



# GREEN FINANCING FRAMEWORK

**SEPTEMBER  
2021**

## 1. INTRODUCTION TO COLBÚN

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Colbún is a Chilean corporation engaged in power generation and supply in Chile's main power grid, the Sistema Eléctrico Nacional (SEN for its acronym in Spanish). The Company is the third-largest power generation company in the SEN, with a market share as of June 30, 2021 of approximately 15% measured in terms of generation.

Colbún has a diversified asset portfolio, including, as of June 30, 2021, 17 hydroelectric power plants in four different river basins, 7 thermoelectric power plants and one solar power plant located across four regions of Chile and one in Perú. As of June 30, 2021, we had a total installed capacity of 3,805 MW.

The Company aims to generate and commercialize continuous and safe electric power for its customers, at competitive prices for the market and in a manner that is sustainable for the environment and its stakeholders.

Colbún is convinced that sustainability is not a part of the business, it is the business itself. In that line, since November 2015, the Company has adhered to the Global Compact Network and directly contributes to 10 of the 17 Sustainable Development Goals of the United Nations.

Additionally, Colbún has been selected for the last five years in the Dow Jones Sustainability Index Chile and for the last four years in the Dow Jones Sustainability Index MILA, a measurement that assesses the performance of companies in the economic, environmental, and social areas.

Colbún is the largest issuer of carbon credits coming from power generation in Chile, with six power plants accredited to issue these type of instruments. Each year, these power plants prevent the emissions equivalent to removing near 179,000 cars from circulation.

## 2. RATIONALE TO ISSUE A GREEN FINANCING INSTRUMENT

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Colbún is committed to generating long-term value to its stakeholders with a focus on the sustainable performance in every area of our business. Anchored in this vision, among the Company's sustainability goals are:

- i. To incorporate 4,000 MW of renewable capacity in Chile by 2030, with a special focus on solar and wind sources.
- ii. To achieve operational, environmental and safety management excellence
- iii. To perform continuous community outreach work, developing a relationship of closeness and trust with local communities

The issuance of a Green Financing Instrument (GFI) will allow the Company to fund initiatives the Company is developing to achieve these goals, at the same time expanding its investor base, attracting environmentally conscientious and socially responsible investors with a long-term view. We hope that issuance of GFIs will encourage others to join us in investing in the low-carbon transition.

### 3. APPLICATION OF THE GREEN BOND AND LOAN PRINCIPLES

The Green Bond Principles (GBPs) 2021<sup>1</sup> elaborated by the International Capital Markets Association (ICMA) and the Green Loan Principles (GLPs) 2021<sup>2</sup> by the Loan Market Association (LMA) are voluntary procedural guidelines to ensure best practices in GFI, which include Green Bonds, Green Loans and other debt instruments that fund green projects.

This Green Finance Framework has been created to facilitate transparency, disclosure, and promote the integrity of Colbún’s GFI issuances. The framework is aligned with the four pillars of the GBPs and GLPs:

- i. Use of Proceeds
- ii. Project Evaluation and Selection Process
- iii. Management of Proceeds
- iv. Reporting

This Framework may be updated from time to time and will be applied to any GFI issued by Colbún. In the event of an update to this Framework, any future projects will be in alignment with the high-level eligible project categories recognized by the ICMA Green Bond Principles.

#### 3.1. Use of Proceeds

We intend to allocate an amount equal to the net proceeds from the sale of any GFI to finance or refinance, in whole or in part, one or more new or existing Eligible Green Projects as defined below. Eligible Green Projects will include those for which Colbún or its subsidiaries made disbursements within 36 months post the issuance date of any GFI, or in the 24 months prior to any such issuance.

Example projects include, but are not limited to, the list of the “Eligible Green Projects” from the Company’s current pipeline of projects found in the Appendix.

