



# Second-Party Opinion

## ITOCHU Europe Green Finance Framework

### Evaluation Summary

Sustainalytics is of the opinion that the ITOCHU Europe Green Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Renewable Energy and Pollution Prevention and Control – are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories are expected to contribute to reducing GHG emissions and environmental pollution in Europe and advance the UN Sustainable Development Goals, specifically SDGs 7 and 12.



**PROJECT EVALUATION / SELECTION** ITOCHU Europe’s Sustainability Committee will manage the internal process for evaluating and selecting projects. ITOCHU Europe’s environmental and social risk management processes are applicable to all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** ITOCHU Europe’s Corporate Planning Division will monitor and track the allocation proceeds by using an internal reporting system. Unallocated proceeds will be temporarily held as cash, cash equivalents or invested in short-term financial instruments. ITOCHU Europe aims to complete the full allocation of proceeds within 36 months of issuance. This is in line with market practice.



**REPORTING** ITOCHU Europe intends to report on the allocation of proceeds on its website on an annual basis until full allocation. In addition, ITOCHU Europe is committed to reporting on relevant impact metrics. Sustainalytics views ITOCHU Europe’s allocation and impact reporting as aligned with market practice.

**Evaluation date** March 9, 2022<sup>1</sup>

**Issuer Location** London, United Kingdom

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<sup>1</sup> The ITOCHU Europe Green Finance Framework dated March 2022 updates and replaces ITOCHU Europe’s 2019 Green Finance Framework. This Second-Party Opinion replaces Sustainalytics’ previously provided Second-Party Opinion, which was dated March 26, 2019.

## Introduction

ITOCHU Treasury Centre Europe Plc (“ITE” or the “Issuer”) is wholly owned and controlled by ITOCHU Corporation (“ITOCHU”, and together with its subsidiaries and affiliates, the “Group”), a general trading company based in Japan. The principal activity of ITE is to provide financing services to the Group’s companies in Europe and the Middle East. ITOCHU Europe Plc (“ITOCHU Europe” or the “Company”) is a wholly owned subsidiary of ITOCHU. Established in 1987, the Company leads the Group’s operations in the textiles, machinery, non-ferrous metals, foodstuffs, chemicals, general merchandise and financial sectors.

ITOCHU Europe has developed the ITOCHU Europe Green Finance Framework (the “Framework”) under which ITE intends to issue green bonds, green loans, green Schuldschein (SSD) and green private placements.<sup>2</sup> ITOCHU Europe intends to use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects expected to contribute to reducing GHG emissions and environmental pollution in Europe. The Framework defines eligibility criteria in two areas:

1. Renewable Energy
2. Pollution Prevention and Control

ITOCHU Europe engaged Sustainalytics to review the ITOCHU Europe Green Finance Framework, dated March 2022, and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)<sup>3</sup> and the Green Loan Principles 2021 (GLP).<sup>4</sup> The Framework will be published in a separate document.<sup>5</sup> The ITOCHU Europe Green Finance Framework dated March 2022 updates and replaces ITOCHU Europe’s 2019 Green Finance Framework, for which Sustainalytics had provided a previous second-party opinion.<sup>6</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>7</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2021, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of ITOCHU Europe’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. ITOCHU Europe representatives have confirmed (1) they understand it is the sole responsibility of ITOCHU Europe to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

<sup>2</sup> ITOCHU Europe has communicated to Sustainalytics that private placements under the Framework do not include sales of stock shares.

<sup>3</sup> The Green Bond Principles are administered by the International Capital Market Association (ICMA) and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>4</sup> The Green Loan Principles are administered by the Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and Loan Syndications and Trading Association (LSTA) and are available at <https://www.lsta.org/content/green-loan-principles/>.

<sup>5</sup> The ITOCHU Europe Green Finance Framework is available on ITOCHU Europe’s website at: <https://www.itochu.com/uk/en/>.

