

Second-Party Opinion

Värmevärden Green Financing Framework

Evaluation Summary

Sustainalytics is of the opinion that the Värmevärden Green Financing Framework is credible and impactful, and aligns with the four core components of the Green Bond and Green Loan Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds (i) Pollution prevention and control, (ii) Energy efficiency and (iii) Sustainable water and waste management are aligned with those recognized by the Green Bond Principles 2018 and Green Loan Principles 2018. Sustainalytics considers that the eligible Green Projects will support the provision of district heating by Värmevärden while lowering the company’s environmental footprint. Similarly, Sustainalytics views that the projects will advance the UN Sustainable Development Goals 6, 7, 9 and 11.



PROJECT EVALUATION / SELECTION Värmevärden’s internal process for evaluation and selection of projects is aligned with market practice. Värmevärden’s Investment and Financial Committee, which oversees the Green Financing Framework and is composed of the CEO, Board of Directors and subject matter experts, is responsible for evaluating and selecting eligible projects.



MANAGEMENT OF PROCEEDS Värmevärden’s processes for management of proceeds are aligned with market practice. The use of proceeds is administered by Värmevärden’s management team and its CFO. The proceeds allocated to eligible projects will be tracked through Värmevärden’s internal financing system using invoices which are marked against the funds of Green Term Debt. Unallocated proceeds will either be held in cash or invested in short-term liquid instruments.



REPORTING Aligned with market practice, Värmevärden will provide an annual update to its investors on the company’s allocation of proceeds, the amount of unallocated proceeds and a description of financed projects. In addition, Värmevärden will also provide annual data regarding the impact of its use of proceeds, through indicators such as amount of energy produced, volumes of biomass and waste used, and avoided CO₂ emissions and energy savings.

Evaluation date	11 January 2019
Issuer Location	Örebro, Sweden

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Introduction

Värmevärden AB provides energy services to commercial and residential customers in Sweden, producing and distributing district heating, electricity and steam. Värmevärden is headquartered on Örebro, Sweden.

Värmevärden has developed the Värmevärden Green Financing Framework (the “Framework”) under which it is considering to issue green bonds and loans from which the proceeds will be used to finance and refinance, in whole or in part, existing and future projects that support the company’s ability to provide clean and renewable district heating to residential and commercial customers in Sweden. The Framework defines eligibility criteria in three areas:

1. Pollution prevention and control
2. Energy efficiency
3. Sustainable water and wastewater management

Värmevärden engaged Sustainalytics to review the Värmevärden Green Financing Framework and provide a second-party opinion on the alignment of the green bond proceeds with the Green Bond Principles 2018 (the “GBP”), as administered by the International Capital Market Association (the “ICMA”),¹ and green loan proceeds with the Green Loan Principles 2018 (the “GLP”), as administered by the Loan Market Association (the “LMA”)² and the Framework’s environmental credentials. The Framework has been published in a separate document.³

As part of this engagement, Sustainalytics held conversations with members of Värmevärden’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 Värmevärden’s green financing. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Värmevärden Green Financing Framework and should be read in conjunction with that Framework.

¹ ICMA’s Green Bond Principles 2018 <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² LMA’s Green Loan Principles 2018: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/LMA_Green_Loan_Principles_Booklet-220318.pdf

³ The Värmevärden Green Financing Framework is available on Värmevärden’s website at: <https://www.varmevarden.se/om-varmevarden/hallbarhet/gron-finansiering>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Värmevärden Green Financing Framework⁴

