

Green Finance Framework May 2020



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 we distribute 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 our energy networks. About 380.000 households were feeding energy into our electric network in 2019, an increase of about 110.000 households (or 40%) compared to 2018. This represents almost 12% of our total customer base. The result is a dynamic interaction and interconnection between energy supply and demand. This puts an extra burden on our networks, which were originally designed to distribute energy from centralized production locations outside our networks, but are now increasingly being used for decentralized energy feed-in within our 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 we have a four-pillar strategy that is committed to 1) supporting customers in making choices that are not just good for them, but also for our energy system as a whole, 2)

building new open networks, 3) digitizing our networks while continuing to work on 4) an excellent network operation.

CSR strategy

Our value creation process is aimed at maximizing the positive impact of our business operations for all our stakeholders. We use the resources and capital available to us as efficiently as possible, while focusing on making the greatest possible contribution to society.

Our 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. We contribute towards the **energy transition by giving all customers equal access to renewable energy.**
- 2 We have **climate-neutral and circular operations**, including working with partners in our supply chains. Alliander 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, **we take responsibility for a social and inclusive organisation.** A socially responsible company is an inclusive company where everyone gets a fair chance to reach their full potential.

We place great value on transparency. In reporting we adhere to high international standards.

Climate-neutral operations

Alliander's ambition is to have climate-neutral operations by 2023; in other words, on balance Alliander will have zero CO₂ emissions as a result of our network activities, offices and vehicles in 2023. Our program on reducing and greening the CO₂ emissions brings us step by step towards more sustainable operations. We use 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 our 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 us in bringing our net CO₂ emissions down from 894 kilotons in 2014 to 264 kilotons in 2019.

Circular operations

As a network operator, we use large quantities of materials and, indirectly, of raw materials. We are aiming to make 'circular purchases' of at least 60% of our primary assets by 2025. To meet our circular ambitions, our management focus is along four lines:

- 1 We make efficient use of existing materials and re-use and refurbish components as much as we can
- 2 Where possible we make circular purchases of our main components
- 3 We avoid wasting materials in our operations
- 4 We maximize our waste recycling

Circular procurement demands intensive co-operation with our suppliers. Underlining our commitment to this policy, we 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. We steer and monitor our activities by a Circularity KPI. This KPI is part of the corporate dashboard and was 30% in 2019.

We recycled 87% of our waste (in tons) in 2019.

For a few years now we have been integrating circular procurement into our purchasing processes. Each quarter we report on the percentages of circular procurement and recycling. There is a clear roadmap for achieving our targets. The share of circular procurement at the end of 2018 was about 16.5% thanks mainly to the first resource passports for cables which show that they include recycled materials and can be recycled. In 2018, Alliander was the first Dutch grid operator to lay 'circular' cables, containing a percentage of recycled material and being fully recyclable. 2018 also saw the conclusion of an extended R&D period with the actual delivery of a smart meter boasting, among other things, a raw materials passport, 35% less metal, 25% less plastic and part use of recycled plastic. Insofar as we are able to monitor the supply chain, the use of minerals from conflict zones has been excluded.

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 their 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 we pay 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.



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 benefits and thereby contribute to the achievement of the SDGs. By issuing Green Finance Instruments, Alliander intends to align its funding strategy with its mission, sustainability existing objectives and long-term goals.

In fact, Alliander sees the energy transition as a sustainability priority. To achieve such priority, Alliander invests in sustainable and energy efficient solutions and operating the electricity grid allows for integration of renewable in the Dutch energy system and therefore contribute 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 bonds, loans etc.) to finance and / or refinance projects related to Renewable Energy, Energy Efficiency, Clean Transportation and Green Buildings, in accordance with Alliander's core businesses and strategy.

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 Principles¹ as well as the Loan Market Association (LMA) Green Loan Principles² (GLP).

Alliander has decided to come to the sustainable capital markets and intends to follow best market practise and will communicate in a transparent manner on:

- 1 Use of Proceeds
- 2 Process for Project Evaluation and Selection
- 3 Management of Proceeds
- 4 Reporting

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.

¹ <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

Pillars of this Green Finance Framework

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, heating networks); 3) Green buildings.