#### Eligible Categories:

Eligible Category aligned with ICMA Green Bond Principles	Eligibility Criteria	SDG Alignment
<p><b>Renewable Energy</b></p>	<p>Expenditures related to the construction, development, expansion, production, acquisition, maintenance, and operation of renewable energy projects:</p> <ul style="list-style-type: none"> <li>▪ Wind (onshore) and solar (photovoltaic and CSP) technology, including the processes of generation, battery storage, equipment and products to support such renewable energies</li> </ul>	 

<sup>1</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

<sup>2</sup> [https://www.lma.eu.com/application/files/9115/4452/5458/741\\_LM\\_Green\\_Loan\\_Principles\\_Booklet\\_V8.pdf](https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf)

<p><b>Energy Efficiency</b></p>	<p>Expenditures related to projects that improve energy efficiency of equipment, systems and infrastructure by at least 20% to 30%<sup>3</sup>. Eligible projects may include:</p> <ul style="list-style-type: none"> <li>▪ LED and other energy efficient lighting</li> <li>▪ Energy storage systems</li> <li>▪ Energy efficient heating, ventilation, air conditioning (HVAC), refrigeration, and electrical equipment</li> </ul>	
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Eligible projects will contribute to Colbún’s commitment to reduce the net CO2 emission factor<sup>4</sup> of Colbún in Chile<sup>5</sup> by 30% by 2025 and 40% by 2030 (compared to 2018, in ton CO2e / MWh generated).

**Exclusionary Criteria:**

We will not knowingly allocate proceeds from the issuance of our GFI to activities involving the exploitation of human rights. Moreover, proceeds from Colbún’s GFI will not be allocated to fossil fuel related or thermoelectric projects or to large-scale hydroelectric projects (of more than 25 MW of installed capacity).

**3.2. Project Evaluation and Selection Process**

We regularly analyze the environmental and social impacts of our businesses and assess how we can mitigate impacts on environment and communities in which we operate. Moreover, we conduct extensive due diligence when evaluating potential new opportunities and monitoring of our investment positions.

Colbún will establish a Sustainability Committee, which will meet on a semi-annual basis and will be comprised of representatives of the Finance Division, the Engineering and Projects Division and the Environmental Department. The Sustainability Committee will review and select projects that align with the eligibility criteria set forth in Section 3.1 of this Framework. Final allocation will be reviewed and approved by our CFO. Eligible projects will be evaluated for environmental and social risks in line with company-level policies and procedures. On an annual basis, the Sustainability Committee will review the list of Eligible Green Projects against the Eligibility and Exclusion Criteria. In the event that a project does not meet the Eligibility Criteria, Colbún will reallocate funds from the ineligible project to Eligible Green Projects.

**3.3. Management of Proceeds**

The Sustainability Committee will track actual amounts of the net proceeds from the sale of any GFI spent on Eligible Green Projects by establishing and maintaining a specific investment folder that gathers all expenses and documentation based on a unique project code identifier. Pending the allocation of the net proceeds of a GFI to Eligible Green Projects, all or a portion of the net proceeds will be held on the Company’s balance sheet, invested in Cash, Cash Equivalents and/or other liquid instruments, in accordance with the Company’s Investment Policy. The payment

<sup>3</sup> Energy efficiency projects will exclude equipment reliant on fossil fuels

<sup>4</sup> Net Emission Factor (ton CO2e/MWh) = (Emissions generated - Emissions offset)/Energy Produced

<sup>5</sup> Target does not include Fenix

of principal and interest on any GFI will be made from our general corporate account and will not be linked to the performance of any Eligible Green Project.

If any of the projects is not carried out, the funds raised will be divested from the project in question and used to finance other Eligible Green Projects, as determined by the Sustainability Committee. Complete allocation of the proceeds from a GFI issuance is expected within 36 months from the date of issuance of the Instrument.

### 3.4. Reporting

Annually, until all the net proceeds of any GFI have been fully allocated, and on a timely basis in case of material developments, Colbún is committed to disclose, through the Company's website, the following information:

- i. Update of the description of the Eligible Green Projects and amount of the net proceeds allocated to each one, either individually or by category, subject to confidentiality considerations;
- ii. Share of proceeds used for projects initiated within the lookback period (pre-issuance) vs lookforward period (post-issuance)
- iii. Amount of net proceeds that have not yet been allocated
- iv. Impact Report: where feasible, qualitative and quantitative environmental performance data relating to the Eligible Green Projects funded

### Impact Reporting

Examples of expected impact metrics may include, where feasible:

