Alliander

Green Finance Framework

August 2022

Introduction

Profile

Alliander is a Dutch company responsible for the regional distribution of energy including electricity, (green) gas and heat to more than 3 million customers in its service areas.

The energy that Alliander distributes comes from diverse sources, such as energy plants and wind farms, as well as from imports via the national electricity and gas transport grids operated by TenneT and Gasunie respectively. In addition, a growing number of consumers and businesses are feeding self-generated renewable energy into the company's energy networks. About 620,000 households were feeding energy into Alliander's electric network in 2021, an increase of about 120,000 households (or 25%) compared to 2020. This represents more than 20% of the company's total customer base. The result is a dynamic interaction and interconnection between energy supply and demand. This puts an extra burden on the networks, which were originally designed to distribute energy from centralized production locations outside the company's networks, but are now increasingly being used for decentralized energy feed-in within the networks.

Alliander's primary task is to distribute energy to consumers, businesses and institutions. The network operator Liander enables this by keeping the energy distribution through all their networks in good condition, supplying more than three million households and businesses daily with energy as efficiently as possible. Alliander is also committed to an open and future-proof energy network to ensure that living, working and travelling remain viable in the future.

Alliander stands for an energy system where everyone has equal access to reliable, affordable and renewable energy. To this end the company has a four-pillar strategy that is committed to 1) supporting customers in making choices that are not just good for them, but also for the energy system as a whole, 2) building new open networks, 3) digitizing networks while continuing to work on 4) an excellent network operation. These strategy pillars rest on a strong foundation of an effective, safe, cost-conscious, sustainable and inclusive organisation.

Corporate Social Responsibility (CSR) strategy

The value creation process of Alliander is aimed at maximizing the positive impact of its business operations for all its stakeholders. The company uses the available resources and capital as efficiently as possible, while focusing on making the greatest possible contribution to society.

Alliander's CSR efforts focus on three areas:

1. As a result of climate change, growth in energy consumption will have to be met by renewable sources such as wind and solar power or sustainable heat sources. Alliander contributes towards the **energy transition by giving all customers equal access to renewable energy**.

2. Alliander will have **climate-neutral and circular operations by 2023**, including working with partners in its supply chains. The company aims for their business operations to run solely on renewable energy and where waste produced is converted into input for the materials they consume.

3. As a large employer, **Alliander takes responsibility for a social and inclusive organisation**. Alliander acknowledges the importance of good employment practices and wishes to be and remain a top-class employer.

Alliander places great value on transparency. In reporting the company adheres to high international standards.

Climate-neutral operations

Alliander's ambition is to have climate-neutral operations by 2023; in other words, on balance the company will have zero CO_2 emissions as a result of its network activities, offices and vehicles in 2023. The company's program on reducing and greening the CO_2 emissions brings it step by step towards more sustainable operations. Alliander uses a three-step approach:

1. Saving energy and improving energy efficiency

    - Working with the most energy efficient assets (cable, smart meters, substations) and a policy of continuous improving;
    - Low-energy or energy-positive buildings such as Alliander's offices in Duiven and Arnhem;
    - The use of fewer, smarter and more eco-friendly company and lease cars.

2. Using renewable energy where possible either self-generated or purchased from external parties

3. Carbon offsetting the use of non-renewable energy by purchasing certificates of origin for renewable energy from newly built windfarms in the Netherlands

This approach has helped Alliander in bringing its net CO_2 emissions down from 894 kilotons in 2014 to 115 kilotons in 2021.

Circular operations

As a network operator, Alliander uses large quantities of materials and, indirectly, of raw materials. The company is aiming to increase the share of 'circular purchases' of its primary assets every year. To meet Alliander's circular ambitions, its management focus is along four lines:

1. Making efficient use of existing materials and re-use and refurbish components as much as possible
2. Where possible making circular purchases of the company's main components
3. Avoiding wasting materials in the company's operations
4. Maximize the company's waste recycling

Circular procurement demands intensive co-operation with suppliers. Underlining its commitment to this policy, Alliander became one of the first twenty signatories of the Circular Procurement Green Deal with the aim of learning from each other's experiences when starting up circular procurement processes and to speed up circular purchasing. The company steers and monitors its activities by a Circularity KPI. This KPI is part of the corporate dashboard and was 27% in 2021.

Alliander recycled 90% of its waste (in tons) in 2021. The company excludes the use of minerals from conflict zones in specific tender projects like for the smart meter.

