SFE **SOGN OG FJORDANE ENERGI AS GREEN BOND FRAMEWORK** MAY 2021

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## BACKGROUND

#### **ABOUT US**

Sogn og Fjordane Energi ("SFE") is a regional energy group located in the county of Vestland in Norway, building on a more than 100-year history as a hydropower producer.

SFE engages in generation, transmission and distribution of electricity. We are one of the largest power companies in Western Norway, with about 250 employees. The Group is owned by Sogn og Fjordane Holding AS, BKK and six municipalities. The Group has a hydropower generation capacity of 2 TWh and more than 4000 kilometers of distribution grid.

#### CLEAN, SUSTAINABLE AND RENEWABLE POWER

Heat and electricity generation are responsible for over a quarter of the EU's greenhouse gas (GHG) emissions. Transitioning to a renewable energy system is therefore essential in order to reach long-term climate goals. Norway's commitment under the Paris Agreement is to cut GHG emissions by at least 50 percent by 2030, compared to 1990 levels. Modern life requires more energy than ever before, and to meet this demand, it is essential to utilize our resources efficiently, and to focus on the effects and consequences on the environment at all times.

Our most important task and contribution to the environment is to produce environmentally friendly renewable energy. With a steady supply of fresh and cold water in our region, SFE has a unique position as a stable and environmentally friendly power supplier. Production of renewable and emission-free energy is crucial to reach national and international climate goals, and we seek to utilize water resources in an efficient and sustainable way, with gentle use of nature. Hydropower has many benefits, including being a renewable, reliable and flexible energy source with minimum pollution and emissions, and it enables energy storage. Consequently, it complements other forms of power generation and particularly variable forms of energy such as wind and solar, and will therefore play a key role in the transition towards a low-carbon economy.

In our region, hydropower production, in addition to jobs and value creation, contributes with important flood mitigation that ensures settlement, infrastructure and natural values along the watercourse. SFE aims to have an environmentally friendly, technically good and economically efficient renewable power production. We actively take into account the environmental challenges and take responsibility for environmental impacts in all stages of the hydropower production.

SFE undertakes environmental assessments in our planning and in relation to individual projects to analyse and address potential impacts on ecology and cultural heritage. We follow national laws and regulations, where environmental impact as well as impact on biodiversity and surrounding areas are important requirements for attaining necessary permits. All new projects affecting the environment must be verified by the NVE. In order to avoid adverse effects on fish stocks, biological diversity and landscape in our area of operations, we have a dedicated professional environment and climate group/department who review all new projects. By having a unique resource dedicated to this area, we are better equipped to adapt and to ensure alignment with our aim to minimise our impact on the environment.

## BACKGROUND

## WE CREATE THE RENEWABLE FUTURE

We create the renewable future is our vision statement. In SFE's new corporate strategy we have chosen to emphasize climate and sustainability even more clearly than in previous strategies. We see that the work to reduce international greenhouse gas emissions will affect both international cooperation and national policies in the coming years. Issues concerning the climate and sustainability are profound in the sense that it affects both our employees, owners, the activity we run and the local communities we operate in. It is therefore natural for us to focus on this, and now even in a more robust way. We follow this up through two main tracks; Strategies and measures to make our own activity more sustainable as well as development of products and services in electrification and sustainability which, in collaboration with partners, will build up activities where renewable energy replace fossil fuels.

SFE will act and behave responsible at all levels and contribute to a balanced, sustainable and value-creating development of our operations. We are powering 100% of our operations on renewable electricity and have set a target to become fossil free by 2030. We will, until realization of our goal buy carbon offsets to balance our carbon emissions. Thereby we will be climate neutral as of 2021. Moreover, we will deal with the input factors in our value chains through a systematic approach of circular economy, building on a holistic life cycle perspective.

Both power grids and the development and operation of hydropower plants lead to encroachment on nature and affects the environment. That is why it is essential to us to when preserve nature we develop our operations.

Activities in SFE that cause direct pollution or emissions, which in turn can damage the external environment is mainly related to travel activities with passenger cars and helicopter transport in connection with construction, operation and maintenance of facilities. To reduce these we have a policy of using zeroemission transport as far as possible while still being able to solve the company's tasks, as well as using modern technology to reduce the need for travel.