Project Category	Example Key Performance Indicator
<b>Renewable Energy</b>	<ul style="list-style-type: none"> <li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li> <li>• Annual renewable energy generation in MWh (electricity) and GJ (other energy)</li> <li>• Capacity of renewable energy plant(s) constructed or rehabilitated in MW</li> <li>• Annual Absolute (gross) GHG emissions from the project in tonnes of CO2 equivalent</li> </ul>
<b>Energy Efficiency</b>	<ul style="list-style-type: none"> <li>• Annual energy savings in GWh and GJ</li> <li>• Reduction in absolute energy usage (in %)</li> <li>• Annual GHG emissions avoided/reduced in tonnes of CO2e</li> </ul>

## 4. EXTERNAL REVIEW

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### 4.1. Second Party Opinion

Colbún has appointed Sustainalytics to provide a Second Party Opinion on Colbún's Green Financing Framework. Sustainalytics applies its own methodology in line with market norms and the GBPs 2021 and GLPs 2021 to carry out this assessment.

This Second Party Opinion, as well as the Green Financing Framework, will be published in the Investors section of the Company's website.

### 4.2. External Verification

Annually, until the Net Proceeds are fully allocated to Eligible Green Projects, Colbún will contract an external auditor to deliver a report on the compliance in all material respects of the Eligible Green Projects with the criteria approved in Colbún's Green Financing Framework and by the Green Bond Principles.

## 5. APPENDIX

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### Example Eligible Green Projects:

#### i. Horizonte Wind Farm:

Horizonte is located 170 km southwest of Antofagasta (II Region). It has an installed capacity of approximately 778 MW and an expected annual generation of approximately 2,380 GWh.

The project starts from the award of a 30 years Onerous Use Concession Agreement, in a state property of about 8 thousand hectares.

The layout of the projects considers 140 turbines, 110 kms of roads, 90 kms of medium voltage networks and 2 substations. Colbún already signed a contract with Enercon for the turbines supply.

The project received the environmental approval in August 2021. Construction and mounting are expected to start in 4Q21 and the expected commissioning during 4Q24.

#### ii. Diego de Almagro Sur I and II Photovoltaic Projects:

The projects are located in the Atacama (III Region) and all together consider an approximate installed capacity of 230 MW and an expected annual generation of approximately 648 GWh. Both projects are located on a total land of 330 hectares, less than two kilometers from the new Illapa substation, which is favorable for their connection to the National Electricity System.

The projects received the environmental approval in October 2019. Construction started in 4Q20, as of June 30, 2021, these projects have 62% of progress and the expected commissioning is during 1Q22.

#### iii. Machicura Photovoltaic Project:

This solar project is located near the Machicura reservoir, in the commune of Colbún (VII Region), and uses a total area of approximately 20 hectares owned by Colbún.

The project considers the installation of a solar power plant with an installed capacity of 9MW and an expected annual generation of approximately 21 GWh, which qualifies as a Small Means of Generation project (PMG).

The project received the environmental approval in May 2020. Construction started in 4Q20, as of June 30, 2021, these projects have 97% of progress and the expected commissioning is during 3Q21.

**iv. Inti Pacha Photovoltaic Project:**

This solar project is located approximately 75 km east of Tocopilla, in the María Elena commune, (II Region). It will use a total area of 736 hectares.

The project considers the installation of a solar power plant with an installed capacity of close to 486 MW and an expected annual generation of approximately 1,363 GWh.

This project starts with the award of 2 tenders for Onerous Use Concession Agreements conducted by the Ministry of National Assets.

The project received the environmental approval in November 2020. Construction and mounting are expected to start in 2022 and the expected commissioning two years after.

**v. Los Junquillos Wind Farm Project:**

This project is a wind farm located 15 km northwest of the city of Mulchén, in the commune of Mulchén, (VII Region). It has an installed capacity of 265 MW and an expected annual generation of approximately 1,030 GWh.

The project is currently in a feasibility stage. Construction and mounting are expected to start in 2022 and the expected commissioning during 2025.

**vi. Jardín Solar Photovoltaic Project:**

This solar project is located approximately 8 km south-east of Pozo Almonte locality, in the commune of Pozo Almonte (I Region), and will use a total area of approximately 1,000 hectares. The project considers the installation of a solar power plant with an installed capacity of close to 537 MW in 2 stages of 263 MW and 274 MW each. It has an expected annual generation of approximately 1,500 GWh.

The project received the environmental approval in September 2021. Construction and mounting are expected to start in 2022 and the expected commissioning during 2024.

**Disclaimer:**

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