Alliander's contribution to the United Nations Sustainable Development Goals

In 2015, the United Nations adopted a new global agenda to end poverty, inequality and climate change. This agenda sets out the Sustainable Development Goals (SDGs) for 2030.

In 2016, Alliander carried out an in-depth study reviewing operations, core activities and the entire value creation process to ascertain which SDGs best match its own initiatives, objectives and strategy in addition to stakeholders' expectations. The company identified four development goals that Alliander is focusing on and actively pursuing.

In 2020 Alliander decided to broaden the range of SDGs the company pays commitment to. SDG 9, Innovation and Infrastructure, as well as SDG 13, Climate Change mitigation, are added to the already selected SDG 7 Affordable & Clean Energy, SDG 8 Decent Work and Economic Growth SDG 11 Sustainable Cities and SDG 12 Responsible Production and Consumption.

SUSTAINABLE DEVELOPMENT GOALS | 7 AFFORDABLE AND CLEAN ENERGY | 8 DECENT WORK AND ECONOMIC GROWTH | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 11 SUSTAINABLE CITIES AND COMMUNITIES | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION

Rationale for issuing Green Finance Instruments

Alliander believes that Green Finance Instruments are an effective tool to channel investments to projects that have demonstrated climate and environmental benefits and thereby contribute to the achievement of the SDGs. By issuing Green Finance Instruments, Alliander intends to align its funding strategy with its wider corporate mission, including its sustainability objectives and long-term goals.

Alliander sees the energy transition as a sustainability priority. To achieve this, the company invests in sustainable and energy efficient solutions and operating the electricity grid allows for integration of renewable in the Dutch energy system and therefore contributes to the transformation of the country. In addition, Alliander aims to contribute to the development of the green bond market and to the growth of SRI and dark green dedicated investing. Lastly, Green Finance Instruments will help Alliander to target investors with sustainability priorities and dedicated green investment pockets, while broadening the dialogue with its existing investor base.

Under this Green Finance Framework, Alliander has the ambition to issue Green Finance Instruments (which may include drawn instruments such as bonds, loans and commercial paper) to finance and / or refinance environmentally impactful projects (as set out in the use of proceeds section). The company hopes that such issuance will also help them attract ESG-focused investors and contribute to the growth of the green finance market.

Green Finance Framework overview

Purpose of this document

The purpose of this document is to present Alliander's Green Finance Framework. This Green Finance Framework is in alignment with the four pillars of the International Capital Markets Association (ICMA) Green Bond Principles 2021[1] as well as the Loan Market Association (LMA) Green Loan Principles 2021[2] (GLP).

Alliander continues to aim to align with best-in-class market standards for its Green Financing Framework. The current version is hence updated so that the selection criteria for the eligible green asset categories is aligned to the EU Taxonomy[3] and pertinent elements of the 2021 version of the proposed EU Green Bond Standard. This framework hence sets out its approach with regards to:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds

[1] https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf
[2] https://www.lma.eu.com/application/files/9115/4452/
https://www.lma.eu.com/application/files/9716/1304/3740/Green_Loan_Principles_Feb2021_V04.pdf
5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf
[3] Climate Delegated Act of June 2021 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R2139

4. Reporting

5. External review

Alliander follows the recommendation of the ICMA Green Bond Principles in relation to External Verification and has engaged ISS ESG to review and provide a Second Party Opinion on this Framework.

Pillars of this Green Finance Framework

1. Use of proceeds

The net proceeds of Green Finance instruments will be exclusively used to finance and / or refinance in whole or in part eligible assets ("Eligible Green Assets") in the following categories, together forming the "Eligible Green Asset Portfolio": 1) Renewable Energy; 2) Energy Efficiency (Smart technology); 3) Green buildings. The table below provides an overview of the Eligibility Criteria:

Green Eligible Asset Category (ICMA/LMA)	Description Eligible Assets	Eligibility to Green Finance	Contribution to UN SDGs	EU Economic Activities	Contribution to EU Environmental Objectives[4]
Renewable Energy (EU TSC 4.9[7])	• Assets aimed at **integrating and enhancing the transmission capacity for renewable energy** in the Dutch electricity grid[5]	Apply the **renewable electricity production ratio** to the full electricity grid asset value[6]		• **Transmission of Electricity**	• **EU Environmental Objective 1: Climate Change Mitigation** (Article 6) • **Substantial contribution to EU Objective 1: (1.a)** Generating, storing or using renewable energy or climate-neutral energy (including carbon-neutral energy), including through using innovative technology with a potential for significant future savings or through necessary reinforcement of the grid