We have received an Eco-Lighthouse certification ("Miljøfyrtårn" in Norwegian) for our strict policies on work environment, procurement, transportation and waste management for the head office of the SFE Group in Sandane and the head office of Linja in Florø. We are in the process of certifying a larger part of the group.



## BACKGROUND

In 2020 SFE established its own 'climate panel' and became members of the Norwegian Climate partners Vestland, which is the region's most important partnership for emissions reductions and green business development. Along with more than 60 partner companies we are collaborating systematically for zero emissions by 2030 in the region. The 'climate panel' will hold SFE accountable and collaborate to ensure sound climate work in the SFE group and contribute to this being anchored in the organization, as well as communicated externally. The panel will also be a driving force to lift climate work internally in the organization.

In our effort to be in the forefront when it comes to the development of products and services in electrification and sustainability we have newly established the company Elbåtlader DA together with the energy company BKK in a 50/50 ownership. Elbåtlader DA aims to support the electrification of leisure boats and smaller commercial boats by establishing fast chargers in our area. We have further joined forces with INC Invest AS and established HyFuel AS with the aim to build a plant for production of hydrogen at Fjord Base in Florø. We believe that green hydrogen will play an important role in the future and in the work of achieving local and international climate goals.

#### UN SUSTAINABLE DEVLOPMENT GOALS

We pursue an integrated sustainability strategy aligned with the United Nation's Sustainable Development Goals (SDGs). We have identified a number of the SDGs as being of highest relevance to us, and where we believe we can make the greatest contributions;



## **SFE GREEN FINANCING**

SFE has an ambition to maintain and develop clean renewable energy with zero greenhouse gas emissions, and to have power production that is environmentally sound, as well as technically and economically efficient. Green financing is an important part in realising the vision. We issued our inaugural green bond back in 2018 and has since become a regular issuer in the Norwegian green bond market.

By setting up this updated green bond framework ("Green Bond Framework" or "Framework"), SFE aims to further mobilize debt capital to promote the transition towards a low-carbon and environmentally sustainable society. This Framework, aligned with the Green Bond Principles published in June 2018 by the International Capital Market Association (ICMA), defines the investments eligible for financing by green bond issued by SFE ("Green Bond"). In addition, the Framework outlines the process used to identify, select and report on eligible projects and the set-up for managing the Green Bond proceeds. The terms and conditions of the underlying documentation for each Green Bond shall provide a reference to this Framework. This Framework could also be referenced for loans and Revolving Credit Facilities.

SFE has worked with Danske Bank to develop the Framework and CICERO Shades of Green has provided a second party opinion, which is publicly available at our website. SFE will assign an external auditor to annually provide a limited assurance of the management of proceeds.

April 2021

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Johannes Rauboti Chief Executive Officer

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Martin Holvik Chief Financial Officer

Ragna Hata Haugland

Ragna Flatla Haugland Head of Environment

## **USE OF PROCEEDS**

#### **ALLOCATION OF NET PROCEEDS**

An amount equal to the net proceeds of the Green Bond will finance or refinance, in whole or in part, investments undertaken by SFE or its subsidiaries that promote the transition towards a low-carbon and environmentally sustainable society ("Green Projects"), in each case as determined by SFE in accordance with the Green Project categories defined on the following pages. Green projects also include ownership or joint venture in a company deriving at least 90 per cent of its revenue from the Green project categories in this framework. Green Projects will form a portfolio of assets eligible for financing and refinancing by Green Bond.

#### FINANCING AND REFINANCING

Net proceeds can finance both existing and new Green Projects financed by SFE or its subsidiaries. New Green Projects are defined as projects taken into operation less than 12 months prior to the approval by SFE's Green Bond Committee. Refinancing is defined as financing for Green Projects taken into operation more than 12 months prior to the Green Bond Committee's approval. The distribution between new financing and refinancing will be reported on in SFE's annual Green Bond reporting.

#### **EXCLUSIONS**

Green Bond net proceeds will not be allocated to projects for which the purpose of the project is fossil energy production, nuclear energy generation, weapons and defense, potentially environmentally harmful resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco. Moreover, investments and expenditures for fossil fuel machinery and/or equipment is not eligible for Green Bond financing.

#### SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) were adopted by all 193 United Nations member states in 2015 and guide governments, civil society and the private sector in a collaborative effort for change towards a sustainable development. SFE contributes to several of the goals on a corporate level. In this Framework, each Green Project category has been mapped to the SDGs in accordance with <u>the High-Level</u> <u>Mapping to the Sustainable Development Goals</u> <u>published by ICMA</u>.



