1. Introduction

1.1. Background

innogy SE is a European energy company with registered office in Essen, Germany. It has revenues of around €44 billion (FY 2016), more than 40,000 employees and activities in 16 countries across Europe. The company was set up in 2016 by carving out three segments from RWE AG’s business portfolio being (1) renewable energy from different sources (Renewables division), (2) the operation of electricity and gas networks (Grid & Infrastructure division) and (3) the distribution of electricity and gas to its clients including related services (Retail division). Since October 2016 the company is listed (among others) on the Frankfurt stock exchange.

To cope with future energy requirements of a modern society, innogy focuses on the three mega trends: decarbonisation, decentralisation and digitalisation. The company provides services along the entire value chain starting with power generation from various renewable sources such as on- and offshore wind, solar, hydro, biomass and biogas. The backbone of the energy transition is the efficient transport and distribution of energy via an extensive system of grids. In total innogy’s grid has a length of around 570,000 kilometers. The final part of this value chain is the supply of energy and related services to some 23 million customers in eleven European countries (FY 2016). innogy also offers specific solutions for e-mobility, where it provides the largest number of charging stations in central Europe, and energy storage.

1.2. innogy’s sustainability ambitions

At innogy we feel responsible for an ecologically, economically and socially sustainable way of conducting our activities. In our Code of Conduct (available on our webpage; https://iam.innogy.com/en/about-innogy/introducing-innogy/responsibility/corporate-governance) we commit ourselves, our employees and all partners who want to work with us to a business attitude characterised by integrity and compliance with law. Apart from the protection of the environment this commitment also includes respect and support of the Universal Declaration of Human Rights as adopted by the United Nations, labour standards as set out by the International Labour Organisation (ILO), no-
tolerance policy vis-à-vis corruption, fraud or money laundering, the protection of data and intellectual property, compliance with all relevant laws and regulations and good corporate citizenship in general.

While backing all of the 17 “Sustainable Development Goals” (SDGs), as defined in September 2015 by the United Nations for the period 2015-2030, we feel that innogy can predominantly contribute to these goals in our own areas of competence covering specially Renewable energy projects, Energy efficiency projects and Clean transportation projects (mainly SDGs 7, 9 & 13).

innogy considers itself as particularly well positioned to work on these goals as it takes a holistic approach to tackle all opportunities and challenges resulting from these targets. Being positioned alongside the entire new energy value chain enables us to think “from wind to wheel” and “be a pacemaker of change”. The aim is to achieve this through capital expenditure:

- in renewable generation capacities without limiting us to specific technologies or regions,
- in flexible grids and infrastructure which allow for an increased integration of renewable sources and foster the trend towards “prosumer” structures,
- in innovative products which allow customers to make use of energy in the most efficient way – stretching from household appliances to various kinds of services around e-mobility.

1.3. Rationale

innogy is a sustainable company by conviction and business model – not restricted to any directly dedicated green funding. However, innogy believes that Green Bonds offer greater transparency and traceability to investors who wish to allocate funds to green assets. Therefore innogy is convinced that Green Bonds are an effective tool to help achieve the EU’s 2030 Climate and Energy objectives.

The transformation of the energy system requires tremendous investments by all parties involved. With the successful IPO in October 2016, innogy secured its access to the equity market as a basis for funding. innogy also took over large parts of RWE’s outstanding debt in exchange for the assets provided and is a well recognised name in the debt capital markets with solid investment grade ratings. Occasionally, innogy participates in project financings of major assets such as offshore wind farms and has also used loans by the European Investment Bank (EIB) to fund green and sustainable projects. Thus, innogy feels well positioned to deliver its fair share of funding and investment and Green Bonds are expected to become a substantial part of the toolbox for funding sustainable investments.

Issuing Green Bonds also gives potential for broadening innogy’s investor base by attracting investors that seek to focus their investments towards sustainable projects.
2. Application of Green Bond Principles

The Green Bond Principles are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuing a Green Bond. In alignment with the Green Bond Principles, innogy’s Green Bond Framework is presented through the following key pillars:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External review

2.1. Use of Proceeds

An amount equivalent to the proceeds of Green Bond issuances is exclusively used to finance or refinance in whole or in part any of the following projects (defined as “Eligible Green Projects”):

- **Renewable energy projects**: defined as investments in or expenditures for the acquisition, conception, construction, development and installation of renewable energy production units; as well as the connection of renewable energy production units to the electricity grid and the transportation through the network. Renewable energy sources include:
  - On- and offshore wind energy
  - Solar energy (photovoltaic and solar heat)
  - Hydro (as defined in the Climate Bond Initiative taxonomy and aligned with Climate Bond Initiative standards, when available\(^1\))
  - Other sources of renewable energy if and whenever applicable (e.g. geothermal, tidal, new technologies)

- **Energy efficiency projects**: investments in, or expenditures for projects that contribute to a more efficient use of energy (supply and demand side), such as but not limited to:
  - Energy storage
  - Combined Heat and Power (CHP) (excludes coal generated power)
  - Smart grid, smart meters, smart home solutions
  - Energy efficiency advisory
  - Energy efficient lightning such as LED

- **Clean transportation projects**: investments in, or expenditures for projects that contribute to a reduction of emissions in the transportation sector, e.g. charging infrastructure for electric vehicles.

Eligible Green Projects shall be projects with disbursements after the issuance of the Green Bonds or disbursements not earlier than calendar year 2014.

