System (ICRMS) aiming at enforcing and monitoring labour and health and safety practices within the company.

##### End-of-life decommissioning and recycling

- ✓ More than 50% of the asset pool have dedicated recycling or end-of-life decommissioning measures as part of planning and construction contracts. Moreover, as per regulation, environmental risk assessments all cover minimum environmental safeguards during the whole lifespan of the project, including end-of-life.

## DISCLAIMER

1. Validity of the SPO: This SPO is valid as long as the framework remains unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
5. We would point out that this SPO, in particular the images, text and graphics contained therein, and the layout and company logo of ISS ESG and ISS-ESG are protected under copyright and trademark law. Any use thereof shall require the express prior written consent of ISS. Use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

The issuer that is the subject of this report may have purchased self-assessment tools and publications from ISS Corporate Solutions, Inc. ("ICS"), a wholly-owned subsidiary of ISS, or ICS may have provided advisory or analytical services to the issuer. No employee of ICS played a role in the preparation of this report. If you are an ISS institutional client, you may inquire about any issuer's use of products and services from ICS by emailing [disclosure@issgovernance.com](mailto:disclosure@issgovernance.com).

This report has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. While ISS exercised due care in compiling this report, it makes no warranty, express or implied, regarding the accuracy, completeness or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. In particular, the research and scores provided are not intended to constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies.

ISS is an independent company owned by entities affiliated Genstar Capital ("Genstar"). ISS and Genstar have established policies and procedures to restrict the involvement of Genstar and any of Genstar's employees in the content of ISS' reports. Neither Genstar nor their employees are informed of the contents of any of ISS' analyses or reports prior to their publication or dissemination. The issuer that is the subject of this report may be a client of ISS or ICS, or the parent of, or affiliated with, a client of ISS or ICS.



© 2021 | Institutional Shareholder Services and/or its affiliates

## ANNEX 1: ISS ESG Corporate Rating

The following pages contain ISS ESG Corporate Rating of Acea.

# ACEA S.p.A.

## Company Information

Country  
Italy

ISIN  
IT0001207098

Industry  
Utilities/Multi Utilities

## Key Results

Rating  
**C+**

Decile Rank  
**2**

Transparency Level  
**Very High**

Performance score  
**47.18**

Status  
**Not Prime**

Prime Threshold  
**B-**

## Absolute Rating

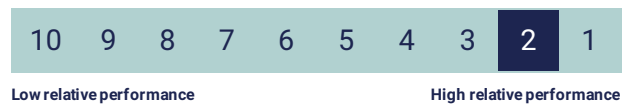


The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively.

## Transparency Level



## Decile Rank

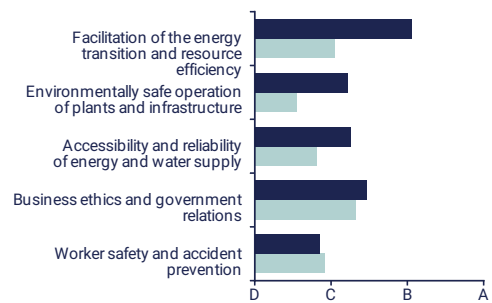


## Industry Leaders

Company name (in alphabetical order)	Country	Grade
EnBW Energie Baden-Württemberg AG	DE	B-
Naturgy Energy Group S.A.	ES	B-
Veolia Environnement S.A.	FR	B

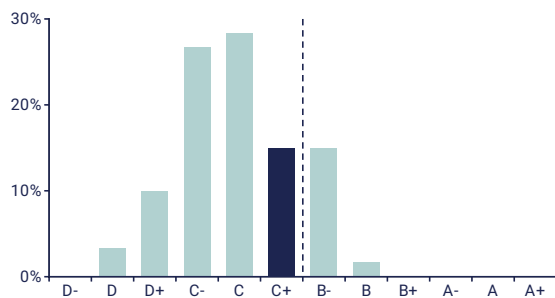
Legend: ■ Industry ■ Company --- Prime

## Key Issue Performance

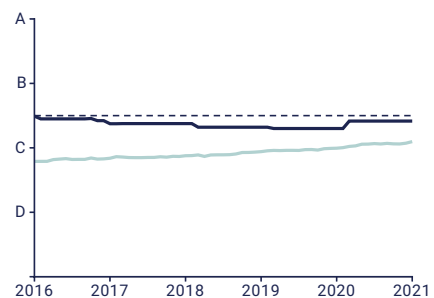


## Distribution of Ratings

60 companies in the industry



## Rating History



# ACEA S.p.A.

## Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Controversial Business Practices** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
  - Degree of verification of allegations and claims
  - Severity of impact on people and the environment, and systematic or systemic nature of malpractices
- Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

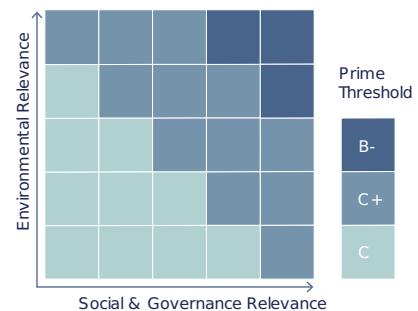
**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

# ACEA S.p.A.

## Methodology - Overview

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

## ANNEX 2: Methodology

### ISS ESG KPIs

The ISS ESG Green KPIs serves as a structure for evaluating the sustainability quality of the selection process of the use of proceeds and ensure that ESG risks associated with the use of proceeds have been taken into consideration by the issuer and minimized.

The KPI assessment is conducted at the macro-level and focuses on three criteria, being core to all green categories (i.e. ESG risk minimization of selection process; Circular economy; and Labour and Health & Safety). The assessment is based on the issuer's company policies and ESG initiatives.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Acea (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Acea's Green Eligible Categories contribute to related SDGs.

## ANNEX 3: Quality management processes

### SCOPE

Acea commissioned ISS ESG to compile a SPO on its Green Financing Framework. The Second Party Opinion process includes verifying whether the Green Financing Framework aligns with the ICMA Green Bond Principles and the LMA Green Loan Principles and to assess the sustainability credentials of its eligible projects, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles and LMA Green Loan Principles
- ISS ESG Green KPIs

### ISSUER'S RESPONSIBILITY

Acea's responsibility was to provide information and documentation on:

- Framework
- Documentation of ESG risks management at the corporate level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Financing Framework based on ISS ESG methodology and in line with the ICMA Green Bond Principles and the LMA Green Loan Principles.

The engagement with Acea took place in December 2020 - January 2021.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPOs

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For information about SPO services, contact:

**Federico Pezzolato**

SPO Business Manager EMEA/APAC

[Federico.Pezzolato@isscorporatesolutions.com](mailto:Federico.Pezzolato@isscorporatesolutions.com)

+44.20.3192.5760

**Miguel Cunha**

SPO Business Manager Americas

[Miguel.Cunha@isscorporatesolutions.com](mailto:Miguel.Cunha@isscorporatesolutions.com)

+1.917.689.8272

For Information about this Green Bond SPO, contact: [SPOOperations@iss-esg.com](mailto:SPOOperations@iss-esg.com)

### Project team

**Project lead**

Damaso Zagaglia  
Associate  
ESG Consultant

**Project support**

Marine Durrieu  
Analyst  
ESG Consultant

**Project supervision**

Viola Lutz  
Associate Director  
Deputy Head of Climate Services