<sup>6</sup> Sustainalytics’ 2019 second-party opinion is available at: <https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/itochu-europe/itochu-europe-green-bond-framework-second-party-opinion/itochu-europe-green-bond-framework-second-party-opinion-pdf>.

<sup>7</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and ITOCHU Europe.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of twenty-four (24) months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that ITOCHU Europe has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the ITOCHU Europe Green Finance Framework

Sustainalytics is of the opinion that the ITOCHU Europe Green Finance Framework is credible and impactful, and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of ITOCHU Europe's Green Finance Framework:

- Use of Proceeds:
  - The eligible categories – Renewable Energy and Pollution Prevention and Control – are aligned with those recognized by the GBP and GLP. Sustainalytics believes that the eligible categories are expected to contribute towards carbon emissions reduction and environmental pollution prevention in Europe.
  - Under the Renewable Energy category, ITOCHU Europe may finance or refinance the development, construction, acquisition and operation of facilities that generate renewable energy from concentrated solar power (CSP),<sup>8</sup> wind and waste-biomass resources. Bioenergy expenditures are limited to a combined heat-and-power (CHP) facility fed by black liquor,<sup>9</sup> obtained from the Äänekoski Bio-Product Mill. ITOCHU Europe has confirmed to Sustainalytics that the mill exclusively uses traceable wood sourced from Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) certified or controlled forests.<sup>10</sup> ITOCHU Europe may also finance transmission assets that are intended to reduce curtailment of the above-mentioned renewable energy into the grid.
  - Under the Pollution Prevention and Control category, ITOCHU Europe may finance or refinance the development, construction, acquisition and operation of waste-to-energy projects. The projects aim to convert residual waste into energy, with the recyclable material being separated out before the energy conversion.
    - Sustainalytics recognizes that energy from waste could take out of circulation potentially recyclable materials and undermine the objectives of a zero-waste circular economy, i.e. waste prevention and recycling. However, Sustainalytics also notes that

<sup>8</sup> ITOCHU Europe has confirmed that the large majority (> 85%) of electricity generated from the project is derived from solar energy resources.

<sup>9</sup> Black liquor is a byproduct of the paper production process that can be used as a source of energy. For more information:

<https://www.eia.gov/tools/glossary/index.php?id=Black%20liquor>.

<sup>10</sup> MetsäFibre, Sustainable forestry and forest certification, at: <https://www.metsafibre.com/en/sustainability/Pages/Sustainable-forestry-and-forest-certification.aspx>

due to current constraints of recycling in many parts of the world, energy from waste can offer a better residual waste management option than landfills in many cases. Sustainalytics recommends ITOCHU Europe to promote the removal of increasing amounts of recyclables, especially plastics and metals, and the monitoring of thermal efficiency of the financed facilities.

- ITOCHU Europe intends to finance four waste-to-energy plants in the UK. The Company has confirmed that the plants are only supplied with residual waste after recyclables are sorted out by the local authorities in compliance with the applicable waste separation requirement.<sup>11</sup> Sustainalytics encourages ITOCHU Europe to ensure that the majority of recyclables are removed before incineration.
- Project Evaluation and Selection:
  - ITOCHU Europe’s Sustainability Committee will manage the internal process of evaluating and selecting projects. The Sustainability Committee is comprised of the Company’s CSO, CFO and general managers of related departments.
  - ITOCHU Europe has in place environmental and social risk management processes which are applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. For additional detail see Section 2.
  - Based on the presence of cross-functional oversight of project selection as well as systems for risk management, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - ITOCHU Europe’s Corporate Planning Division will monitor and track the allocation of proceeds on a quarterly basis by using its internal reporting system.
  - Unallocated proceeds will be temporarily held as cash, cash equivalents or invested in short-term financial instruments. ITOCHU Europe commits to allocate bond proceeds to finance or refinance existing projects at issuance and to complete the full allocation of proceeds within 36 months of issuance.
  - Based on the presence of an internal tracking system and the disclosure of temporary and full allocation periods, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - ITOCHU Europe commits to provide allocation and impact reporting of the net proceeds in ITOCHU’s Sustainability Report or on ITOCHU Europe’s corporate website on an annual basis until full allocation.
  - Allocation reporting will include the amount of proceeds allocated for each eligible project category, as well as the amount of unallocated proceeds, expected timing to disburse, and intended types of temporary placement.
  - Impact reporting may include key metrics such as annual GHG emissions avoidance (in ktCO<sub>2</sub>e), capacity of total generation of renewable energy (in MW) and capacity of waste processed.
  - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### **Alignment with Green Bond Principles 2021 and Green Loan Principles 2021**

