°CICERO Shades of Green

Øyfjellet Wind Investment AS
Green Bond Second Opinion

12. August 2021

Øyfjellet Wind Investment AS is a financing entity with the sole purpose to own the shares in Øyfjellet Wind AS, a Norwegian company established as an SPV to construct and operate Øyfjellet Wind Farm which, on completion, will be Norway's largest windfarm. Øyfjellet Wind Investment is owned by funds managed and/or advised by affiliates of Aquila Capital Holding GmbH (**Aquila**), a specialist fund manager investing in clean energy and sustainable infrastructure.

Around 95% of proceeds from any bonds issued under Øyfjellet Wind Investment's framework will be used to refinance expenditure or costs incurred in the construction of Øyfjellet Wind Farm (such as turbine generators, road foundations and electrical equipment). **Around 5% of bond proceeds will be used for financing fees and interest to bondholders in respect of the project**. Renewable energy - including from onshore wind farms - is crucial for reaching the objectives of the Paris Agreement and transitioning to a low-carbon future.

As the vast majority of proceeds under the framework will be used to refinance capital expenditure or costs already-settled in respect of the construction of Øyfjellet Wind Farm, it is important that environmental considerations played a sufficiently prominent role in the initial selection process of the Øyfjellet Wind Farm project. In our opinion, this is the case: Aquila's ESG policy applied to the selection process of the Øyfjellet Wind Farm project and includes elements of best practice, including the use of EIAs and early and transparent engagement with local stakeholders. Some local opposition nevertheless remains: investors should be aware of the ongoing challenge against the legality of Øyfjellet Wind Farm by Sámi reindeer herders. As well as publishing an impact report, Øyfjellet Wind Investment intends to undertake a GRESB Assessment for the project, which it envisions will include TCFD reporting and measurement of Scope 3 GHG project emissions.

Based on the overall assessment of the eligible assets under this framework, and governance and transparency considerations, Øyfjellet Wind Investment's green finance framework receives a **CICERO Dark Green** shading and a governance score of **Excellent**. Though in the case of the Øyfjellet Wind Farm project the major contractors and suppliers were already selected before its involvement in the project, Aquila could generally consider increasing the prominence and weighting of environmental issues - construction emissions, use of recycled materials etc. - in its contractor and supplier selection process.

SHADES OF GREEN

Based on our review, we rate the Øyfjellet Wind Investment's green bond framework **CICERO Dark Green.**

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in Øyfjellet Wind Investment's framework to be **Excellent**.

GREEN BOND PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.

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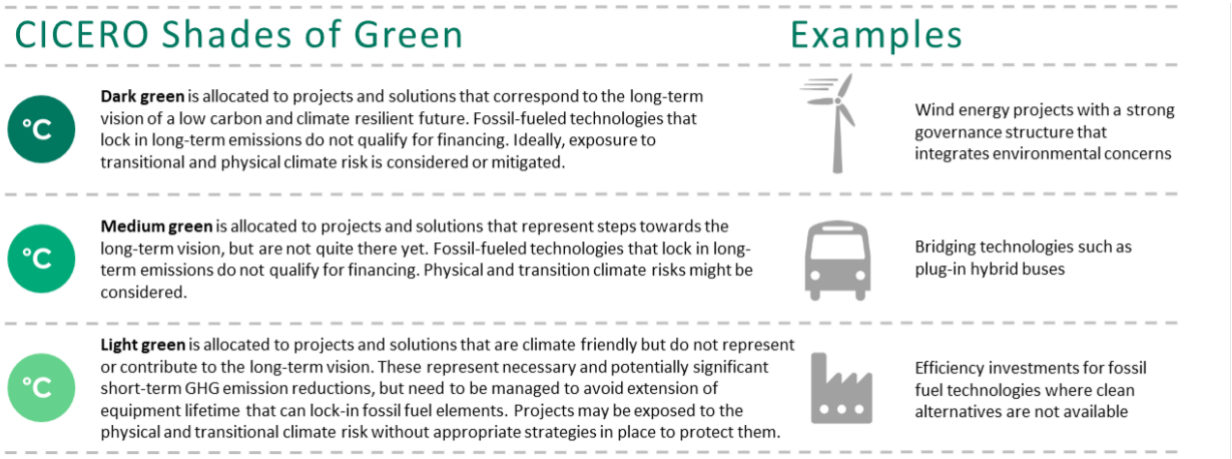
1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated August 2021. This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:



Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

2 Brief description of Øyfjellet Wind Investment's green bond framework and related policies

Øyfjellet Wind Investment AS (**Øyfjellet Wind Investment** or the **Issuer**) is a financing entity with the sole purpose to own the shares in Øyfjellet Wind AS (**Øyfjellet Wind**), a Norwegian company established as an SPV to construct and operate Øyfjellet Wind Farm located near the city of Mosjøen, Norway. The Issuer is owned by funds managed and/or advised by affiliates of Aquila Capital Holding GmbH (**Aquila**). A specialist fund manager, Aquila invests in clean energy and what it describes as sustainable infrastructure, such as green logistics, energy efficiency and forestry. Across its investments, Aquila has produced a total of 18 TWH of renewable energy and its assets include 31 wind project investments.

On completion, Øyfjellet Wind Farm will be the largest windfarm in Norway, with a total installed capacity of 400 MW from 72 turbines. Øyfjellet Wind has entered into a 15 year power purchase agreement with Alcoa Norway (**Alcoa**), which operates a nearby aluminum plant. Pursuant to this agreement, Alcoa will purchase 100% of the electricity produced at Øyfjellet Wind Farm until September 2036. The overall concession period for Øyfjellet Wind Farm is 25 years.

Construction of Øyfjellet Wind Farm is nearing completion, with expected finalization in Q4 of 2021. Some turbines are already fully installed at Øyfjellet Wind Farm.

Environmental Strategies and Policies

Aquila has a group wide ESG Policy which it confirms applies to the Issuer and Øyfjellet Wind.

Aquila has three overarching sustainability goals, which form the basis of its sustainability strategy. Firstly, ensuring Europe reaches its energy transition 2030 goals. Secondly, improving the environment to create a sustainable future. Thirdly, empowering people to live a sustainable, healthy lifestyle. According to Aquila, it measures its operational Scope 1 and 2 GHG emissions, the majority of which are from electricity consumption at its corporate offices and business travel. It has been offsetting such emissions since 2006, and also offsets Scope 3 GHG emissions from its employees' commutes. Aquila informs us it has a target to reduce its operational GHG emissions year on year - though it currently has no overall quantitative target - and that it incorporates the use of intensity metrics such as CO_2 per employee to achieve this. According to Aquila it also aims to pursue Scope 3 carbon neutrality at operations level, though it currently has no fixed target date for this.

According to its ESG Policy, Aquila integrates ESG considerations into, among many other areas, its investment management processes. In this respect, pre investment Aquila performs environmental due diligence with the aim of identifying ESG risks and opportunities. During this process, it can also utilize relevant environmental KPIs and stress scenarios, and external due diligence and assessments. The results of its environmental due diligence must be considered in the investment decision. Post investment, among other things, it undertakes monitoring of ESG developments, including on an asset-level, and reports annually on ESG aspects and on an ad-hoc basis as necessary.

Aquila engages in active ownership of its assets. According to the ESG Policy, this impacts on the selection of contractors, suppliers and off-takers. Due to the nature of its investors and scale of its projects, Aquila contracts with established and experienced contractors and suppliers.

For contractors, Aquila undertakes ESG Risk Assessments in the selection process, considering ESG management capabilities and the ESG risks of contractors via the screening of publicly available information and additional information requested from the contractor as necessary. According to Aquila, contractors are assessed on their sustainability and it will not engage any contractor whose environmental or sustainability approaches could be deemed a reputational risk. Where potential contractors have similar experience and track records in the relevant area, it will select the contractor with the highest commitment to sustainability. Sustainability is also considered in the selection process of suppliers, including the use of ESG Risk Assessments and consideration of publicly available ESG reporting capabilities. Noting the relatively limited number of suppliers in the wind-turbine market, Aquila informs us that that is does not currently request life-cycle assessments or emissions data from suppliers, though it acknowledges that obtaining emission data from suppliers and contractors is important to further its commitment to sustainability. Sustainability is also considered when assessing off-takers. As Aquila mostly contracts with established energy producers and distributors as off-taker, it has no group-wide exclusion policy though it informs us it would avoid contracting with off-takers who entail reputational risk.

Aquila informs us that it deals with issues of biodiversity/wildlife through the carrying out of environmental impact assessments (**EIA**) and which it uses as standard for projects of similar size to Øyfjellet Wind Farm. It informs us that it follows the recommendations and requirements arising out each EIA. Aquila further notes that, given the scale of its projects, national regulators are usually involved in and approve the EIA and its outcomes as part of the licensing process.