Energy Efficiency (EU TSC 7.5[7])	• **Smart technology**
	  • Installation, maintenance and repair of smart meters recording customer's gas and electricity consumption for demand management, including:
	    ○ Sensor and technology deployment in mid/high voltage grid
	    ○ Wireless networks and fibre optic cable
		100%		• **Specialised construction activities**
				• **Electricity, Gas, Steam and Air Conditioning Supply**
					• **EU Environmental Objective 1: Climate Change Mitigation** (Article 6)
					• **Substantial contribution to EU Objective 1:**
					- **(1.b)** Improving energy efficiency
					- **(1.g)** Establishing energy infrastructure required for enabling decarbonisation of energy systems;

[4] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance) EUR-Lex - 32020R0852 - EN - EUR-Lex (europa.eu)

[5] The system is the interconnected European system, i.e., the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinated systems;

[6] The renewable electricity production ratio is defined as the share of renewable electricity produced in the Netherlands. In 2021, the share of renewable electricity produced in Netherlands corresponded to 33.4%. (Source: https://www.klimaatakkoord.nl/actueel/nieuws/2021/12/29/jaarbericht-energieopwek). Alliander currently takes a conservative approach to define the electricity grid eligible amount, but it might include a higher percentage of the asset value of the grid, in the future, if the EU Taxonomy regulation recommends it.

	and network for transmitting and receiving data				
Green Buildings (EU TSC 7.1, 7.2, 7.7[7])	• New or refurbished buildings which meet any of the following criteria: ○ EPC rating > A[8]; or ○ The Primary Energy Demand, is at least 10 % lower than the threshold set for the nearly zero-energy building (NZEB) requirements[9] • Energy efficiency projects in buildings which result in reduction of primary energy demand (PED) of at least 30 % or complies with the applicable requirements for major renovations (DIRECTIVE 2010/31/EU)	100%		• **Construction of residential and non-residential buildings** • **Electric, plumbing and other construction installation activities**	• **EU Environmental Objective 1: Climate Change Mitigation (Article 6)** • Substantial contribution to EU Objective 1: **(1.b)** Improving energy efficiency

[7] EU TSC category description in line with EUR-Lex-32021R2139 : 4.9 - Transmission and distribution of electricity; 7.1 - Construction of new buildings; 7.2 - Renovation of existing buildings; 7.5 Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings; 7.7 Acquisition and ownership of buildings

[8] Only for buildings built before 31 December 2020.

[9] Only for buildings built after 31 December 2020 and building performance is certified using an as built Energy Performance Certificate (EPC). For buildings larger than 5000 m2 , the building will undergo testing for air-tightness and thermal integrity and the life-cycle Global Warming Potential (GWP) will be calculated and disclosed to investors and clients. For large non-residential building (with an effective rated output for heating systems, systems for combined space heating and ventilation, air-conditioning systems or systems for combined air-conditioning and ventilation of over 290 kW) it is efficiently operated through energy performance monitoring and assessment.

Dependent on the nature of the project, the eligible green assets can be measured through asset value, capital expenditure (“Capex”) or operating expenditure (“Opex”).

2. Process for Project Evaluation and Selection

Alliander has established the following decision-making process to determine the eligibility of nominating assets, assessing and documenting the eligibility of proposed nominated assets.

The selection of the assets is carried out by Alliander’s Green Finance Working Group, composed of members of the CSR, Finance, Treasury, Procurement departments and in cooperation with relevant business units. Eligible Green Asset selection and evaluation is based on:

- Expected eligible amounts;
- Eligibility Criteria described in Alliander’s Green Finance Framework including the technical screening criteria proposed by the European Union (EU) classification of environmentally sustainable economic activities (EU Taxonomy) on a case-by-case basis when relevant and appropriate;
- Clear contribution of the selected assets toward reducing CO2 emissions or facilitating the reduction thereof, as well as circularity and supply chain transparency, if applicable.

In addition to the Eligibility Criteria above, Alliander conducts a supplementary assessment of the Eligible Green Assets based on any additional environmental standards or certifications available (e.g., ISO certifications, such as NTA8120/ISO55001.).