Sustainalytics has determined that the ITOCHU Europe Green Finance Framework aligns with the four core components of the GBP and GLP. For detailed information, please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

## **Section 2: Sustainability Strategy of ITOCHU Europe**

### **Contribution of the Framework to ITOCHU Europe Plc’s sustainability strategy**

As a subsidiary of ITOCHU Corporation, the Company adheres to ITOCHU’s sustainability policy that is based on three sustainability pillars: (i) environment, (ii) sustainable supply chains, and (iii) human rights.<sup>12</sup> These pillars underpin the Group’s environmental initiatives that aim to use technological innovation to promote a

<sup>11</sup> The UK has established the requirement of separating collection of wastepaper, plastic, metal and glass from commercial (trade), industrial and household waste. Government of the UK, “Separate collection of wastepaper, plastic, metal or glass”, at: <https://www.gov.uk/guidance/separate-collection-of-waste-paper-plastic-metal-and-glass>

<sup>12</sup> ITOCHU Corporation, “ESG Report 2021” (2021), at: <https://www.itochu.co.jp/en/csr/pdf/21fulle-all.pdf>

decarbonized society. To this end, the Group focuses on expanding its portfolio in the renewable energy and energy from waste (EfW) sectors.

ITOCHU Europe has implemented several actions to help deliver on the Group's environmental sustainability goals. These include renewable energy projects in Spain and Germany with a total generating capacity of approximately 340 MW.<sup>13</sup> This contributes to the Group's goal to offset CO<sub>2</sub> emissions by 2040, and to achieve net zero GHG emissions by 2050 in line with the climate goals of Japan.<sup>14</sup>

Regarding its waste-to-energy activities, the Company has carried out investments in four projects in the UK, with a combined throughput of 1.31 Mt of waste per year.<sup>15</sup> These projects support the Group's aims to contribute to effective waste management, reduction in GHG emissions and pollution prevention and control.

Sustainalytics is of the opinion that the ITOCHU Europe Green Finance Framework is aligned with ITOCHU's overall sustainability strategy and initiatives and will further ITOCHU's action on its key environmental priorities.

### Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the net proceeds from the bonds and loans issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include hazardous air emissions, loss of biodiversity, and issues related to land use change and workers' health and safety.

Sustainalytics is of the opinion that ITOCHU Europe is able to manage or mitigate potential risks through implementation of the following:

- ITOCHU Europe has established a Sustainability Committee that oversees ESG risks relating to new investments, including the projects initiated under the Framework. At the Group level, it is compulsory to incorporate an ESG risk assessment in investment decision-making processes. The assessment is based on an ESG Checklist for Investment that comprises 33 checks covering the seven core subjects under ISO 26000 (Organizational Governance, Human Rights, Labor Practices, The Environment, Fair Operating Practices, Consumer Issues, Community Involvement and Development) certification.<sup>16</sup> The ESG risk assessment requires the Sustainability Committee to consider any significant adverse environmental effects, compliance with local laws and ordinances, and complaints from stakeholders.
- The Group has adopted an environmental management system based on ISO 14000 certification. The system has built-in mechanisms that assess the impact of new investments and takes a precautionary approach to environmental risks, environment-conserving businesses, saving energy, saving resources, CO<sub>2</sub> emissions reduction and other climate change related risks. Progress is regularly monitored and corrective actions are implemented when results deviate from plans and targets.<sup>17</sup>
- EfW projects in the EU are subject to regulatory standards based on the EU directive for industrial emissions.<sup>18</sup> The same regulatory standards apply to EfW projects in the UK after the UK incorporated the directive into local legislation following its withdrawal from the EU.<sup>19</sup> Regarding worker health and safety, the EU Directive on Worker Health and Safety ensures minimum safety and health requirements throughout job sites in Europe and requires employers to "ensure the safety and health of workers in every aspect related to the work".<sup>20</sup> In the UK, it is the employer's duty to protect the health, safety and welfare of its employees by ensuring that workers are protected from harm.<sup>21</sup>
- The Group also engages other stakeholders within its supply chain, including investee companies and contractors to ensure the health and safety of employees in these companies. To this end, the