Summary

Sustainalytics is of the opinion that the Värmevärden Green Financing Framework is credible and impactful and aligns with the four core components of the GBP and GLP 2018. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds
 - The three use of proceeds categories (i) Pollution prevention and control, (ii) Energy efficiency and (iii) Sustainable water and waste management, are recognized as impactful by the Green Bond Principles. Sustainalytics is of the opinion that the projects contribute to the transition of Sweden towards a low-carbon economy through sustainable district heating. For further information please refer to Section 3: Impact of Use of Proceeds.
 - Värmevärden intends to use 100% of the proceeds from its initial issuance of green loans and bonds to refinance investments (both debt and equity) made over the past four decades to acquire assets for generating and distributing heat from renewable and recycled sources and waste heat from industry. Sustainalytics considers the refinancing of assets acquired over up to four decades ago as a limitation of the framework and encourages Värmevärden to finance more recent and new projects to the extent possible. However, Sustainalytics also recognizes that the refinancing is necessary to ensure the capitalization of Värmevärden and its continued operation of sustainable district heating infrastructure.
 - 96% of district heating provided by Värmevärden is attributable to renewable and recycled fuel sources. The remaining 4% is derived from fossil fuel-based boilers that burn oil.⁵
 - Värmevärden has confirmed to Sustainalytics that all biomass used in its operations are sourced from waste streams from the forestry industry, construction industry, industrial and residential waste, and that no materials used are grown for the purpose of combustion.
 - With regards to heat capture from industry, Värmevärden has partnerships with multiple industrial facilities, including steel mills in Ovako and Outokumpu, sawmills in Hedins and Moelven, and paper manufacturer, Nordic Paper. Värmevärden also partners with Nynäs refinery, a facility that processes hydrocarbons in various materials for industrial uses, such as asphalt and tyre production. While Sustainalytics recognizes that Värmevärden's sourcing of waste heat this facility reduces GHGs by approximately 100,000 tonnes CO_{2e} annually, Sustainalytics notes that the company's infrastructure for this partnership requires the continued operation of the refinery which is linked to fossil fuel extraction. Thus, Sustainalytics recommends diversifying its sourcing of waste heat to industrial processes that do not directly support the fossil fuel industry.
- Project Selection Process
 - Värmevärden's Investment and Financial Committee, which is comprised of the CEO, the Board of Directors and subject matter experts is responsible for project selection and evaluation. Värmevärden confirmed to Sustainalytics that all green term loan and bond proceeds raised through the first issuance under the Framework will refinance prior expenditures linked to eligible green assets.
 - Future annual allocations will be given to subsidiaries of the group for smaller annual replacements and development needs connected to the eligible projects and assets. Larger projects associated with the eligible criteria will be assessed by a senior team comprising

⁴ For the avoidance of doubt, nothing in this opinion should be construed as a restriction for a party to perform any of its obligations under the financing arrangements.

⁵ Värmevärden confirmed to Sustainalytics that fossil fuel based technologies are only used when other infrastructure is operating at peak capacity during the coldest days of the year. The framework excludes proceeds from being used to finance assets that run primarily on fossil fuels.

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- group and subsidiary representatives and chaired by the CFO. This is in alignment with market practice.
- Management of Proceeds
 - Värmevärden's processes for management of proceeds are aligned with market practice. The use of proceeds financing is being administered by the management team and the CFO. The allocated proceeds of eligible projects are tracked through Värmevärden's internal financing system and any unallocated proceeds will be held either in cash or invested in short-term liquid instruments.
 - Reporting
 - Värmevärden will provide an annual update to its investors on the company's allocation of proceeds, the amount of unallocated proceeds and a description of financed projects. In addition, Värmevärden will also provide annual data regarding the impact of its use of proceeds, through indicators including, but not limited to the amount of energy produced, volumes of biomass and waste used, as well as impact ratios, such as avoided CO₂ emissions and energy savings for relevant initiatives. Värmevärden's impact and allocation reporting is aligned with market practice.

Alignment with Green Bond Principles 2018 and Green Loan Principles 2018

Sustainalytics has determined that Värmevärden's Green Financing Framework aligns with the four core components of the GBP and GLP 2018. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Performance of the Issuer

Contribution of Framework to issuer's sustainability strategy

Värmevärden's business strategy involves providing customers with sustainable district heating, and the company asserts that sustainability is an integral component of its corporate governance.⁶ One of Värmevärden's four long-term business objectives is to act as a responsible operator in the energy market. Among its environmental goals, Värmevärden plans on lowering its GHG emissions, maximizing the energy efficiency of its network, and minimizing the overall environmental footprint of operations,⁷ which indicates the intention of the company to continuously reduce its environmental footprint. While Värmevärden discloses environmental data revealing its progress towards lowering its carbon footprint and environmental impact,⁸ Sustainalytics encourages Värmevärden to set targets for improving its environmental performance to align with best practice. The company's share of renewables and recycled fuels in its district heating is more than 96%, including biofuels, waste heat and flue gas condensation, 50% of which are locally produced.⁹ Due to the partnership with Nynäs refinery from which the company sources waste heat, Värmevärden contributes to reducing CO₂ emissions from the facility by over 100,000 tonnes/year.¹⁰

Given Värmevärden's commitment to sustainability and sustainability goals, and reporting on its sustainability performance, Sustainalytics is of the view that Värmevärden is well positioned to issue green bonds and loans.

Well positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes the positive impact of the intended use of proceeds, Sustainalytics acknowledges that the company's activities entail environmental and social risks. Based on the use of proceeds, the main areas of exposure associated with the existing assets include workers' health and safety, and emissions to air and water resulting from the generation of heat.

