



## Power company Enel: prioritising climate and society for a company strategy that embraces ESG

- Founded in 1962 as Italy's national entity for electricity, power company Enel (Borsa Italiana: ENEL) is present in 47 countries around the world. It is Italy's biggest power company, and Europe's second-largest listed utility. Enel has been dual-listed on the Milan stock exchange since 1999. The company is a component of the recently launched MIB® ESG index. Enel's ESG goals balance climate and social aspects and are embedded into the company's roadmap. It has seen a growing number of investors commit to reducing the level of emissions in their portfolios.
- Enel's ambitions are significant in this area as it plans to achieve net zero by 2040. Social aspects are also key. Finally, in terms of governance, Enel believes it is essential that elements identified as key aspects in its strategy are fully integrated into the compensation package for top management.

### ESG at Enel

- Setting ESG goals was an important initial step when designing the company's roadmap. Enel followed a clear process to set its ESG goals. First, it carried out a materiality analysis to identify what its main goals should be. Then, it compared them with the priorities defined at group level. Based on this strategic analysis, ENEL was able to define its main goals the decarbonisation of electricity generation, electrification of energy uses, and digitalisation of its distribution network.
- Secondly, Enel coupled these key priorities with the UN's Sustainable Development Goals (SDGs). The company identified four SDGs that are particularly relevant for ENEL: SDG 7 on affordable and clean energy, SDG 9 on industry, innovation and infrastructure, SDG 11 on sustainable cities and communities, and SDG 13, which is all-encompassing as it relates to climate action.
- The ESG topic is very much spread across various functions within Enel: the company feels strongly that since ESG is an integral part of its strategy, it would not make sense to have just a single team working on these issues.

Environmental, social and governance (ESG) considerations are **deeply embedded** in Enel's strategy. Climate-related issues are **particularly relevant for an energy company**.



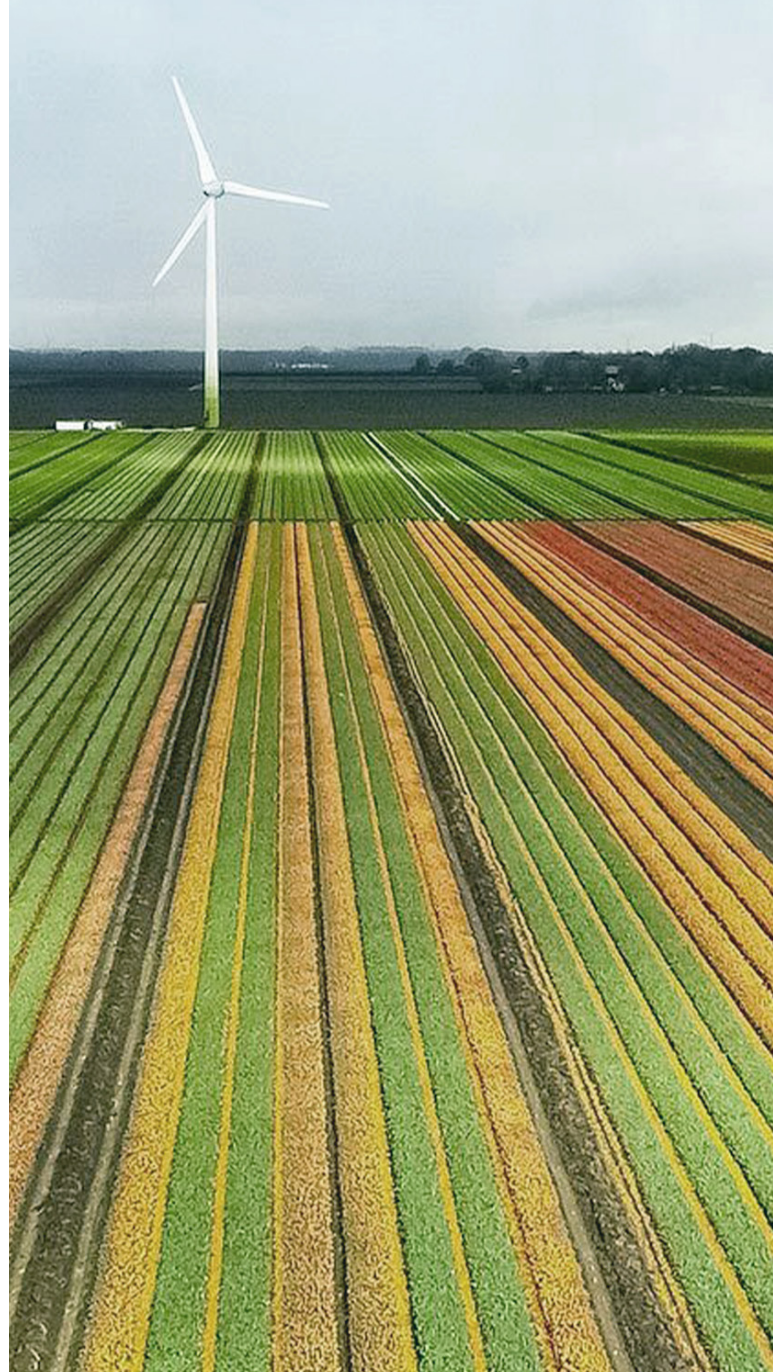
## Crowdsourcing for innovation in sustainability