Aquila's active ownership extends to engagement with stakeholders. According to its ESG Policy, this can include dialogue with and compensation of specific groups that might be negatively affected by its investments, for example compensation payments to local communities. Assessment of local impacts occurs during the due diligence process and Aquila informs us it manages such impacts throughout projects.

According to Aquila, it considers short and long term physical risks in its due diligence process. Turbines, for example, are selected to withstand a range of climactic conditions. Aquila is a signatory of the UN's Principles for Responsible Investors (**PRI**) and follows the TCFD's recommendations during the PRI assessment of projects.

Aquila publishes an annual ESG Report on its website - the last report currently available is for 2019.

Use of proceeds

According to the green bond framework, net proceeds will be exclusively used to finance or refinance project related capital expenditure or costs incurred in the construction of Øyfjellet Wind Farm (such as turbine generators, road foundations and electrical equipment). The Issuer informs us that the proceeds amount to roughly 15% of the project construction and financing budget until commissioning. According to the Issuer, around 95% of proceeds will be used for refinancing expenditure and costs already-settled, while the proceeds will also finance certain financing fees and interest to bondholders in respect of the project, amounting to around 5% of bond proceeds. No future or other projects will be financed under the green bond framework. The Issuer states it does not own or operate, and will not invest in, fossil or nuclear energy generation projects.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

As proceeds under the framework will be used exclusively to refinance capital expenditure and costs already-settled in respect of the construction of Øyfjellet Wind Farm project, the selection process has been conducted and no future projects will be selected under the framework.

The Øyfjellet Wind Farm project was evaluated and selected by Aquila's decision making boards, involving subject matter experts across its organization. Aquila purchased Øyfjellet Wind from the developer in late 2019 by which point large elements of project due diligence, including in respect of ESG issues, had been undertaken by the developer. Aquila informs us it undertook its own ESG due diligence as part of the purchase. The Issuer has informed us of the following in respect of the selection process:

- Key contracting parties such as major contractors, turbine supplier and off-taker were already selected at the time Aquila purchased Øyfjellet Wind.
- Biodiversity was assessed as part of the due diligence process, including assessment of the impact of the project on the general ecosystem, birdlife and animal wildlife.
- The impact of the local community was considered during the due diligence phase and coexistence and compensation measures are included in the environment, transport and construction plan (**MTA Plan**) approved by the Norwegian Water Resources and Energy Directorate. Sámi reindeer herders continue to oppose the Øyfjellet Wind Farm, including through ongoing legal action. We understand from the Issuer that an appraisal case will start later this year in order to determine whether and what compensation is due to the Sámi.
- In respect of climate resilience, among other things, the technology chosen for the Øyfjellet Wind Farm is designed to work in a relatively wide range of climactic conditions, and balance of plant maintenance is managed directly at site so that the internal grid is deemed resilient to do climate and weather induced issues.

Management of proceeds

CICERO Green finds the management of proceeds of Øyfjellet Wind Investment to be in accordance with the Green Bond Principles.

The net proceeds from the green bond issue will be transferred to a designated escrow account, administered by Nordic Trustee (a Norwegian bond trustee and loan agency). The proceeds will be released when 100% of the shares in Øyfjellet Wind Investment are fully pledged. The proceeds will be fully depleted at the completion of the construction of the project. The Issuer has confirmed there will be no unallocated proceeds as proceeds will re-finance costs already-settled.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Øyfjellet Wind Investment will publish an annual impact report, detailing key performance indicators of the environmental impact of Øyfjellet Wind Farm, such as electricity production and tons of CO_2 avoided. The Issuer informs us that tons of CO_2 avoided will be calculated by multiplying units of renewable energy generated by Norway's grid emission factor or the European average grid factor. The impact report will be published on Øyfjellet Wind's website, either as part of its annual report or as a dedicated sustainability report.

On top of its annual impact report, Øyfjellet Wind Investment has informed us it intends to perform a GRESB Assessment in respect of Øyfjellet Wind Farm. As part of this, it envisages reporting in line with TCFD recommendations and Scope 3 GHG emissions for the project. According to the Issuer, results will be made available to investors in the fund managing the project and its score and peer group ranking will be published, however GRESB does not permit the full assessment to be made publicly available.