<sup>13</sup> ITOCHU Europe, "Business Initiatives for Sustainability", at: <https://www.itochu.com/uk/en/sustainability/business/index.html>

<sup>14</sup> ITOCHU Corporation, "Medium-term Management Plan" (2021), at: <https://www.itochu.co.jp/en/about/plan/index.html>

<sup>15</sup> Ibid.

<sup>16</sup> ITOCHU Corporation, "ESG Report 2021" (2021), at: <https://www.itochu.co.jp/en/csr/pdf/21fulle-all.pdf>

<sup>17</sup> Ibid.

<sup>18</sup> European Commission, "Industrial Emissions Directive", at: <https://ec.europa.eu/environment/industry/stationary/ied/legislation.htm>

<sup>19</sup> Government of the UK, "How the Industrial Emissions Best Available Technique (BAT) regime works from the end of the transition period", at: <https://www.gov.uk/guidance/industrial-emissions-standards-and-best-available-techniques>

<sup>20</sup> Directive 89/391/EEC on the introduction of measures to encourage improvements in the safety and health of workers at work" (1989), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31989L0391&from=FR>

<sup>21</sup> Government of the UK, Health and Safety Executive, "Employers' Responsibilities", at: <https://www.hse.gov.uk/workers/employers.htm>

Group has issued a set of Sustainability Action Guidelines for Supply Chains that addresses key health and safety issues, such as management of working hours and employee health.<sup>22</sup>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that ITOCHU Europe has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

Both use of proceeds categories are aligned with those recognized by the GBP and GLP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

#### Importance of increasing renewable energy share in the EU and UK energy mix

The energy sector is the largest source of GHG emissions in the EU, accounting for more than 75% of GHG emissions as of 2020.<sup>23</sup> As of 2019, fossil fuels are the biggest source of electricity consumed, accounting for 39% in the EU<sup>24</sup> and 43% in the UK.<sup>25</sup> On average, the carbon intensity of electricity generation in the EU in 2019 was 250 gCO<sub>2e</sub>/kWh and 225 gCO<sub>2e</sub>/kWh in the UK.<sup>26</sup>

The carbon intensity of electricity generation in the EU needs to decrease if the EU is to achieve its climate neutrality goal by 2050.<sup>27</sup> The European Green Deal sets out the EU's strategy to achieve climate neutrality by 2050 in line with the Paris Agreement goal to keep global temperature increase to below 2°C and pursue efforts to keep it to 1.5°C.<sup>28</sup> Under the European Green Deal, the EU aims to reduce GHG emissions by at least 55% by 2030, compared to 1990 levels.<sup>29</sup> To achieve this, the EU has laid out a five-point action plan which includes decarbonizing energy systems by enhancing energy efficiency and increasing the share of renewable energy in final consumption to 40% by 2030.<sup>30,31</sup> In terms of progress towards that goal, the share of renewables in final consumption was 21% in 2020, surpassing the 20% headline target that year.<sup>32</sup> Achieving climate neutrality in the EU requires, among others, increasing the share of renewables in electricity generation to 62% by 2030 and 91% by 2050.<sup>33</sup> As of 2021, the share of renewables in electricity generation was 38% in the EU,<sup>34</sup> demonstrating the need for more investments in the sector.

