

# SNAM S.P.A CLIMATE ACTION BOND

## DNV GL ELIGIBILITY ASSESSMENT

### Scope and Objectives

SNAM S.p.A (henceforth referred to as "SNAM") engages in the transport and dispatching, regasification, and storage of natural gas. It transports and dispatches natural gas through a transportation network, a dispatch centre, supervisory districts, management centres, and compressor stations. SNAM is Europe's leading gas utility, ranking first in Europe by transport network size and natural gas storage capacity. With approximately €12.7 billion in market capitalization, it is one of the largest Italian companies and is listed on the FTSE MIB index of Borsa Italiana.

As a member of the European Union, Italy has a National Adaptation Plan (PNACC) approved by Italian Ministry for Environment, Land and Sea (MATTM) since 2016. The PNACC demonstrates how Italy will meet its targets to reduce greenhouse gas emissions and is derived from Italy's National Adaptation Strategy (Strategia Nazionale di Adattamento ai Cambiamenti Climatici). The PNACC recognises gas as a "bridging fuel" that is replacing mainly oil fuelled energy generation as the scale of renewables is increased.

SNAM has identified Sustainable Development Goals (SDGs) 7 - Affordable and Clean Energy, 9 - Industry, Innovation and Infrastructure, 11 - Sustainable Cities and Communities and 13 - Climate Action as the most material to SNAM's business and are aligned with the Climate Action Bond Framework.

SNAM is intending to utilise the proceeds of considered bond issuances to finance and refinance eligible projects under the SNAM Climate Action Bond Framework categories of Carbon & Emission Reduction, Renewable Energy, Energy Efficiency and Green Development Projects.

DNV GL Business Assurance Services Limited (henceforth referred to as "DNV GL") has been commissioned by SNAM to provide a Climate Action Bond eligibility assessment of SNAM's Climate Action Bond Framework and alignment with the transition to a low carbon economy. Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of the Bond, the value of any investments in the Bond, or the long term environmental benefits of the transaction. Our objective has been to provide an assessment that the Bond has met the criteria established on the basis set out below.

### Basis of DNV GL's opinion

We have adapted our green bond eligibility assessment methodology to create a SNAM specific Climate Action Bond Eligibility Assessment Protocol (henceforth referred to as the "Protocol") - see Schedule 2. Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL's opinion.

As per our Protocol, the criteria against which the Bond has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a Climate Action Bond must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a Climate Action Bond should outline the process it follows when determining eligibility of an investment using Climate Action Bond proceeds, and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a Climate Action Bond should be tracked within the issuing organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting of the use of bond proceeds should be made to bond investors and that quantitative and/or qualitative performance indicators should be used, where feasible.

## Findings and DNV GL’s opinion

DNV GL’s findings are listed below:

### 1. Principle One: Use of Proceeds.

SNAM intends to use the proceeds from the issuance of Climate Action Bonds to finance and refinance Eligible Climate Action Projects (henceforth referred to as “Eligible Projects”). The SNAM Climate Action Bond Framework defines Eligible Projects as projects that fall into the following categories:

Project type	Eligible Projects
Carbon & Emission Reduction Projects	<p>Infrastructure, equipment, technology, systems and processes that demonstrate a reduction in energy use/losses and reduction in emissions in industrial facilities. For example:</p> <ul style="list-style-type: none"> <li>• replacement of old generation boilers (“heaters”) with more efficient boilers (“Skids”) with an expected nominal energy saving of at least 15%; and a reduction of methane emissions of around 4,000 standard cubic meters for each plant;</li> <li>• revamping of the network connection nodes, resulting in the elimination of natural gas use;</li> <li>• replacement of turbo-chargers with latest-generation machines yielding an expected reduction in NOx emissions of at least 75%;</li> <li>• replacement of turbo-chargers powered by gas with electric machines resulting in the elimination of natural gas use. Leading to an expected lower consumption of gas equal to about 4 million standard cubic meters and to expected savings in terms of NOx emissions of around 35 tons per year; and</li> <li>• replacement / renovation of valves, control and command devices, etc. with an expected reduction in natural gas emissions at completion of the interventions of at least 10%.</li> </ul>
Renewable Energy Projects	<p>Development of new biomethane plants and upgrading of existing biogas plants in Italy and abroad.</p>
Energy Efficiency Projects	<p>Energy efficiency projects for SNAM’s corporate facilities or supply chain. For example:</p> <ul style="list-style-type: none"> <li>• replacement of traditional lamps with LED lamps, with an expected nominal energy saving of at least 40%;</li> <li>• acquisition of (i) 82% of the capital of the Energy Service Company (“Esco”) TEP Energy Solution, one of the leading Italian companies in the energy efficiency sector with more than 200 customers including leading Italian companies and multinationals, and (ii) potential future acquisitions of companies in the energy efficiency sector;</li> <li>• energy efficiency solutions for industrial plants; and</li> <li>• deep renovation for real estate segment (residential and tertiary) including implementation of energy management systems.</li> </ul>