\(^1\) Climate Bond Initiative - [https://www.climatebonds.net/](https://www.climatebonds.net/)
2.2. Process for project evaluation and selection

Each business unit may propose projects that have been approved, committed or confirmed for development to be considered for a Green Bond. The business units provide information on the compliance of the projects with the criteria for Eligible Green Projects (as per 2.1).

Upon submission of projects by the business units, the Green Bond Committee, comprised of representatives of innogy’s Corporate Responsibility/Environment department, the treasury department and – on a case by case basis - representatives from the business units, will verify the compliance of the projects with the Use of Proceeds requirements and select projects as Eligible Green Projects. The Green Bond Committee will document the project assessment process.

All selected Eligible Green Projects comply with official national and international environmental and social standards. Furthermore, it is also part of our transaction approval process to ensure, that all our activities comply with internal environmental and social directives.

innogy’s risk management system is based on methods and processes that have a proven track record in the RWE Group. This enables innogy to identify risks and opportunities at an early stage and base our actions on them. Our risk management system therefore also takes into account the statutory requirements defined by the Corporate Control and Transparency Act (KonTraG). Internal Audit ensures compliance with our Code of Conduct in the course of its audits carried out in accordance with standard processes. To limit and manage risks for projects, innogy applies its Environmental and Due Diligence Group Directives as well as segment specific directives based on Health & Safety and Environmental Standards.

2.3. Management of proceeds

innogy has internal systems in place to track the outstanding proceeds of its Green Bonds. The issuer has established a register to monitor and account for the Eligible Green Projects.

To facilitate the tracking process, increase transparency and investor comfort, innogy can select investments fully or largely disbursed when selecting Eligible Green Projects. Prior to issuance of each bond, innogy will disclose what projects are to be refinanced and to what extent proceeds are to finance future investments.

Until full allocation, the Green Bond Committee will approve at least at the end of each half calendar year, that the net proceeds of the issuance will be reduced by the amounts invested in Eligible Green Projects.

Until the maturity of relevant Green Bonds, in case of divestment or cancellation of an allocated Eligible Green Project, or if an allocated project no longer meets the eligibility criteria, innogy commits to reallocate the proceeds to other Eligible Green Projects depending on availability.

Pending the full allocation to Eligible Green Projects, innogy will keep record of the shortfall and apply the following waterfall for the balance of net proceeds of Green Bonds not already allocated to Eligible Green Projects:

(1) Invest into projects which would qualify as Eligible Green Projects but were not (yet) allocated. A list of such projects will be updated at least quarterly as long as there is no final allocation.
(2) Invest in money market products such as cash, cash equivalents and/or marketable securities. The auditors will be requested to verify annually the allocation of the bond proceeds (see 2.5.2).

2.4. **Reporting**

The Green Bond Principles require Green Bond issuers to provide information on the allocation of proceeds. Besides information related to the projects to which Green Bond proceeds have been allocated, the Green Bond Principles recommend communicating on the expected impact of the projects.

On an annual basis and until full allocation and later in the case of any material change in the list of Eligible Green Projects until the maturity of the bond innogy will disclose:

- The total amount of proceeds allocated per Eligible Green Category (Renewable energy, Energy efficiency, Clean transportation) or, when feasible, proceeds allocated per Eligible Green Projects.
- The amount of unallocated proceeds.
- Climate or environmental benefits: annual ex-ante estimates of impacts based on recognized methodologies that will be publically available. If reasonably feasible innogy will seek to provide data on an individual project basis but might also choose to aggregate certain classes of projects.

*See Appendix A for more details on the reporting of potential climate benefits indicators. Both allocation report and impact report will be made available via innogy’s website:*


To offer maximum transparency to investors innogy will also strive to deliver such impact estimates in an investor presentation alongside with the issuance of each Green Bond.

2.5. **External review**

2.5.1. **Consultant review**

Prior to issuance, innogy has commissioned Sustainalytics to obtain an external review of its Green Bond Framework. Sustainalytics issued a second opinion confirming the alignment of innogy’s Green Bond Framework with the Green Bond Principles and the framework’s strong environmental credentials. Under this framework, the issuance of multiple Green Bonds is possible. Prior to issuance of each bond, innogy will disclose for which asset category proceeds are to be used.

*The opinion is available in the Green Bond section of innogy’s Investor Relations webpage:*


2.5.2. **Verification**

innogy will request on an annual basis, starting at the year-end after the issuance and until the maturity of the Green Bond, a limited assurance report of the allocation of the bond proceeds to eligible assets, provided by its external auditor (PwC or any subsequent external auditor).
Appendix A.

Impact indicators

innogy will make effort to communicate impact numbers on a full project basis also disclosing, when feasible, the impact numbers derived from innogy’s ownership of the projects e.g. total installed capacity vs capacity originated by use of proceeds / share of ownership.

Examples of quantitative impact indicators:

For renewable projects:

- installed capacity in MW
- annual generation in MWh
- annual GHG emissions avoided (in tCO2e)
- number of renewables generation sites/units
- number of PV units sold

For distribution projects:

- connected renewables generation capacity MW
- renewables energy transported MWh
- number of smart meters installed

For clean transportation, further energy efficiency projects:

- number of charging stations
- number of heating systems sold (e.g. central heating boilers)
- number of installed smart home devices

Examples of qualitative impact indicators:

- alignment with UN Sustainable Developments Goals
- mitigation of negative impact (e.g. biodiversity, noise level)
- management of social aspects of projects