## **GREEN PROJECT CATEGORIES**

## Renewable Energy

The financing or refinancing of the construction, acquisition, development, installation, operation, maintenance, and upgrades/modernisations of renewable energy production, related infrastructure and storage facilities, as well as related Research and Development (R&D) programmes.

#### **HYDROPOWER**

- Existing hydropower plants and pumpedstorage hydropower plants, and related investments to improve the capacity of the plant without enlarging the reservoir or increase in reservoir capacity by lowering without raising the water level
- New hydropower plants and pumpedstorage hydropower plants operating at life cycle emissions lower than 100gCO<sub>2</sub>e/kWh
- Infrastructure, technology, and systems that increase the efficiency of management and operations

#### **WIND POWER**

Onshore and offshore wind power facilities

#### **HYDROGEN**

 Hydrogen production out of renewable resources

### Norwegian hydropower is assumed to generate electricity with life cycle emissions including emissions from inundation of land of approximately 3.3g $CO_2$ -equivalents per kWh, according to a study conducted by the Norwegian Institute for Sustainability Research, which calculated emissions from several Norwegian hydropower plants through life cycle assessments.

#### Investing in renewable energy production

Norway is a large producer of renewable energy and one of the largest producers of hydropower globally, which is the basis for nearly the entire electricity production of the country. Reaching the Paris Agreement's goal of net-zero emissions by 2050 will require major further investments in renewable energy, and hydropower will play an essential role due to its ability to provide both a renewable and stable supply of energy with minimum climate impact.

Production of renewable and emission-free energy is crucial to achieving national and international climate goals. In our region, hydropower production contributes to important flood mitigation that ensures settlement, infrastructure and preservation of nature along watercourses. Energy produced from water stored in mountain reservoirs is of high value because it can be used when needed. In addition to unregulated power this makes a valuable contribution to the common European energy market and ensures a secure electricity supply to society over days and years. Construction of new power plants such as our new projects in Østerbø (58% SFE-owned) and Jølstra (50% SFE-owned) will add a total of around 390 GWh of new renewable energy to this market. We also have a wind power plant in Lutelandet under construction which will contribute to an additional 150 GWh of renewable energy.

Impact on biodiversity and surrounding areas are important requirements for our operations. To illustrate this, in the river Vetlefjordelvi where Mel Hydro Power plant is located, we have carries out mitigation measures to improve the living conditions for anadromous fish, including restored side streams and improved hiding places and spawning grounds. The fish passage in Melsfossen and elevation in the river have been adjusted to improve connectivity.

## Transmission of electricity

The financing or refinancing of the construction, acquisition, development, expansion, upgrade, operation, maintenance and interconnection of energy- and transmission systems as well as their associated infrastructure and related research and development programs.

#### **TRANSMISSION& DISTRIBUTION**

Electricity transmission and distribution infrastructure;

- of electricity produced out of renewable sources from its production site to the electricity grid
- with more than 67% of newly connected generation capacity in the electricity system is below the generation threshold value of 100 gCO<sub>2</sub>e/kWh measured on a Product Carbon Footprint (PCF) basis, over a rolling five-year period

#### INTEGRATION OF RENEWABLE ENERGY AND ENERGY EFFICIENCY

Construction/installation and operation of equipment and infrastructure where the main objective is an increase of the generation or use of renewable electricity generation as well as energy efficiency including:

- Sensors and measurement tools (including meteorological sensors for forecasting renewable production)
- ii. Communication and control (including advanced software and control rooms, automation of substations or feeders, and voltage control capabilities to adapt to more decentralised renewable infeed)
- iii. storage and demand-side management (e.g. smart grid)

#### Investing in transmission of electricity

Norway is a large producer of renewable energy and one of the largest producers of hydropower globally, which is the basis for around 90 per cent (NVE) of the entire electricity production of the country. Reaching the Paris Agreement's goal of net-zero emissions by 2050 will require major further investments in renewable energy.

A secure and reliable power supply is essential in any modern society. New technology and the use of smart management systems will contribute to improved security of supply in the future, and the efforts in developing and using new technologies for renewable energy will continue. Key measures will be to improve the energy efficiency of the system, including making best use of excess electricity, effective utilisation of peak electricity generation, enabling the integration of new renewable energy sources, and back-up power capabilities.