Lastly, Alliander’s Sustainability Guidelines and Policies define minimum standards for the business processes, including those financed with the proceeds of Green Finance Instruments issued under this Framework. Alliander also applies risk management measures in its capital allocation decisions which are supported by company-wide planning, reporting and controlling systems. These policies are the Sustainable Procurement Policy[10], Supplier Code of Conduct[11], and the Corporate Social Responsibility Policy[12]. These policies cover the company’s approach to mitigating social and environmental risks associated with eligible projects. For example, the Supplier Code of Conduct, based on the guidelines of the Organisation for Economic Co-operation and Development (OECD,) covers all Alliander’s suppliers. It asks suppliers, their suppliers and manufacturers to demonstrate ethical behaviour and business practices including that they respect the Universal Declaration of Human Rights and the international conventions on terms of employment and working conditions as laid down by the International Labour Organisation (ILO). These policies and procedures help ensure the activities align to the social safeguards of the EU Taxonomy. Alliander’s strong evaluation and selection process, corporate sustainability and risk management framework, helps to mitigate potential environmental and social risks associated with the Eligible Green Assets, in accordance with the recommendation of the EU Taxonomy in relation to ‘Do No Significant Harm Assessment’. In the unlikely case of specific

[10] https://www.alliander.com/en/organisation/procurement/
[11] https://www.alliander.com/content/uploads/dotcom/10032015-Alliander-Supplier-Code-of-Conduct.pdf
[12] https://www.alliander.com/en/corporate-social-responsibility/

project-related risks, Alliander intends to transparently inform investors within its Green Finance Report.

The Alliander Green Finance Working Group will also be responsible to:

- Monitor the Eligible Green Asset Portfolio;
- Exclude assets that no longer comply with the Eligibility Criteria or have been disposed of and replace them, on a best efforts basis;
- As Green Finance Instruments mature, remove the oldest assets from the Eligible Green Asset Portfolio for an equivalent amount, to ensure that Green Finance Instruments continue to fund new assets where capex and/or opex had been used for allocation purposes for term-based liabilities;
- Maintain the Green Finance Framework up to date in order to reflect any changes with regards to the evolution of Alliander's sustainability strategy and targets and continued alignment of project categories with appropriate national and international sustainability taxonomies and legislation;
- Manage potential environmental and social risks in association with the eligible green assets;
- Preparation of allocation and impact reports associated with the Green Finance Framework

3. Management of Proceeds

Alliander intends to allocate the net proceeds from its Green Finance Instruments to an Eligible Green Asset Portfolio, selected in accordance with the Eligibility Criteria and project evaluation and selection process presented above. This portfolio consists of new and / or existing assets.

Over time, Alliander will strive to maintain a level of allocation for the Eligible Green Asset Portfolio which matches or exceeds the balance of net proceeds from its outstanding Green Finance Instruments.

Additional Eligible Green Assets will be added to the Issuer's Eligible Green Asset Portfolio to the extent required, in accordance with the Eligibility Criteria.

Activated Eligible Green Assets shall qualify for refinancing without a specific look-back period[13], provided that at the time of issuance they follow the relevant Eligibility Criteria. In case Alliander would select Eligible green capital expenditures or operating expenditures, they shall qualify for refinancing with a maximum two-year look-back period before the issuance year of the Green Finance Instrument.

Alliander intends to fully allocate the proceeds within 24 months after the issuance date of the Green Financing instruments.

[13] In alignment with the recommendation of the EU Green Bond Standards Usability Guide, published in March 2020 (source: https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-green-bond-standard-usability-guide_en.pdf.)

Pending the allocation or reallocation, as the case may be, of the net proceeds to Eligible Green Assets, Alliander will invest the balance of the net proceeds, at its own discretion, into bank deposits, investment funds, money market funds or liquid marketable instruments, until the allocation to new Eligible Green Assets. In doing so, it will seek to prioritise ESG-focused instruments, such as green deposits and ESG-aligned money market funds.

If for any reason, any assets were no longer eligible, Alliander will use its best efforts to substitute such asset, as soon as practical once an appropriate eligible substitution option has been identified.

4. Reporting

Alliander will report on the allocation of net proceeds and related impact annually until the proceeds of each Green Finance Instruments have been fully allocated, and as necessary in the event of material changes or in case of substitution of Eligible Green Assets. This Green Finance Report will be made available within the Investor Relations' section on Alliander's website[14].

a. Allocation Reporting

- The aggregated amount of allocation of the net proceeds to the Eligible Green Assets, at category and sub-category level, with a description or selected case studies if feasible;
- The balance of any unallocated proceeds invested in bank deposits, investment funds, money market funds, or liquid marketable instruments;
- The proportion of net proceeds used for financing versus refinancing;
- Where relevant, the breakdown per type of Eligible Green Assets (e.g., asset values, capital expenditures).

b. Impact Reporting

Alliander intends to report on the environmental impacts of the Eligible Green Assets funded with the Green Finance Instruments proceeds through a dedicated impact report[15]. Alliander intends to align, on a best effort basis, the reporting with the portfolio approach described in "Handbook - Harmonized Framework for Impact Reporting (June 2021)[16]".