- Värmevärden's has stipulated goals to protect workers within its Safety, Health and Environmental Policy.¹¹ Accountability for occupational health and safety sits in the company's Human Resources

⁶ Värmevärden Business Idea and Vision; <https://www.varmevariden.se/om-varmevariden/affarside-vision/>

⁷ Värmevärden Safety, Health and Environmental Policy; http://www.varmevariden.se/assets/DMPROD-309532-v2-Miljo_o_Arbetsmiljopolicy_Varmevariden.pdf

⁸ Värmevärden Environmental work; <https://www.varmevariden.se/om-varmevariden/miljoarbete/>

⁹ Värmevärden Environmental work; <https://www.varmevariden.se/om-varmevariden/miljoarbete/>

¹⁰ Värmevärden Environmental work; <https://www.varmevariden.se/om-varmevariden/miljoarbete/>

¹¹ Värmevärden Safety, Health and Environmental Policy; http://www.varmevariden.se/assets/DMPROD-309532-v2-Miljo_o_Arbetsmiljopolicy_Varmevariden.pdf

department, and Sustainalytics has received confirmation from Värmevärden on targets for zero accidents in the workplace. Sustainalytics encourages the company to set continuous improvement targets to work towards the goal of zero accidents. The company conducts unannounced “safety walks” at its facilities to ensure health and safety procedures are being followed. Furthermore, the company engages in a monthly reporting exercise that outlines health and safety accidents, incidents and near misses, including remedial measures that were taken. Värmevärden’s management team reviews the health and safety metrics every 6 months to identify areas of improvement, indicating that the company has measures to monitor risks. However, Sustainalytics notes that an action plan is not put in place for all cases and recommends disclosing health and safety metrics, standards and processes for risk identification and mitigation.

- With regards to managing environmental risks, Värmevärden has achieved ISO 14001¹² certification for its environmental management system. Sustainalytics views ISO 14001 as a robust environmental management standard implying the presence of appropriate systems to mitigate and address environmental risks. Moreover, Värmevärden confirmed that it complies with the Swedish Environmental Protection Code, which regulates the responsibilities related to activities that may pose significant environmental impacts through permitting, impact assessment and remediation requirements.¹³

Sustainalytics is of the opinion that Värmevärden is well positioned to mitigate environmental risks based on the above. Furthermore, Värmevärden has systems in place to identify, mitigate and remediate health and safety risks, though the issuer is encouraged to adopt a more transparent approach with regards to its management system and efforts to foster continuous improvements in health and safety performance.

Section 3: Impact of Use of Proceeds

All three use of proceeds categories are recognized as impactful by the GBP and GLP. Sustainalytics has focused below on those aspects of the use of proceeds where the impact is specifically relevant in the local context.

Importance of sustainable district heating in Sweden

In 2016, Sweden derived the highest amount of energy from renewable sources in the EU, producing 54% renewable electricity.¹⁴ Regarding climate change related goals, Sweden aims for 50% more efficient energy use by 2030 and 100% renewable energy production by 2040,¹⁵ while also achieving a 17% reduction in GHG emissions by 2020 (compared to 2005)¹⁶ and net zero GHG emissions by 2045.¹⁷ Sweden already met its 2020 objective of achieving 50% renewable energy production in 2012¹⁸ and is likely to meet its 2030 goal in 2018,¹⁹ as Sweden’s new climate policy reforms further increased support for renewable energy generation.²⁰ These achievements indicate the importance of energy efficiency and renewable energy for GHG emissions reduction and demonstrate the country’s efforts towards sustainability. The transition of district heating in Sweden from fossil fuels to 90% renewable fuel sources and recycled heat is considered an important factor in Sweden’s sustainability performance, with district heating accounting for half of Swedish heating in 2017.²¹ As a consequence of the switch from fossil fuels to renewables, the heating sector produced around 88% less

¹² Värmevärden ISO 14001; <https://www.varmevarden.se/om-varmevarden/miljoarbete/iso-14001/>

¹³ Swedish Parliament; Environmental Bar (1998: 808); accessed January 2019; https://www.riksdagen.se/sv/dokument-lagar/dokument/svensk-forfattningssamling/miljobalk-1998808_sfs-1998-808

¹⁴ Energy Use in Sweden; <https://sweden.se/society/energy-use-in-sweden/>

¹⁵ Sweden to reach its 2030 renewable energy target this year; <https://www.weforum.org/agenda/2018/07/sweden-to-reach-its-2030-renewable-energy-target-this-year/>