The table below provides an overview of the Eligibility Criteria:

Green Eligible Asset Category	Description Eligible Assets	Eligibility to Green Finance	Contribution to UN SDGs	Contribution to EU Environmental Objectives ³
Renewable Energy	<ul style="list-style-type: none"> Assets aimed at integrating and enhancing the transmission capacity for renewable energy in the Dutch electricity grid 	Apply the renewable power generation capacity ratio to the full electricity grid asset value ⁴	 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Smart technology <ul style="list-style-type: none"> Smart meters recording customer’s energy consumption for demand management Sensor and technology deployment in mid/high voltage grid Wireless networks Fibre optic cable and network Heating networks <ul style="list-style-type: none"> Local district heating networks distributing heat from local heat sources to customers 	100%	 	<ul style="list-style-type: none"> EU Environmental Objective 1: Climate Change Mitigation (Article 6) Substantial contribution to EU Objective 1: <ul style="list-style-type: none"> (1.b) Improving energy efficiency (1.g) Establishing energy infrastructure required for enabling decarbonisation of energy systems;
Green Buildings	<ul style="list-style-type: none"> New refurbished buildings which meet any of the following criteria: <ul style="list-style-type: none"> BREEAM-NL certificate “Very Good” or above; or equivalent level of environmental certification EPC-label \geq “A++” Energy efficiency projects in buildings which result in energy savings of at least 20% 	100%		<ul style="list-style-type: none"> EU Environmental Objective 1: Climate Change Mitigation (Article 6) Substantial contribution to EU Objective 1 : (1.b) Improving energy efficiency

³ Proposal for a regulation of the European Parliament and of the council on the establishment of a framework to facilitate sustainable investment, COM/2018/353 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0353>.

⁴ The renewable power generation capacity ratio is defined as the renewables installed capacity versus all sources electricity capacity in the Dutch transmission grid. In 2019, the renewable power generation ratio in the Netherlands corresponds to 19.2% (Source: <https://www.klimaataakkoord.nl/actueel/nieuws/2019/12/30/duurzame-energie-groeit-13-procent-in-2019>). 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.

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;
- 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, etc.).

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. Example of Alliander's relevant Policies are the Sustainable Procurement Policy⁵ and the Corporate Social Responsibility Policy⁶. 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 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;
- Validate annual reporting for investors;
- 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 to be in-line with market best practices and latest standards.

⁵ <https://www.alliander.com/en/organisation/procurement/>
⁶ <https://www.alliander.com/en/corporate-social-responsibility/>

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 period⁷, provided that at the time of issuance they follow the relevant Eligibility Criteria. In case Alliander would select Eligible green capital expenditures, they shall qualify for refinancing with a maximum three-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.

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.

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.

⁷ 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.)

Reporting

Alliander will report on the allocation of net proceeds and associated environmental benefits 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 report will be made available within the Investor Relations' section on Alliander's website⁸.

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 report⁹. Alliander intends to align, on a best effort basis, the reporting with the portfolio approach described in "Handbook - Harmonized Framework for Impact Reporting (June 2019)"¹⁰.

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	<ul style="list-style-type: none"> • Capacity of renewable energy production connected in the grid (in MW) • Estimated avoided CO2 emissions (in tCO2e per year)
Energy Efficiency	<p>Smart technology:</p> <ul style="list-style-type: none"> • Total number of smart meters installed at customers • Estimated avoided CO2 emissions (in tCO2e per year) • Energy consumption savings <p>Heating networks:</p> <ul style="list-style-type: none"> • Total annual supply of district heating (in GJ) • Avoided CO2 emissions (in tCO2e per year)
Green Buildings	<ul style="list-style-type: none"> • Average primary energy consumption savings (in MJ/m2) compared to the Dutch average • Avoided CO2 emissions (in tCO2e per year) • BREEAM-NL certification or equivalent (if applicable) • EPC label (if applicable)

⁸ <https://www.alliander.com/en/investors/>

⁹ 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.

¹⁰ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf>

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 and the LMA's Green Loan Principles. 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 report that will be incorporated within the Alliander Green Bond Report.

Disclaimer

The information and opinions contained in this Alliander Green Finance Framework (the Framework) are provided as at the date of this Framework and are subject to change without notice. None of Alliander N.V. (Alliander) or any of its affiliates (together, the Alliander Group) assume any responsibility or obligation to update or revise such statements, regardless of whether those statements are affected by the results of new information, future events or otherwise. This Framework represents current Alliander Group policy and intent, is subject to change and is not intended to, nor can it be relied on, to create legal relations, rights or obligations.

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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.

This Framework does not constitute a recommendation regarding any securities of Alliander or any member of the Alliander Group. This Framework is not, does not contain and may not be intended as an offer to sell or a solicitation of any offer to buy any securities issued by Alliander or any member of the Alliander Group. In particular, neither this document

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