Green Development Projects	Development and maintenance of conservation areas, natural capital preservation and the development and maintenance of green areas/buildings. For example: <ul style="list-style-type: none"><li>• redevelopment of areas outside the Minerbio plant, through the planting and the construction of cycle paths and playgrounds for public use;</li><li>• construction of new buildings which are expected to receive at least LEED "Gold" or at least BREEAM "Excellent" certification; and</li><li>• renovation of buildings leading to an annual energy use reduction of at least 30% of per m2 basis.</li></ul>
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DNV GL concludes that the above categories fall within the defined categories of climate action as defined in Italy's National Adaption Plan and are also aligned with the transition to a low carbon economy.

DNV GL also reviewed the Eligible Projects proposed for this bond and conclude they meet the definition within SNAM's Climate Action Bond Framework.

## 2. Principle Two: Process for Project Evaluation and Selection.

DNV GL can confirm that the project evaluation and selection will be undertaken by a Climate Action Committee comprising representatives from the Finance Department, the CSR Department, the Technical Department and the P&C Business Unit Asset Italia Department functions. The Committee has ultimate responsibility for reviewing all of SNAM's projects and determining their suitability to be an Eligible Project. The main selection criteria for a project to be eligible is that the project must meet the criteria outlined in SNAM's Climate Action Bond Framework by category.

DNV GL has reviewed the evidence and can confirm that the Eligible Projects and the governance framework for project selection meets the eligibility criteria defined by SNAM in the Bond documentation, including the SNAM Climate Action Bond Framework. SNAM has defined the process by which Eligible Projects are selected and described the key metrics used as well as defining the team responsible for selecting projects.

## 3. Principle Three: Management of Proceeds.

DNV GL can confirm that the net proceeds from Climate Action Bond issuances will be deposited to a general account and an amount equal to the net proceeds will be earmarked for allocation to the Eligible Projects as selected by SNAM's Climate Action Bond Committee. SNAM confirmed it will, pending the allocation of the Climate Action Bonds proceeds, either use the proceeds to reimburse outstanding credit facilities / pay-down existing debt or keep it in cash, overnight or other short-term financial instruments. DNV GL can also confirm SNAM has committed to maintaining a healthy buffer of Eligible Projects available for investment.

## 4. Principle Four: Reporting.

DNV GL can confirm SNAM has committed to Allocation Reporting within one year from the date of a Climate Bond issuance and annually thereafter. DNV GL can also confirm SNAM has committed – where

possible - to providing investors with case studies in the projects financed by the Climate Action Bond. DNV GL also notes that SNAM has committed to formal assurance of its Climate Action Bond Reports, which is recognised as best practice for post-issuance reporting.

Based on the information provided by SNAM and the work undertaken, it is DNV GL's opinion that the Bond meets the criteria established in the Protocol and that it is aligned with SNAM's Climate Action Bond Framework, Italy's PNACC and the Green Bond Principles 2018.

## **Work undertaken**

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by SNAM in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a SNAM specific Protocol, adapted to the purpose of the Framework, as described above and in Schedule 2 to this Assessment;
- Assessment of documentary evidence provided by SNAM on the Framework and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Discussions with SNAM, and review of relevant documentation and evidence related to the criteria of the Protocol;
- Documentation of findings against each element of the criteria.

## **Responsibilities of the Management of SNAM and DNV GL**

SNAM has provided the information and data used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform SNAM management and other interested stakeholders in the Climate Action Bond Framework and issuances under the framework as to whether the established criteria have been met, based on the information provided to us. In our work, we have relied on the information and the facts presented to us by SNAM. DNV GL is not responsible for any aspect of the projects or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by SNAM management and used as a basis for this assessment were not correct or complete.