3 Assessment of Øyfjellet Wind Investment's green bond framework and policies

The framework and procedures for Øyfjellet Wind Investment's green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Øyfjellet Wind Investment should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Øyfjellet Wind Investment's green bond framework, we rate the framework **CICERO Dark Green.**

Eligible projects under Øyfjellet Wind Investment's green bond framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Renewable Energy	Finance or refinance project related capex or costs incurred for the construction of Øyfjellet Wind Farm	**Dark Green** ✓ Renewable energy - including wind power - is key to a low carbon transition. ✓ Øyfjellet Wind has entered into a 15 year power purchase agreement with Alcoa, a nearby aluminum producer, pursuant to which Alcoa will purchase 100% of the electricity produced by Øyfjellet Wind Farm. Emissions from electricity use account for approximately 70% of the global aluminum industry's total emissions and this arrangement is therefore welcome.[1] Nonetheless, other elements in the aluminum production process - such as mining and transport -

[1] https://www.iea.org/reports/aluminium

also contribute significant emissions.[2] As noted in the EU Taxonomy, a particular difficulty of the aluminium production process is posed by the management of airborne emissions such as perfluorocarbons, fluoride gases, polycyclic aromatic hydrocarbons and particulate matter.

✓ The production and transportation of wind turbines can be energy intensive. The Issuer informs us that the turbines, nacelles and towers were shipped from Turkey, Spain and Germany to Mosjøen. The proximity of Øyfjellet Wind Farm to Mosjøen harbor reduces the on-land transportation distances and emissions.

✓ Construction processes can be energy intensive and can generate extensive supply-chain emissions. Major contractors and suppliers were already selected by the time Aquila purchased Øyfjellet Wind, though the Issuer notes it contracts with experienced and reputable contractors and suppliers who mitigate their climate impacts. The construction of Øyfjellet Wind Farm has included the construction of new roads. Though it aims to open such roads to the public, the Issuer informs us these are not general purpose roads and so should not induce increased personal vehicle use. According to the Issuer, there will be diesel generators at each substation in case of the disconnection of the main power supply.

✓ Large-scale renewable energy and construction project can have adverse local environmental impacts (for example on wildlife, ecosystems and biodiversity) and impacts on local communities. Issues of biodiversity were dealt with in the EIA process and are monitored in accordance with the MTA

[2] https://www.world-aluminium.org/media/filer_public/2021/03/16/iai_ghg_pathways_position_paper.pdf

	Plan. Investors should be aware of the ongoing legal challenge against Øyfjellet Wind by Sámi reindeer herders.

Table 1. Eligible project categories

Background

There is a substantial need for more renewable energy production, including onshore wind installations. Positive trends are being witnessed in the renewable energy space. In its Renewables 2020 report, the IEA calculated that renewable energy production capacity would grow by nearly 4% in 2020, reaching almost 200 GW.[3] A further 10% increase in capacity was calculated for 2021. In respect of onshore wind installations, in its last tracking report, the IEA noted that in 2019 onshore wind-generated electricity increased by an estimated 12%.[4] Nonetheless, to achieve the IEA's Sustainable Development Scenario by 2030, the IEA calculates that 10% annual generation increases of onshore wind-generated electricity are required. This would mean an increase in net capacity from 55 GW in 2019 to 108 GW in 2030.

One of the world's largest energy exporters, Norway has a total installed production capacity of 37,680 MW and a total normal annual production of 153 TWh. Around 96% of Norway's energy production comes from hydropower. However, with demand expected to increase by 5.8 TWh due to increased electrification of industry and transport, there has been increased focus on the production of wind power and other energy sources. As such, production of wind power in Norway increased almost six fold over the last decade and now accounts for roughly 2% of its energy mix. Nonetheless, this has not been universally welcomed across Norway, where onshore wind in particular is controversial. Local environmental factors such, such as interference with the landscape, are often cited by critics. Indeed, opposition to onshore wind farms has proved so strong that, in 2019, Norway stopped plans to introduce a national wind power development framework and tightened its rules for the development of onshore wind activities.

EU Taxonomy

In 2020, the EU adopted the EU Taxonomy Regulation (**Taxonomy**) which seeks to create a common framework to classify whether certain activities can be considered environmentally sustainable. In April 2021, the EU published its technical screening criteria (**TSC**). If an activity complies with these criteria, it is deemed to contribute to one or more of the Taxonomy's environmental objectives and to not cause significant harm to such objectives. In respect of onshore wind power, the TSC require, among others: the assessment of and, where feasible, use of highly durable and recyclable components; the carrying out of Environmental Impact Assessments concerning protection and restoration of biodiversity and ecosystems; and the implementation of adaptation solutions to substantially reduce the most important, material climate risk to the activity. Cicero Shades of Green has not been retained to provide a screening against the EU Taxonomy.