¹⁶ Europe 2020 targets: statistics and indicators for Sweden; https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-your-country/sweden/europe-2020-targets-statistics-and-indicators-sweden_en#greenhouse-gas-emissions

¹⁷ Sweden to reach its 2030 renewable energy target this year; <https://www.weforum.org/agenda/2018/07/sweden-to-reach-its-2030-renewable-energy-target-this-year/>

¹⁸ Energy Use in Sweden; <https://sweden.se/society/energy-use-in-sweden/>

¹⁹ Sweden to reach its 2030 renewable energy target this year; <https://www.weforum.org/agenda/2018/07/sweden-to-reach-its-2030-renewable-energy-target-this-year/>

²⁰ Government of Sweden Website; <https://www.government.se/press-releases/2018/01/as-of-today-sweden-has-a-new-climate-act/>

²¹ Swedish district heating: Reducing the nation’s CO₂ emissions; <https://www.euroheat.org/news/swedish-district-heating-reducing-nations-co2-emissions/>

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GHG emissions in 2016 compared to 1990 levels.²² Given the context, Sustainalytics views Värmevärden's historical investments and continued efficiency improvements as positive factors in support of Sweden's renewables and climate achievements and targets.

Relevance of Pollution Prevention and Wastewater Treatment for Sweden's Air and Water Quality

An OECD survey of average satisfaction with water quality reported the Swedish average at 95%, significantly higher than the world average of approximately 81%.²³ Moreover, as half of Sweden's water supply originates from lakes and running water²⁴ and the Swedish government continuous work towards reducing acidification of lake water, the water quality in Sweden is currently at a very high standard.²⁵ The air quality in Sweden is also high, as several municipalities exceed the EU environmental quality standards.²⁶ Taking into account the context, Sustainalytics favourably views Värmevärden's investments in a water treatment plant and flue gas cleaning system, for example, which would support local wastewater management and pollution prevention and control projects, maintaining the country's high air and water quality.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. Green bonds and loans issued under this framework advance the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Sustainable Water and Wastewater Management	6. Ensure availability and sustainable management of water and sanitation for all	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Energy Efficiency	9. Industry, innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Pollution Prevention and Control	7. Affordable and Clean Energy 11. Sustainable Cities and Communities	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

Conclusion

Värmevärden has developed a Green Financing Framework under which it intends to issue green bonds and loans, the proceeds from which will be used to finance and refinance eligible projects related to (i) Pollution prevention and control, (ii) Energy efficiency and (iii) Sustainable water and wastewater management. Värmevärden intends to use 100% of proceeds to refinance sustainable investments (both debt and equity) that have taken place over the past four decades to acquire assets for the generation and distribution of heat. While Sustainalytics encourages Värmevärden to also utilise proceeds for the financing of new projects,

²² Statistik Data Basen;

http://www.statistikdatabasen.scb.se/pxweb/en/ssd/START_MI_MI0107/MI0107UppvBoLok/table/tableViewLayout1/?rxid=734745b4-1b7c-4ec5-b791-b321a7a3120a

²³ Water Quality in Sweden: An Effective Model; <https://borgenproject.org/water-quality-in-sweden-effective-model/>

²⁴ Water Quality in Sweden: An Effective Model; <https://borgenproject.org/water-quality-in-sweden-effective-model/>

²⁵ Water Quality in Sweden; <https://borgenproject.org/water-quality-in-sweden/>

²⁶ Air pollution - State and impacts (Sweden); <https://www.eea.europa.eu/soer/countries/se/air-pollution-state-and-impacts-sweden>

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Sustainalytics acknowledges that the proposed refinancing is needed in order to ensure the capitalisation of Värmevärden and maintain the company's operation of its sustainable district heating infrastructure.

Sustainalytics views that the financing activities to promote energy efficiency, wastewater treatment and GHG emissions mitigation, will support the provision of district heating by Värmevärden while reducing the company's environmental footprint. In addition, Värmevärden's processes for project evaluation and selection as well as management of proceeds and reporting are aligned with market practice.

Based on the above, Sustainalytics considers the Värmevärden Green Financing Framework to be robust, credible and transparent, and in alignment with the four core components of the ICMA's Green Bond Principles 2018 and the LMA's Green Loan Principles 2018.

