

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Finance Framework
Alliander

26 August 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Green Finance Instruments (bonds, loans, commercial paper etc.)
Relevant standards	<ul style="list-style-type: none">• Green Bond Principles, updated June 2021 (with June 2022 Appendix 1), administered by the International Capital Market Association's Green Bond Principles (ICMA)• Green Loan Principles (GLP, updated February 2021), administered by the Loan Market Association• EU Taxonomy Climate Delegated Act (June 2021)
Scope of verification	<ul style="list-style-type: none">• Alliander's Green Finance Framework (as of 25.08.2022)• Alliander's selection criteria (as of 25.08.2022)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• As long as there is no material change to the Framework

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SCOPE OF WORK

Alliander (“the issuer” or “the company”) commissioned ISS ESG to assist with its Green Finance Instruments by assessing three core elements to determine the sustainability quality of the instrument:

1. Alliander’s Green Finance Framework (25.08.2022 version) – benchmarked against ICMA’s GBP and LMA’s GLP.
2. The selection criteria – whether the projects contribute positively to the UN SDGs.
3. The selection criteria – whether specific Issuer’s selection criteria of green asset categories are eligible for alignment with the EU Taxonomy Technical Screening Criteria (Climate Change Mitigation Criteria only) of the Report on EU Taxonomy and associated Technical Annex (EU Taxonomy - Climate Delegated Act 2021) on a best effort basis.
4. The link of the Green Finance Instruments to Alliander’s sustainability strategy – drawing on Alliander’s overall sustainability profile and issuance-specific Use of Proceeds’ categories.

ALLIANDER BUSINESS OVERVIEW

Alliander NV is an electricity and gas network operator. It engages in the distribution of energy such as electricity, biogas, and heat to commercial and residential clients. The firm operates through the following segments: the network operator Liander and others. The network operator Liander segment provides gas and electricity connections and distributes gas and electricity in Gelderland and parts of Noord-Holland, Flevoland, Friesland and Zuid-Holland. The “others” segment contains activities of Qirion, Kenter and Alliander AG, new activities, the corporate staff departments and the service units. The firm specializes in the management of electricity, gas and grid-related services. The company was founded in 1998 and is headquartered in Arnhem, the Netherlands.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Alignment with ICMA GBP and LMA GLP	<p>The issuer has defined a formal concept for its Green Finance Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBP and GLP.</p>	Aligned
Part 2: Sustainability quality of the selection criteria	<p>The overall sustainability quality of the Eligibility criteria in terms of sustainability benefits, risk avoidance and minimization is good based upon the ISS ESG assessment.</p> <p>The Green Finance Instruments will (re-)finance eligible asset or project categories, which include renewable energy, energy efficiency and green buildings.</p> <p>In regard to the product and services categorisation, the use of proceeds' categories have a significant contribution to SDGs 7 'Affordable and clean energy' and 13 'Climate action'.</p> <p>The use of proceeds' categories improve the company's operational impacts and mitigate potential negative externalities of the issuer's sector on SDGs 7 'Affordable and clean energy', and SDG 13 'Climate action'.</p>	Positive
Part 3: Assessment of the selection criteria with the EU Taxonomy Technical Screening Criteria (Climate Change Mitigation Criteria only)	<p>ISS ESG assessed the alignment of the selection criteria of Alliander for the eligible green asset categories against the Technical Screening Criteria for Climate Change Mitigation requirements of the EU Taxonomy (Climate Delegated Act of June 2021), on a best-efforts basis².</p>	

¹ISS ESG's evaluation is based on the Alliander's Green Finance Framework (25.08.2022 version), on the analysed selection criteria as received on the 18.08.2022, and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 12.07.2022).

²Whilst the Final Delegated Act for Mitigation and Adaptation were published in June 2021, the Technical Screening Criteria allow for discretion on the methodologies in determining alignment in certain cases. Therefore, at this stage ISS ESG evaluates the alignment with the EU Taxonomy on a "best efforts basis".

<p>Part 4:</p> <p>Green Finance Instruments' link to issuer's sustainability strategy</p>	<p>The Use of Proceeds financed through these Green Finance Instruments are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Green Finance Instruments is clearly described by the issuer.</p>	<p>Consistent with issuer's sustainability strategy</p>
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PART I: ALIGNMENT WITH GBP AND GLP

This section describes ISS ESG’s assessment of the alignment of Alliander’s Green Finance Framework (dated 18.08.2022) with the GBP and GLP.