**for DNV GL Business Assurance Services UK Limited**

London, 5<sup>th</sup> November, 2018



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**About DNV GL**

Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

## DNV·GL

# SCHEDULE 1: SNAM SPECIFIC CLIMATE ACTION BOND ELIGIBILITY ASSESSMENT PROTOCOL

### 1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1a	Type of bond	The bond must fall in one of the following categories, as defined by the Climate Action Bond Principles: <ul style="list-style-type: none"> <li>• Use of Proceeds Bond</li> <li>• Use of Proceeds Revenue Bond</li> <li>• Project Bond</li> <li>• Securitized Bond</li> </ul>	Evidence reviewed: <ul style="list-style-type: none"> <li>• SNAM Climate Action Bond Framework</li> </ul>	The SNAM Climate Action Framework falls in the category of a Use of Proceeds Bond.
1b	Green Project Categories	The cornerstone of a Climate Action Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security.	Evidence reviewed: <ul style="list-style-type: none"> <li>• SNAM Climate Action Bond Framework</li> </ul>	We conclude that the Framework describes the proposed utilization of proceeds.
1c	Environmental & Social benefits	All designated Eligible Project categories should provide clear environmentally sustainable or social benefits, which, where feasible, will be quantified or assessed by the issuer.	Evidence reviewed: <ul style="list-style-type: none"> <li>• SNAM Climate Action Bond Framework</li> </ul>	The Framework outlines the expected environmental benefits that will be realised by any Bonds issued under the Framework.

## 2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2a	Issuer's environmental and social and governance framework	In addition to information disclosed by an issuer on its Climate Action Bond process, criteria and assurances, investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>• SNAM Climate Action Bond Framework</li> <li>• ITL Climate Action Bond</li> </ul> <p>We also performed a desk based study and reviewed environmental and social governance documentation:</p> <ul style="list-style-type: none"> <li>• <a href="http://ww.snam.it/en/Sustainability">ww.snam.it/en/Sustainability</a></li> <li>• SNAM Corporate responsibility and social innovation 2017 Sustainability Report</li> <li>• Piano Nazionale di Adattamento ai Cambiamenti Climatici 2017</li> </ul>	We conclude that, from the information provided, SNAM's approach to managing environmental & sustainability is in line with the objective of the Italy Climate Action Plan (PNACC).

## 3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3a	Tracking procedure	The net proceeds of Climate Action Bonds should be credited to a sub-account, moved to a sub- portfolio or otherwise tracked by the issuer in an appropriate manner and	<p>Evidence reviewed:</p> <ul style="list-style-type: none"> <li>• SNAM Climate Action Bond Framework</li> </ul>	We conclude that the SNAM Climate Action Bonds will be tracked in an appropriate manner and attested to by a formal internal process.

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
		attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Eligible Projects.		
3b	Tracking procedure	So long as the Climate Action Bonds are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible investments or loan disbursements made during that period.	Evidence reviewed: SNAM Climate Action Bond Framework	We conclude that there is a clear process in place for the tracking of the balance taking into account disbursements.
3c	Temporary holdings	Pending such investments or disbursements to Eligible Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	Evidence reviewed: <ul style="list-style-type: none"> <li>SNAM Climate Action Bond Framework</li> </ul>	We conclude that SNAM has disclosed how it will manage any unallocated proceeds.

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Climate Action Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.	Evidence reviewed: <ul style="list-style-type: none"> <li>• SNAM Climate Action Bond Framework</li> </ul>	<p>We confirm SNAM has committed to produce an annual update on its Climate Action Bonds via SNAM’s website. The update will provide investors with information on:</p> <ul style="list-style-type: none"> <li>• allocation of the net proceeds of Climate Action Bonds to Eligible Projects;</li> <li>• brief description of all Eligible Projects funded and key performance indicators;</li> <li>• current funded amounts, and funding dates;</li> <li>• assertions by management that an amount equal to the net proceeds of that tranche or series of Climate Action Bonds are invested in qualifying Eligible Projects and that an amount equal to any unallocated net proceeds is used to reimburse outstanding credit facilities / pay-down existing debt or keep it in cash, overnight or other short-term financial instruments; and</li> <li>• detailed case studies of a select number of projects.</li> </ul> <p>We also note SNAM’s commitment to ISAE3000 assurance of its disclosure, which is best practice for reporting.</p>