Appendices

Appendix 1: Green Bond / Green Bond Programme - External Review Form Section 1. Basic Information

Issuer name:	Värmevärden
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Värmevärden Green Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	11 January 2019
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

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 GBPs:

- | | |
|--|--|
| <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 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

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 three use of proceeds categories (i) Pollution prevention and control, (ii) Energy efficiency and (iii) Sustainable water and waste management, are recognized as impactful by the Green Bond Principles. Sustainalytics is of the opinion that the projects contribute to the transition of Sweden towards a low-carbon economy through sustainable district heating. For further information please refer to Section 3: Impact of Use of Proceeds.

Värmevärden intends to use 100% of the proceeds from its initial issuance of green loans and bonds to refinance investments (both debt and equity) made over the past four decades to acquire assets for generating and distributing heat from renewable and recycled sources and waste heat from industry. Sustainalytics considers the refinancing of assets acquired over up to four decades ago as a limitation of the framework and encourages Värmevärden to finance more recent and new projects to the extent possible. However, Sustainalytics also recognizes that the refinancing is necessary to ensure the capitalization of Värmevärden and its continued operation of sustainable district heating infrastructure.

96% of district heating provided by Värmevärden is attributable to renewable and recycled fuel sources. The remaining 4% is derived from fossil fuel-based boilers that burn oil.

Värmevärden has confirmed to Sustainalytics that all biomass used in its operations are sourced from waste streams from the forestry industry, construction industry, industrial and residential waste, and that no materials used are grown for the purpose of combustion.

With regards to heat capture from industry, Värmevärden has partnerships with multiple industrial facilities, including steel mills in Ovako and Outokumpu, sawmills in Hedins and Moelven, and paper manufacturer, Nordic Paper. Värmevärden also partners with Nynäs refinery, a facility that processes hydrocarbons in various materials for industrial uses, such as asphalt and tyre production. While Sustainalytics recognizes that Värmevärden's sourcing of waste heat this facility reduces GHGs by approximately 100,000 tonnes CO₂e annually, Sustainalytics notes that the company's infrastructure for this partnership requires the continued operation of the refinery which is linked to fossil fuel extraction. Thus, Sustainalytics recommends diversifying its sourcing of waste heat to industrial processes that do not directly support the fossil fuel industry.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input checked="" 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 GBPs | <input type="checkbox"/> Other <i>(please specify)</i> : |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Värmevärden's Investment and Financial Committee, which is comprised of the CEO, the Board of Directors and subject matter experts is responsible for project selection and evaluation. Värmevärden confirmed to Sustainalytics that all green term loan and bond proceeds raised through the first issuance under the Framework will refinance prior expenditures linked to eligible green assets.

Future annual allocations will be given to subsidiaries of the group for smaller annual replacements and development needs connected to the eligible projects and assets. Larger projects associated with the eligible criteria will be assessed by a senior team comprising group and subsidiary representatives and chaired by the CFO. This is in alignment 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 |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other <i>(please specify)</i> : |

Information on Responsibilities and Accountability

- | | |
|--|---|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Värmevärden's processes for management of proceeds are aligned with market practice. The use of proceeds financing is being administered by the management team and the CFO. The allocated proceeds of eligible projects are tracked through Värmevärden's internal financing system and any unallocated proceeds will be held either in cash or invested in short-term liquid instruments.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input checked="" type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (if applicable):

Värmevärden will provide an annual update to its investors on the company's allocation of proceeds, the amount of unallocated proceeds and a description of financed projects. In addition, Värmevärden will also provide annual data regarding the impact of its use of proceeds, through indicators including, but not limited to the amount of energy produced, volumes of biomass and waste used, as well as impact ratios, such as avoided CO2 emissions and energy savings for relevant initiatives. Värmevärden's impact and allocation reporting is 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*):

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*):

Frequency:

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

Information reported (expected or ex-post):

- GHG Emissions / Savings
 Energy Savings
 Decrease in water use
 Other ESG indicators (*please specify*):

Volumes of energy produced at each of Värmevärden DH plants in MWh

Energy efficiency of energy produced as percentage of heat energy delivered (%)

Volumes of fuel used by energy production volume (MWh) for biomass, waste, waste heat, waste wood, oil, electricity

Proportion of each fuel used as percentage of total energy produced (%)

Percentage of fuels from renewable & recycled sources

Amount of waste and residual reduced

Means of Disclosure

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input checked="" type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): The information will be made available to investors and lenders on a confidential basis. |
| <input type="checkbox"/> 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.)

<https://www.varmevarden.se/>
<https://www.varmevarden.se/om-varmevarden/miljoarbete/iso-14001/>
<https://www.varmevarden.se/om-varmevarden/miljoarbete/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd 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

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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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