GBP, GLP	ALIGNMENT	ISS ESG’S OPINION
1. Use of Proceeds	✓	<p>ISS ESG considers the Use of Proceeds description provided by Alliander’s Green Finance Framework as aligned with the GBP and GLP.</p> <p>The Issuer’s green categories align with the project categories as proposed by the GBP and GLP. Criteria are defined in a clear and transparent manner. Environmental benefits are described and quantified.</p> <p>Alliander has also defined a look-back period for capex/opex spend which is best market practice.</p>
2. Process for Project Evaluation and Selection	✓	<p>ISS ESG considers the Process for Project Evaluation and Selection description provided by Alliander’s Green Finance Framework as aligned with the GBP and GLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>Transparency on responsibilities and the inclusion of different stakeholders in the evaluation and selection process is considered a best market practice.</p>
3. Management of Proceeds	✓	<p>ISS ESG finds that the Management of Proceeds proposed by Alliander’s Green Finance Framework is aligned with the GBP and GLP.</p> <p>The proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The proceeds are tracked in an appropriate manner and attested in a formal internal process. Moreover, the issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>The issuer has defined an expected allocation period of 24 months, which is in line with best market practice. It also discloses ESG criteria for its temporary investments.</p>

<p>4. Reporting</p>	<p>✓</p>	<p>ISS ESG finds that the allocation and impact reporting proposed by Alliander's Green Finance Framework is aligned with the GBP and GLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. Alliander explains the level of expected reporting and the type of information that will be reported. Moreover, the Issuer commits to report annually, until the proceeds have been fully allocated.</p> <p>The issuer is also transparent on the level, information, frequency, scope and duration of its impact report, which is in line with best market practice.</p>
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PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE GREEN FINANCE INSTRUMENTS TO THE UN SDGs

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimise negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on 5-point scale (see Annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Green Finance Instruments Use of Proceeds' categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Renewable Energy</p> <p>Assets aimed at integrating and enhancing the transmission capacity for renewable energy in the Dutch electricity grid³</p>	Significant Contribution	 

³ 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.

Green Buildings

New buildings which meet any of the following criteria:

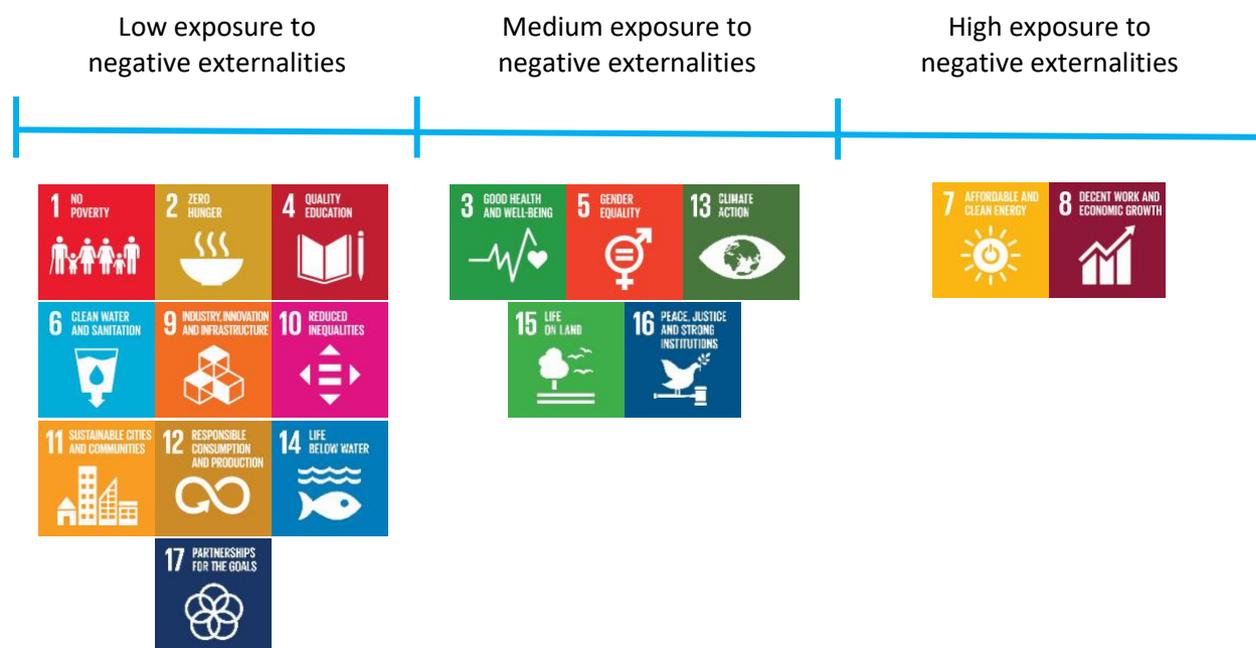
- if built before 31/12/2020 EPC rating > A; or
- if built after 31/12/2020: the Primary Energy Demand, is at least 10 % lower than the threshold set for the nearly zero-energy building (NZEB) requirements