## Climate change adaptation

The financing or refinancing of measures to address climate change into the construction and operation of renewable energy systems contributing to a substantial reduction of the negative effects of climate change.

#### ADAPTED ACTIVITIES

- Investments to strengthen an asset or activity to withstand identified physical climate risks over its lifetime, that being adaptation measures in renewable energy infrastructure such as hydropower, wind power, energy transmissions and transport systems
- Monitoring systems and scenario analysis to improve preparedness to extreme weather events

#### Investing in climate change adaptation

Regardless of the success of international actions to reduce GHG emissions, the impact of climate change will increase in the coming decades due to the delayed impacts of past and current emissions. Climate change adaptation is about identifying risks arising from changes in temperature, wind, water and land, and taking measures to reduce those risks.

In Norway in general, a number of dams are being rebuilt to withstand increased stress from climate change. SFE is continuously monitoring our operation facilities and two examples of SFE's climate adaptation measures include; Dam Bjørndalsvatnet, located in an area with increased precipitation. As a result of new flood calculations with a climate surcharge, the dam was upgraded to withstand increased inflow and avoid overtopping. For dam Hjelmevatnet, a need has been identified to expand the flood diversion capacity as a result of new flood calculations. This will be incorporated in the planning of the dam-improvement.



## Clean transportation

The financing or refinancing of the acquisition, expansion or upgrades of low carbon transportation and their related infrastructure.

#### LOW CARBON VEHICLES

Fully electric vehicles with zero tailpipe emissions

#### LOW CARBON INFRASTRUCTURE FOR TRANSPORTATION

Supporting infrastructure that is fundamental for the operation of the transport service and that promotes an increase in low and zero emission fleets, an improvement in fleet efficiency, and/or an improved efficiency of the overall transport/mobility system, including:

- Infrastructure required for zero direct emissions transport, such as electric charging points and electricity grid connection upgrades.
- construction and operation of electronic vehicle (EV) charging stations (land and water), and supporting electric infrastructure for the electrification of transport

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#### Promoting the transition towards low carbon transportation

The Norwegian government has communicated ambitious targets for decarbonising transportation in the future. The target for 2030 is to achieve a 50% reduction in GHG emissions from the transport sector compared to 2005 levels. Achieving the goal will require the electrification of cars and heavy transport, which in turn will require a higher demand for power.

SFE have a policy of using zero-emission transport as far as possible while still being able to solve the company's tasks, as well as using modern technology to reduce the need for travel. SFE are also actively facilitating green car and boat traffic in our region.

# GREEN PROJECT EVALUATION & SELECTION PROCESS

#### ALLOCATION OF GREEN BOND PROCEEDS

SFE's overall management of environmental, social, corporate governance and financial risks is a core component of our decision-making processes. Our risk management strategies are stated in our policies, guidelines and instructions. The process for evaluation and selection of Green Projects will follow the same standard decision-making process.

## **GREEN PROJECT EVALUATION AND SELECTION PROCESS**

Green Projects shall comply with the eligibility criteria defined under the Green Project Categories. The process of evaluating and selecting eligible Green Projects as well as the allocation of Green Bond proceeds to eligible Green Projects comprise the following steps:

- Sustainability experts and representatives within SFE evaluate potential Green Projects, their compliance with the Green Project Categories, and their environmental benefits.
- ii. A list of the potential Green Projects are presented to SFE's Green Bond Committee ("GBC"). The GBC is solely responsible for the decision to acknowledge the project as green, in line with the Green Project Criteria. A decision to allocate net proceeds will require a consensus decision by the GBC. The decisions made by the GBC will be documented and filed.

#### **GREEN BOND COMITTEE**

The GBC is chaired by the Chief Financial Officer and includes the following members:

- Head of Communications
- Head of Environment
- Chief Financial Officer
- Head of Treasury

The GBC will convene every 6 months or when otherwise considered necessary. For the avoidance of doubt, the GBC holds the right to exclude any Green Project already funded by Green Bond net proceeds. If a Green Project is sold, or for other reasons loses its eligibility, funds will then follow the procedure under Management of Proceeds until reallocated to other eligible Green Projects.

## **MANAGEMENT OF PROCEEDS**

## TRACKING OF GREEN BOND NET PROCEEDS

An amount equal to the Green Bond net proceeds will be credited to a "Special Account". The Special Account ensure that Green Bond net proceeds only support Green Projects or to repay Green Bonds.