In the UK, the UK Parliament passed legislation in 2019 committing the country to reduce GHG emissions to net zero by 2050 compared to 1990 levels.<sup>35</sup> Pursuant to this legislation, the government developed the Net Zero Strategy: Build Back Greener that sets out several pathways to net zero, including one for the power sector. The British government aims to achieve decarbonization in the power sector by 2035, 15 years ahead of its initial commitment.<sup>36</sup> Renewables, which currently account for about 33% of power generation in the UK, will play a key role in achieving this. Wind and solar are projected to underpin the future energy mix of the UK

<sup>22</sup> ITOCHU Corporation, "ESG Report 2021", (2021), at: <https://www.itochu.co.jp/en/csr/pdf/21fulle-all.pdf>

<sup>23</sup> European Commission, "Powering a climate-neutral economy", (2020), at: [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_1259](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1259)

<sup>24</sup> European Commission, "What is the source of the electricity we consume?", at: <https://ec.europa.eu/eurostat/cache/infographs/energy/bloc-3b.html>

<sup>25</sup> Eurostat, "Complete Energy Balances", at: <https://ec.europa.eu/eurostat/databrowser/bookmark/3dd894c7-087c-418e-aa27-1e5945f5c705?lang=en&lang=en>

<sup>26</sup> European Environment Agency, "Greenhouse gas emission intensity of electricity generation in Europe", at: <https://www.eea.europa.eu/ims/greenhouse-gas-emission-intensity-of-1>

<sup>27</sup> Ibid.

<sup>28</sup> European Commission, "Paris Agreement", at: [https://ec.europa.eu/clima/policies/international/negotiations/paris\\_en](https://ec.europa.eu/clima/policies/international/negotiations/paris_en)

<sup>29</sup> European Commission, "A European Green Deal", at: [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)

<sup>30</sup> European Commission, "Delivering the European Green Deal", at: [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en)

<sup>31</sup> The European Commission has proposed to increase the current target of 32% to 40% to be more in line with the EU's 2050 climate neutrality goal.

<sup>32</sup> European Environmental Agency, "Share of energy consumption from renewable sources in Europe", at: <https://www.eea.europa.eu/ims/share-of-energy-consumption-from>

<sup>33</sup> McKinsey & Company, "Net-Zero Europe Decarbonization Pathways and Socioeconomic Implications" (2020), at:

<https://www.mckinsey.com/~media/mckinsey/business%20functions/sustainability/our%20insights/how%20the%20european%20union%20could%20achieve%20net%20zero%20emissions%20at%20net%20zero%20cost/net-zero-europe-vf.pdf>

<sup>34</sup> European Commission, "State of the Energy Union 2021" (2021), at:

[https://ec.europa.eu/energy/sites/default/files/state\\_of\\_the\\_energy\\_union\\_report\\_2021.pdf](https://ec.europa.eu/energy/sites/default/files/state_of_the_energy_union_report_2021.pdf)

<sup>35</sup> Government of the UK, "UK becomes first major economy to pass net zero emissions law" (2019), at: <https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law>

<sup>36</sup> Government of the UK, "Net Zero Strategy: Build Back Greener" (2021), at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1033990/net-zero-strategy-beis.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033990/net-zero-strategy-beis.pdf)

consistent with net zero, with the government committing to increase offshore wind capacity fourfold to 40 GW from current levels.<sup>37</sup>

In this context, Sustainalytics is of the opinion that ITOCHU Europe's investments in renewable energy will contribute to the EU's and UK's goals to increase the share of renewable energy in the EU's and UK's energy mix.