- And as Enel is convinced that good ideas may come from everywhere, even from outside the group, the company has also created a crowdsourcing platform called Open Innovability® which aims to combine innovation and sustainability to create a network of talents, ideas, technologies and resources. Anyone can contribute, and so far the platform has reached a community of 500,000 users from over 100 different countries.
- With the same open innovation approach, Enel has developed partnerships with start-ups through its hub and lab network.

In 2019, Enel was **the first company** to issue a sustainability-linked bond whose **interest rate level depends** on the achievement of ambitious decarbonisation objectives and on the strengthening of renewable generation.

## Bringing ESG into key financing decisions

- Enel's ESG goals also have a direct impact on its financing strategy. The KPIs used to monitor this bond are related to SDG 7 or SDG 13 – for instance, the share of renewable energy capacity in the overall capacity. This type of product differs from a standard green bond as it is not project-based but rather general-corporate-purpose, and it provides full visibility to investors on the sustainability trajectory that is being followed, while creating financial incentives for the company to meet its sustainable business objectives. This initiative has aroused strong interest from investors. To date, the Sustainability-linked bond market amounts to more than 150 billion US dollars, and if we look at the overall sustainability-linked financing, the market reached around 1.1 trillion US dollars. In this regard, ENEL has managed to set a new standard. Enel sees this as very positive as the development of sustainable finance can also allow help reduce the cost of its debt; as an



example, the average cost for Enel's SLBs has been around fifteen basis points less than for conventional transactions.

- Based on the success of this ESG investment strategy, Enel decided to extend the sustainability-linked approach to all of its debt instruments to show how sustainability can be integrated across a company's financing tools. In fact, in order to foster best market practices, in 2020 Enel decided to establish a Sustainability-Linked Financing Framework, presenting a unified and coherent suite of Sustainability-Linked Financing instruments to the market and to the subsidized and development financing space. The framework covers Sustainability-Linked bonds, Sustainability-Linked loans and Revolving Credit Facilities, SDG Commercial Paper Programmes, Sustainability-Linked Foreign Exchange and Rates Derivatives and Guarantees.

## And interacting on ESG with investors and shareholders

- Enel has seen interactions with investors on ESG topics intensify significantly in recent years. This is the consequence of several elements, but particularly of recent regulatory developments in Europe with the adoption of a package of measures concerning sustainable finance, including the EU Taxonomy. As a result, investors are shifting their priorities. One concrete example of this new paradigm is the growing involvement of asset managers and institutional investors in initiatives such as Climate Action 100+ or the Net Zero Asset Managers initiative. A growing number of investors are committing to gradually reducing the level of emissions in their portfolios and achieving net-zero greenhouse gas emissions portfolios by 2050 or 2040.
- Similarly, Enel's interaction with its shareholders on ESG-related issues is very intense. Some of its shareholders, primarily Europeans, have an increased sensitivity to these subjects, in particular on the social aspect. Large investors, often Europeans, are more involved in climate issues and climate reporting in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