2. Improvements of operational performance (processes)

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance of projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the Issuer.

According to ISS ESG’s SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities in the Gas and Electricity Network Operators industry are the following:



⁴ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an Issuer’s product and service portfolio on the SDGs. For the projects to be financed under Use of Proceeds categories that are based on with the Technical Screening Criteria defined by the EU Taxonomy Technical Annex, a significant contribution to climate change mitigation is attested. Assets compliance with EU taxonomy is not evaluated under the SPO.

The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (Processes)	OPERATIONAL IMPACT IMPROVEMENT ⁵	SUSTAINABLE DEVELOPMENT GOALS
<p>Energy Efficiency</p> <p>Smart technology Installation, maintenance and repair of smart meters recording customer's gas and electricity consumption for demand management, including:</p> <ul style="list-style-type: none"> • Sensor and technology deployment in mid/high voltage grid • Wireless networks and fibre optic cable and network for transmitting and receiving data 	<p>✓ ⁶</p>	 
<p>Green Buildings</p> <p>Refurbished buildings built before 31/12/2020 with EPC rating > A</p>	<p>✓ ⁷</p>	 
<p>Green Buildings</p> <p>Energy efficiency projects in buildings which result in energy savings of at least 30 % or complies with the applicable requirements for major renovations (DIRECTIVE 2010/31/EU)</p>	<p>✓ ⁸</p>	 

⁵ Limited information is available on the scale of the improvement as no threshold is provided. ISS ESG only displays the direction of change.

⁶ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an Issuer's product and service portfolio on the SDGs. For the projects to be financed under Use of Proceeds categories that are based on with the Technical Screening Criteria defined by the EU Taxonomy Technical Annex, a significant contribution to climate change mitigation is attested. Assets compliance with EU taxonomy is not evaluated under the SPO.

⁷ Ibid.

⁸ Ibid

B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBLE USE OF PROCEEDS CATEGORIES

Eligible categories include Renewable Energy, Energy Efficiency and Green Buildings. The majority of the projects financed are situated in the Netherlands (namely all buildings construction, acquisition, and refurbishment) and a small minority in Germany. The table below presents the findings of an ISS ESG assessment of the selection criteria against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

All Projects

Biodiversity

The issuer confirms that it has an environmental management system in place (ISO 14001). It also adheres to applicable environmental laws and regulations to meet biodiversity standards. Dutch nature areas are protected by several national and international laws and rules.



In line with the Dutch Nature Conservation Act, Alliander says that it seeks to minimise or mitigate damage to biodiversity in operational processes and for its building and construction activities. Among other laws which protect nature areas in the Netherlands and Germany are the European Birds Directive and Habitats Directive. Alliander also has a biodiversity-friendly mowing policy, which it implements with the aid of the Dutch Butterfly Foundation.

Green Buildings

Site selection



Alliander confirms to check upon the proximity to public transportation for new non-residential buildings. If the planned building has no public transportation within 1km, the issuer contacts the local government to arrange public transportation to the location.

Construction standard

Alliander confirms that as per its Code of Conduct it has requirements regarding the sustainable procurement of building materials in place.



These include for example that building materials need to contain 100% circular material use made up of 50% recycled materials and 50% new materials that is recyclable. In the design, as many products as possible are chosen that can be recycled or reused (high-quality) during their lifetime. For new office buildings (larger than 100 m²), it uses for example biobased materials and FSC certified wood, in line with the requirements of the MPG (MilieuPrestatie Gebouwen, in English environmental building performance).