Governance Assessment

Four aspects are studied when assessing Øyfjellet Wind Investment's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these

[3] https://www.iea.org/reports/renewables-2020?mode=overview
[4] https://www.iea.org/reports/onshore-wind

aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

The Issuer has confirmed that Aquila's wide-ranging ESG policy was applied during the selection of the Øyfjellet Wind Farm project. This includes elements of best practice, including the use of EIAs and early and transparent engagement with local stakeholders. Though it was not involved in elements of the original due diligence process - on account it purchased Øyfjellet Wind in 2019 - Aquila's due diligence during its purchase included consideration of the existing ESG due diligence. Monitoring of ESG matters is done in accordance with Aquila's ESG policy.

The Issuer informs us it intends to carry out a GRESB Assessment for the project. As part of this, it envisages reporting in line with TCFD recommendations and Scope 3 GHG emissions for the project. This is welcome and will complement and strengthen its impact reporting.

Aquila has good internal policies regarding sustainability, for example the measurement, offsetting and reduction of Scope 1 and 2 GHG emissions, though it would benefit from a concrete emissions reduction target. An ambitious next step would be for Aquila to include Scope 3 emissions of its Project Companies including Øyfjellet Wind Farm in its measurement of avoided emissions and to increase the emphasis emissions plays in the selection of contractors and suppliers.

The overall assessment of Øyfjellet Wind Investment's governance structure and processes gives it a rating of **Excellent**.

Strengths

It is a clear strength that Øyfjellet Wind Investment's green bond framework focuses exclusively on wind power.

That the proceeds will be used to refinance already-settled construction costs for Øyfjellet Wind Farm - and that there will be no future projects - negates the project's selection risk. Moreover, the Issuer has demonstrated that a wide ranging environmental due diligence process was undertaken prior to selection. Issues of biodiversity and wildlife risk were, for example, considered in the EIA process and are monitored in accordance with the MTA Plan approved by the Norwegian Water Resources and Energy Directorate.

The resilience of the Øyfjellet Wind Farm was also considered. For example, according to the Issuer, future climactic developments were taken into account in turbine selection and the technology chosen for Øyfjellet Wind Farm is designed to work in a relatively wide range of climactic conditions.

Øyfjellet Wind Investment also demonstrates a commitment to transparency: as well as its impact reporting, it aims to undertake a GRESB Assessment. As part of this, it envisages reporting in line with TCFD recommendations and Scope 3 GHG emissions for the project.

Weaknesses

We find no obvious weaknesses in Øyfjellet Wind Investment's green bond framework.

Pitfalls

Local opposition to onshore wind projects is not uncommon in Norway. Indeed, the legality of the concession of Øyfjellet Wind Farm is being challenged by Sami reindeer herders. We are encouraged by Øyfjellet Wind's openness and commitment to settling the dispute - including opening of the roads built for the project for the purpose of herding - though the Issuer acknowledges that such a resolution seems unlikely. Such local opposition could, in principle, carry risks for the project, though the Issuer considers these to be very minor: in April 2021, for example, Øyfjellet Wind was initially instructed to halt construction for one month to facilitate the spring migration, however, this decision was reversed while its appeal was considered.[5]

The major contractors and manufacturers were already selected by the time Aquila purchased Øyfjellet Wind. More generally, Aquila could place greater emphasis on Scope 3 emissions from contractors and suppliers. Though it considers sustainability in the selection process, an increased prominence and weighting of environmental issues - construction emissions, use of recycled materials - in the process would be welcome.

[5] https://www.nrk.no/nordland/naturvernorganisasjoner-og-samiske-interesser-har-gatt-sammen-for-a-stanse-oyfjellet-wind-i-vefsen-1.14990276

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	Øyfjellet Wind Investment Green Bond Framework (August 2021)	Øyfjellet Wind Investment's Green Bond Framework
2	Øyfjellet Wind Company Presentation (July 2021)	Presentation on the Øyfjellet Wind Farm project.
3	ESG Policy (2020)	Aquila's ESG Policy
4	ESG Report (2019)	Aquila's ESG Report

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Appendix 2:
About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).