**Importance of supporting EfW and waste management projects**

As a waste management solution, EfW supports national goals on waste management that seek to reduce the negative environmental impacts from landfills while harnessing the energy potential from waste. Landfills emit GHGs and can cause soil contamination and water pollution.<sup>38</sup> EfW projects reduce the volume of waste that goes to landfills by approximately 87% and provide renewable energy.<sup>39</sup>

In the EU, the Landfill Directive sets out legislation on the use of landfills based on the waste hierarchy principle where landfills are a last resort. The directive stipulates strict operational requirements for landfill use to protect human health and the environment, and to support the EU's transition to a circular economy. Among its many objectives are restricting the landfilling of waste material that is suitable for recycling and energy recovery by 2030, and limiting the proportion of municipal waste landfilled to 10% by 2035.<sup>40</sup>

According to Eurostat, in 2020, a 48% share of Europe's municipal waste was recycled or composted, 23% was landfilled and 27% was incinerated.<sup>41</sup> By 2018, only five out of the 27 EU Member States had achieved the 2020 targets of 50% municipal waste recycling rate and 70% construction and demolition waste recycling rate, according to the European Environmental Bureau.<sup>42</sup> Thus, there is still significant scope for delivering on the EU targets on waste management and accordingly for investments that will contribute to achieving these goals.

In the UK, the government has adopted a 25-year environmental strategic plan<sup>43</sup> which specifies targets relating to eliminating avoidable waste by 2050, eliminating avoidable plastic waste by the end of 2042, and setting waste targets for landfill, reuse and recycling.<sup>44</sup> Under the UK's own Circular Economy Package, which seeks to close the materials loop within the economy, the UK aims to recycle 65% of municipal waste by 2035 and limit the proportion of waste going to landfill to 10% by 2035.<sup>45</sup>

In this context, Sustainalytics is of the opinion that ITOCHU Europe's investments in waste reduction and recycling will contribute to the waste management and circular economy goals of the EU and the UK.

**Alignment with/contribution to SDGs**

The Sustainable Development Goals (SDGs) were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The bonds and loans issued under the ITOCHU Europe Green Finance Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Clean and Affordable Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

<sup>37</sup> Government of the UK, "Energy White Paper: Powering our Net Zero Future" (2020), at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/945899/201216\\_BEIS\\_EWP\\_Command\\_Paper\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945899/201216_BEIS_EWP_Command_Paper_Accessible.pdf)

<sup>38</sup> Columbia University, "Putting Garbage to Good Use with Waste-to-Energy" (2016), at: <https://news.climate.columbia.edu/2016/10/18/putting-garbage-to-good-use-with-waste-to-energy/>

<sup>39</sup> Ibid.

<sup>40</sup> European Commission, "Landfill waste" at: [https://ec.europa.eu/environment/topics/waste-and-recycling/landfill-waste\\_en](https://ec.europa.eu/environment/topics/waste-and-recycling/landfill-waste_en)

<sup>41</sup> Eurostat, "Municipal waste statistics" at: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Municipal\\_waste\\_statistics#Municipal\\_waste\\_generation](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Municipal_waste_statistics#Municipal_waste_generation)

<sup>42</sup> European Environmental Bureau "No Time to Waste: Member States Delay Meeting the Inevitable Targets" (2020), at: [https://www.epsu.org/sites/default/files/article/files/it\\_10\\_2010-02\\_Waste\\_trends-3.pdf](https://www.epsu.org/sites/default/files/article/files/it_10_2010-02_Waste_trends-3.pdf)

<sup>43</sup> Some parts of the plan apply to the UK as a whole, but for matters where environmental policy rests with the devolved governments in Northern Ireland, Scotland and Wales, those parts apply to England only. For more information, see:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/693158/25-year-environment-plan.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693158/25-year-environment-plan.pdf)

<sup>44</sup> Government of the UK, "A Green Future: Our 25 Year Plan to Improve the Environment" (2018), at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/693158/25-year-environment-plan.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693158/25-year-environment-plan.pdf)

<sup>45</sup> Government of the UK, "Circular economy measures drive forward ambitious plans for waste" (2020), at:

<https://www.gov.uk/government/news/circular-economy-measures-drive-forward-ambitious-plans-for-waste>

Pollution Prevention and Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
----------------------------------	--	--

## Conclusion

ITOCHU Europe has developed the ITOCHU Europe Green Finance Framework under which it may issue green bonds, green loans, green SSD and green private placements, and use the proceeds to finance renewable energy and pollution prevention and control projects. Sustainalytics considers that the projects funded by the green finance proceeds are expected to contribute to reducing GHG emissions and environmental pollution in Europe.