As long as the Green Bonds are outstanding and the Special Account has a positive balance, funds will be deducted when relevant, or at least annually, from the Special Account in an amount equal to all disbursements made during such year in respect of eligible Green Projects. All transfers from the Special Account will be documented to ensure a full audit trail and to simplify the Green Bond reporting.

The management of proceeds will be reviewed by an external auditor appointed by SFE.

#### **TEMPORARY HOLDINGS**

Unallocated Green Bond net proceeds may temporarily be placed in the liquidity reserve and managed accordingly by SFE.

#### **EXCLUSIONS**

Temporary holdings will not be placed in entities with a business plan focused on fossil energy production, nuclear energy generation, weapons and defense, potentially environmentally harmful resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco.



## **REPORTING & TRANSPARENCY**

SFE will annually and until maturity of the Green Bond issued, provide investors with a report (Green Bond Report) describing the allocation of proceeds and the environmental impact of the Green Projects. The report will be made available on our website together with this Green Bond Framework.

#### **ALLOCATION REPORTING**

Allocation reporting will include the following information:

- i. A summary of Green Bond developments
- ii. The outstanding amount of Green Bonds issued
- iii. The balance of the Green Projects in the Green Register (including any temporary investments and Green Bond repayments) and the available headroom in the value of the Green Projects (if any)
- iv. The total proportion of Green Bond net proceeds used to finance new Green Projects (taken into operation less than 12 months prior to the approval by SFE's Green Bond Committee) and the proportion of Green Bond net proceeds used to refinance Green Projects taken into operation earlier than that
- v. The total aggregated proportion of Green Bond net proceeds used per Green Projects Category

#### **IMPACT REPORTING**

The impact reporting aims to disclose the environmental impact of the Green Projects financed under this Framework, based on SFE's financing share of each project.

As SFE can finance a large number of smaller Green Projects in the same Project Category, impact reporting will, to some extent, be aggregated.

The impact assessment is provided with the reservation that not all related data can be covered and that calculations therefore will be on a best effort basis, e.g. if a plant is under construction but not yet operational, SFE will provide best estimates of future impact levels.

The impact assessment of production and/or distribution will be based on estimated end user energy/ $CO_2$  savings, since the end user is the intended beneficiary.

The impact assessment will, if applicable, be based on the Key Performance Indicators (KPIs) presented in the table on the next page. The KPIs are, where applicable, based on the impact reporting principles of the Nordic Public Sector Issuers Position Paper on Green Bond Impact Reporting.

## Green project categories Key performance indicators (KPIs)

Renewable energy	<ul> <li>Annual renewable energy generation (GWh per year)</li> <li>Annual GHG emissions reduced/avoided (tonnes of CO<sub>2</sub> equivalent emissions (CO<sub>2</sub>e))</li> </ul>
Transmission of electricity	<ul> <li>Capacity (kV)</li> <li>Reduced energy losses through energy efficiency (MWh per year), as applicable</li> <li>Energy from renewables newly feed into the grid (MWh/per year), as applicable</li> <li>Annual GHG emissions avoided (tonnes of CO<sub>2</sub>e emissions), as applicable</li> </ul>
Climate change adaptation	<ul> <li>Physical climate risk addressed and expected adaptation related outcome (quantified if possible)</li> </ul>
Clean transportation	<ul> <li>Low-carbon transport and vehicles</li> <li>Number of vehicles</li> <li>Annual GHG emissions reduced/avoided (tonnes of CO<sub>2</sub>e emissions)</li> <li>Low-carbon transportation infrastructure</li> </ul>

• Number of charging points installed or upgraded

## **EXTERNAL REVIEW**

#### **SECOND PARTY OPINION**

CICERO Shades of Green has provided a second opinion to this Framework verifying its credibility, impact and alignment with the ICMA Green Bond Principles 2018.

#### **EXTERNAL ASSURANCE**

An independent external auditor appointed by SFE will provide, on an annual basis, limited assurance that an amount equal to the Green Bond net proceeds has been allocated to Green Projects.

#### **PUBLICLY AVAILABLE DOCUMENTS**

The Green Bond Framework, the second party opinion, the limited assurance and the annual Green Bond Report will all be publicly available on SFE's website.





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