Water use minimisation in buildings



Alliander requires buildings to store a minimum of 60 litres/m² (rain)water and drain the following 60 hours of rainwater. In addition, the issuer follows local government regulations on rainwater storage.

Safety of building users

- ✓ Alliander's buildings comply with the Dutch Building Decree and related safety standards for buildings, such as emergency exits.

Transmission lines and reinforcement of the grid

Community dialogue

- ✓ Alliander confirms that stakeholder dialogue is carried out for its grid investments. Alliander's area directors coordinate with stakeholders about the Regional Energy Strategy (RES) (Dutch National Programme Regional Energy Strategies). The company has also extensive conversations with customers and local politicians about sustainability and grid investments. Community dialogue features as part of the planning process as European Union standard in terms of Social Impact Assessments (evaluation and acquisition of land rights, site permitting, and engagement with stakeholders).

Working conditions

- The issuer confirms that high labour and health and safety standards for construction and maintenance work are in place. The Netherlands and Germany are nations which have ratified the ILO core conventions.
- ✓ Alliander's management system is certified with NTA 8120, which provides requirements for a safety, quality and capacity management system in order to prevent nonconformities, failures and incidents, and to assure the safety, quality and capacity of the transmission and the distribution of electricity and gas during all phases of the lifecycle of electricity and gas networks.
- Furthermore, the issuer confirms in its Supplier Code of Conduct that its suppliers need to take measures to promote and safeguard good working conditions.

Environmental aspects of construction

- ✓ The issuer confirms that it follows the Dutch Building Decree, which prescribes policies regarding noise mitigation during the construction phase. Alliander also confirms that it acts in accordance with applicable environmental laws and regulations.

Standards for decommissioning and recycling

- ✓ Alliander has an environmental policy in place for the re-use of grid components, management and processing of residual and waste materials.
- ✓ Alliander integrates circular procurement into purchasing processes and reports on the 'circular procurement' percentage internally every quarter. It uses this term to refer to the procurement of materials made largely from recycled constituents and/or materials that are recyclable after use.

In its own operations, Alliander recycles 90% of the remaining waste as high-grade materials.⁹

In the Alliander's procurement policy: All contracted suppliers of Alliander have committed to the 'Alliander Supplier Code of Conduct'. The code is based on OECD guidelines and includes lifecycle analysis: the footprint of products and services is kept as small as possible: waste should be avoided as much as possible; options for recycling should be studied and implemented where possible.

Safety of transmission networks and equipment

Alliander follows the Working Conditions Catalogue and the protocols of the VIAG (safety instructions for energy companies when working with natural gas) and BEI (safety operations of electrical installations).



To ensure knowledge about safety is up-to-date, Alliander organizes toolbox meetings. The issuer also ensures that employees and contractors apply Life-Saving Rules. Incidents are analysed and lessons learned are shared with all involved.

Alliander has grid control centres which monitor energy flows and coordinate troubleshooting, and it calculates whether electromagnetic radiation remains within the standard when realising high-voltage connections.

Energy Efficiency



Energy efficiency (e.g. minimum transmission losses) is part of Alliander's grid design criteria and part of the procurement of components. The issuer also has a reduction programme for technical grid loss in place.

Alliander states that it has set a minimum requirement of 10% for materials that are used for experiments. This ensures the issuer to innovate and develop more energy efficient solutions for its network, it says.

⁹ https://www.alliander.com/content/uploads/dotcom/Alliander_Annual_Report_2021.pdf

PART III: ALIGNMENT OF THE SELECTION CRITERIA WITH THE ENVIRONMENTAL CATEGORIES OF THE EU TAXONOMY

ISS ESG assessed the alignment of the selection criteria of Alliander and processes as well as company policies for the nominated Use of Proceeds, project categories, with the relevant Climate Change Mitigation requirements of the EU Taxonomy Climate Delegated Act (June 2021) ¹⁰ on a best-efforts basis, based on information provided by Alliander.

This alignment assessment is based on the selection criteria and Alliander’s processes and policies for project selection.

The table below shows the alignment of the selection criteria with the relevant EU Taxonomy activity, based on the Technical Screening Criteria of the EU Taxonomy Substantial Contribution to Climate Change Mitigation; where the project selection criteria fully meet the EU Taxonomy Criteria requirements, a tick is shown in the table below.