The ITOCHU Europe Green Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the ITOCHU Europe Green Finance Framework is aligned with the overall sustainability strategy of the company and that the green use of proceeds categories are expected to contribute to the advancement of the UN Sustainable Development Goals 7 and 12. Additionally, Sustainalytics is of the opinion that ITOCHU Europe has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that ITOCHU Europe is well positioned to issue green bonds and that the ITOCHU Europe Green Finance Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021 and Green Loan Principles 2021.

## Appendix

### Appendix 1: Green Bond / Green Bond Programme - External Review Form

#### Section 1. Basic Information

<b>Issuer name:</b>	ITOCHU Europe Plc / ITOCHU Treasury Centre Europe Plc
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:</b>	ITOCHU Europe Green Finance Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	March 9, 2022
<b>Publication date of review publication:</b>	March 26, 2019
<b>Original publication date [please fill this out for updates]:</b>	

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other (please specify):                                |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – Renewable Energy and Pollution Prevention and Control – are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will contribute to reducing GHG emissions and environmental pollution in Europe and advance the UN Sustainable Development Goals, specifically SDG 7 and 12.

#### Use of proceeds categories as per GBP:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Renewable energy  | <input type="checkbox"/> Energy efficiency   |
| <input checked="" type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation  | <input type="checkbox"/> Clean transportation  |
| <input type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                            | <input type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

If applicable please specify the environmental taxonomy, if other than GBP:

#### 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (*if applicable*):

ITOCHU Europe’s Sustainability Committee will manage the internal process in evaluating and selecting projects. ITOCHU Europe’s environmental and social risk management processes are applicable to all allocation decisions made under the Framework. Sustainalytics considers these risk management systems to be adequate the project selection process in line with market practice.

#### Evaluation and selection

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer’s environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

- Summary criteria for project evaluation and selection publicly available       Other (*please specify*):

#### Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification       In-house assessment
- Other (*please specify*):

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

ITOCHU Europe's Corporate Planning Division will monitor and track the allocation proceeds by using an internal reporting system. Unallocated proceeds will be temporarily held as cash or cash equivalents and/or invested in short term financial instruments. ITOCHU Europe aims to complete the full allocation of proceeds within 36 months of issuance. This is in line with market practice.

#### Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

#### Additional disclosure:

- Allocations to future investments only       Allocations to both existing and future investments
- Allocation to individual disbursements       Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds       Other (*please specify*):

### 4. REPORTING

Overall comment on section (*if applicable*):

ITOCHU Europe intends to report on allocation of proceeds on its website on an annual basis until full allocation. In addition, ITOCHU Europe is committed to reporting on relevant impact metrics. Sustainalytics views ITOCHU Europe's allocation and impact reporting as aligned with market practice.

#### Use of proceeds reporting:

- Project-by-project       On a project portfolio basis

- Linkage to individual bond(s)                       Other (please specify):

**Information reported:**

- Allocated amounts                       Green Bond financed share of total investment
- Other (please specify): *amount of unallocated proceeds, expected timing to disburse, and intended types of temporary placement.*

**Frequency:**

- Annual     Semi-annual
- Other (please specify):

**Impact reporting:**

- Project-by-project                               On a project portfolio basis
- Linkage to individual bond(s)                       Other (please specify):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings                       Energy Savings
- Decrease in water use                               Other ESG indicators (please specify): capacity of total generation of renewable energy (in MW) and capacity of waste processed

**Frequency**

- Annual     Semi-annual
- Other (please specify):

**Means of Disclosure**

- Information published in financial report                       Information published in sustainability report
- Information published in ad hoc documents                       Other (please specify): ITOCHU Europe's corporate website
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

**Review provider(s):****Date of publication:****ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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