The impact reporting will provide:

- A brief description of the Eligible Green Assets;
- Where feasible, metrics regarding Eligible Green Assets' environmental impacts, as described below:

ICMA / LMA Eligible Category	Potential impact reporting indicators to be provided at Eligible Category level
Renewable Energy	• Capacity of renewable energy production connected in the grid (in MW)

[14] https://www.alliander.com/en/investors/
[15] Impact Reporting may be supplemented by qualitative and/or case-study reports on outcomes and impacts of the Eligible Green Assets funded. Where relevant, information may be provided on data reporting and impact assessment methodologies to increase transparency.
[16] https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf

	• Estimated avoided CO2 emissions (in tCO2e per year)[17]
Energy Efficiency	Smart technology: • Total number of smart meters installed at customers • Estimated avoided CO2 emissions (in tCO2e per year)[18] • Energy consumption savings [18]
Green Buildings	• Average primary energy consumption savings (in MJ/m2) • Avoided CO2 emissions (in tCO2e per year) • BREEAM-NL certification or equivalent (if applicable) • EPC label (if applicable)[19]

5. External Review

a. Second Party Opinion

ISS ESG will review the portfolio of Eligible Green Assets, as well as the alignment of Alliander's Green Finance Framework with ICMA's Green Bond Principles 2021, the LMA's Green Loan Principles 2021 and the EU Taxonomy Climate Delegated Act (June 2021). ISS ESG will provide a Second Party Opinion (SPO) that will be made available on Alliander's website.

b. Annual Audit/Limited Assurance on the Allocation Reporting

Alliander intends to obtain a limited assurance report by its auditor on the allocation of each Green Finance Instrument's proceeds. Such reporting that will be incorporated within the Alliander Green Finance Report, which will be made available on Alliander's website.

[17] The avoided CO2 emissions have been estimated by taking the annual expected electricity production from connected wind and solar capacity and calculating the amount of CO2 that would have been emitted if the average production mix (including coal and gas) had been applied

[18] The avoided CO2 emissions / energy consumptions savings are estimated by applying a 1% saving on the annual consumption of gas and electricity households. This represents the effect of improved insight into actual energy consumption savings.

[19] Where an EPC is not available = the Dutch average used to show that the building is in the top 15% of energy efficiency (expressed as Primary Energy Demand) compared to other non-residential buildings built before 31 Dec 2020

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No representation is made as to the suitability of any Green Finance Instruments to fulfil environmental and sustainability criteria required by prospective investors. Each potential purchaser of Green Finance Instruments should determine for itself the relevance of the information contained or referred to in this Framework or the relevant Green Finance Instruments documentation for such Green Finance Instruments regarding the use of proceeds and its purchase of Green Finance Instruments should be based upon such investigation as it deems necessary. Alliander has set out its intended policy and actions in this Framework in respect of use of proceeds, project evaluation and selection, management of proceeds and reporting, in connection with the Alliander Green Finance Instruments. However, it will not be an event of default or breach of contractual obligations under the terms and conditions of any such Green Finance Instruments if Alliander fails to adhere to this Framework, whether by failing to fund or complete Eligible Green Assets or by failing to ensure that proceeds do not contribute directly or indirectly to the financing of the excluded activities as specified in this Framework, or by failing (due to a lack of reliable information and/or data or otherwise) to provide investors with reports on uses of proceeds and environmental impacts as anticipated by this Framework, or otherwise.

In addition, it should be noted that all of the expected benefits of the Eligible Green Assets as described in this Framework may not be achieved. Factors including (but not limited to) market, political and economic conditions, changes in government policy (whether with a continuity of the government or on a change in the composition of the government), changes in laws, rules or regulations, the lack of available Eligible Green Assets being initiated, failure to complete or implement projects and other challenges, could limit the ability to achieve some or all of the expected benefits of these initiatives, including the funding and completion of Eligible Green Assets. Each environmentally focused potential investor should be aware that Eligible Green Assets may not deliver the environmental or sustainability benefits anticipated and may result in adverse impacts.

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