Where the project selection criteria have no overlap with the relevant Technical Screening Criteria, or there is no relevant EU Taxonomy activity, a “red circle” is shown in the table below (if any).

The results for the activities with Substantial Contribution to Climate Change Mitigation is as follows:

PROJECT CHARACTERISTICS AND SELECTION PROCESSES ¹¹		ALIGNMENT WITH THE EU TAXONOMY TECHNICAL SCREENING CRITERIA FOR A SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION
EU Taxonomy Activity, based on substantial contribution to Mitigation	SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA	
4.9 Transmission and distribution of electricity	<p>Alliander’s grid is connected to subordinated systems and therefore interconnected to the European system. Alliander confirms that the energy it distributes is regionally produced by power stations and windfarms and are part of the interconnected European system, i.e. the interconnected control areas of member States, Norway, Switzerland and the United Kingdom, and its subordinated systems and eligible under the EU Taxonomy.</p> <p>The issuer confirms that the smart meters meet the relevant standard (Article 20 of the EU directive 2019/944), and that the infrastructure dedicated to creating a direct connection or expanding an existing</p>	✓

¹⁰ [EU Taxonomy Climate Delegated Act](#)

¹¹ Ibid.

	<p>direct connection between a substation or network and a power production plant has a greenhouse gas intensity lower than 100 gCO₂e/kWh measured on a life cycle basis.</p>	
7.1 Construction of new buildings	<p>Alliander confirms that the new buildings fulfil the primary energy demand requirement of at least 10 % lower than the threshold set for the nearly zero-energy building (NZEB) and the requirement of the EU taxonomy regarding testing for air-tightness and thermal integrity for buildings larger than 5000 m².</p> <p>For buildings larger than 5000 m², in terms of the requirement regarding calculations on the life-cycle Global Warming Potential (GWP) of the building, Alliander demands transparency from the building company in their calculations regarding the environmental performance.</p>	✓
7.2. Renovation of existing buildings	<p>Alliander has eligible criteria of refurbished buildings resulting in a reduction of primary energy demand (PED) of at least 30% or complies with the applicable requirements for major renovations (DIRECTIVE 2010/31/EU).</p>	✓
7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	<p>Alliander confirms compliance to the measures, with the following activities: Installation, maintenance and repair of smart meters for monitoring energy consumption including reporting and improvement-proposals, building control systems, solar energy-systems, i.e. energy management systems, lighting with motion and daylight-control.</p>	✓
7.7. Acquisition and ownership of buildings	<p>Alliander confirms that it is able to measure the appropriate metrics to confirm eligible projects will align with the requirements.</p> <p>For buildings built after 31/12/2020 it will comply with the criteria set out in activity 7.1. Buildings built before 31/12/2020 have an EPC rating > A.</p>	✓

PART IV: GREEN FINANCE INSTRUMENTS LINK TO ALLIANDER'S SUSTAINABILITY STRATEGY

A. ALLIANDER'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

Key challenges faced by companies in terms of sustainability management in the Gas and Electricity Network Operators industry are displayed in the table below. Please note that this is not a company specific assessment, but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Promotion of a sustainable energy system
Environmentally safe operation of plants and infrastructure
Accessibility and reliability of energy supply
Worker safety and accident prevention
Protection of human rights and community outreach

ESG performance of the Issuer

Leveraging ISS ESG's Corporate Rating research, further information about the issuer's ESG performance can be found on ISS ESG Gateway at: <https://www.issgovernance.com/esg/iss-esg-gateway/>.

Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part III.B of the report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

Using a proprietary methodology, ISS ESG assessed the contribution of Alliander's current products and services portfolio to UN SDGs.

ISS ESG determined that, based on the information provided by the company, its overall business model has no net impact (contribution and/or obstruction) to the UN SDGs.

Breaches of international norms and ESG controversies

At issuer level

At the date of publication, ISS ESG has not identified any severe controversy in which the issuer would be involved.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Gas and Electricity Network Operators industry are as follows: Failure to assess environmental impacts, failure to mitigate climate change impacts and poor stakeholder consultation.

Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

B. CONSISTENCY OF GREEN FINANCE INSTRUMENTS WITH ALLIANDER'S SUSTAINABILITY STRATEGY

Alliander's mission is to stand for an energy supply system where everyone has access to reliable, affordable and renewable energy on equal terms. Its CSR efforts are focused 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. According to Alliander, the firm contributes towards the **energy transition by striving to give all customers equal access to renewable energy**.
2. Alliander aspires to reach **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 is produced it is converted into input for the materials they consume.
3. As a large employer, **Alliander takes responsibility for a social and inclusive organisation**.

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

SDG 7, 11 and 12 include commitments such as:

- SDG 7 Affordable & Clean Energy: The SDG largely coincides with the firm's mission and strategy. As an energy network operator, Alliander seeks to play a role in guaranteeing safe, affordable and constant availability of (sustainable) energy. As one of its long-term contributions, the firm seeks to make heating transition arrangements with all municipal authorities and housing associations in its service areas by 2022.
- SDG 11 Sustainable Cities and Communities: Alliander says that it has made it its task to assist municipalities in the transition to a sustainable energy supply, and to programme and implement changes. These are in line with concrete strategies and district plans, which are based on agreements such as the Regional Energy Strategies (RES) and the development of the Dutch Climate Agreement as well as social initiatives, according to Alliander.
- SDG 12 Responsible Production and Consumption: Alliander has committed to implementing sustainable management and efficient use of natural resources in its business operations by 2030. It will also significantly reduce waste generation by 2030 through prevention, reduction, recycling and reuse.

Rationale for issuance

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 energy 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 Socially Responsible Investing (SRI) market. 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. Alliander has issued three Green Finance Instruments from 2016 to 2020 alongside corresponding impact reports.

Contribution of Use of Proceeds categories to sustainability objectives and key ESG industry challenges

ISS ESG mapped the Use of Proceeds' categories financed under this Green Finance Instruments with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Gas and Electricity Network Operators industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings industry. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds' category.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Renewable Energy	✓	✓	Contribution to a material objective
Energy Efficiency	✓	✓	Contribution to a material objective
Green Buildings	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through these green financing instruments are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing green financing instruments is clearly described by the Issuer.*

DISCLAIMER

1. Validity of the SPO: As long as there is no material change to the Framework.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to standardized procedures to ensure consistent quality of responsibility research worldwide. In addition, we provide Second Party Opinion (SPO) on bonds based on data provided by the issuer.
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ANNEX 1: Methodology

EU Taxonomy

ISS ESG evaluates whether the details of the nominated projects and assets or project selection eligibility criteria included in the Green Finance Framework meet the criteria listed in relevant Activities in the EU Taxonomy Climate Delegated Act (June 2021)

The evaluation seeks to understand if Alliander's project categories are indicatively in line with the requirements listed in the EU Taxonomy Technical Annex.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Alliander (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the project category location, were drawn on to complement the information provided by the issuer.

ISS ESG Green KPIs

The ISS ESG Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of URW's Green financing instruments.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfil the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment "no or limited information is available" either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Alliander (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Alliander's Green Finance Instruments contributes to related SDGs.

ANNEX 2: ISS ESG Corporate Rating Methodology

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Norm-Based Research - Severity Indicator - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

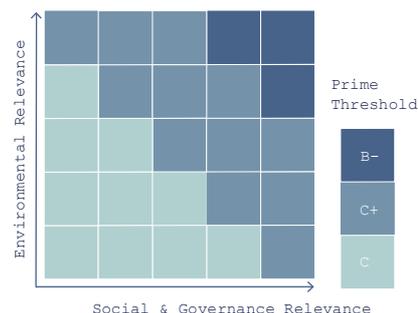
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 3: Quality management processes

SCOPE

Alliander commissioned ISS ESG to compile a Green Finance Instruments SPO. The Second Party Opinion process includes verifying whether the Green Finance Framework aligns with the GBP and GLP and to assess the sustainability credentials of its Green Finance Instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- GBP and GLP
- EU Taxonomy
- ISS ESG Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

ISSUER'S RESPONSIBILITY

Alliander's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at framework level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Finance Instruments to be issued by Alliander based on ISS ESG methodology and in line with the ICMA GBP, GLP.

The engagement with Alliander took place from July to August 2022.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For more information on SPO services, please contact: SPOsales@isscorporatesolutions.com

For more information on this specific Green Finance Instruments SPO, please contact: SPOOperations@iss-esg.com

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