



VGP

External Review of Green Finance Reporting 2021

March 28, 2022

CICERO Green has reviewed the elements of VGP's Corporate Responsibility Report 2021 ("Report") relating to its green financing activities. We review project allocation against the Green Finance Framework criteria and impact metrics for relevance and transparency.

CICERO Green considers VGP's Report to be aligned with VGP's Green Finance Framework, but notes a discrepancy with the allocation of proceeds anticipated by VGP. Specifically, we noted in our Second Opinion that VGP expects most proceeds to be allocated in a balanced way between renewable energy and green building investments. However, only a minor share (less than 5%) has so far been allocated to renewable energy projects. We encourage VGP to have a more balanced allocation towards Dark and Light Green projects going forward and welcome that VGP informed us that it anticipates that it will make substantially more renewable energy investments from its second bond in the course of 2022.

VGP provides transparent, quantitative information about the climate and environmental impacts of its green bond investments, using relevant indicators. For renewable energy projects, VGP reports on total installed capacity on a project level, as well as total energy generated and avoided CO₂ emissions on a portfolio basis. For green buildings, VGP reports the environmental certification obtained for each building. While investments in sustainable water management projects represent a very small share of VGP's green bond investments, it has not reported any impacts for this project category.

Project allocation

VGP has issued two green bonds under its Green Finance Framework, totaling EUR 1.60 billion. The first was issued in March 2021 and raised EUR 600 million, and the second was issued in January 2022 and raised EUR 1 billion in two EUR 500 million tranches. Use of proceeds are reported as of December 31, 2021.

CICERO Green finds no discrepancies with regards to the project allocation. See Table 1 for a detailed review.

We assigned an overall shading of Medium Green to VGP's Green Finance Framework in our Second Opinion dated March 28, 2021.¹ Project categories were shaded Dark Green (renewable energy, waste management, clean transportation, and sustainable water and wastewater management projects), Light to Medium Green (energy efficiency) and Light Green (green buildings).

For the first issuance, most of the proceeds (approx. 95.4%) have been allocated to Light Green investments (green buildings), and a small share of the proceeds (approx. 4.7%) have been allocated to Dark Green investments (renewable energy and sustainable water management). All proceeds from the first issuance have been allocated. For the second issuance, most of the proceeds (approx. 56.4% of the first tranche and approx. 58.1% of the second tranche) have been allocated to Light Green investments (green buildings). The remainder is currently unallocated (approx. 43.6% of the first tranche and approx. 41.9% of the second tranche).

We find a discrepancy in the allocation of proceeds where we noted in our Second Opinion that VGP expects most proceeds to be allocated in a balanced way between renewable energy projects and green buildings. However, only

¹ [Second Opinion \(cicero.oslo.no\)](https://www.cicero.oslo.no)

a minor share (less than 5%) has been allocated to renewable energy projects. To be a representative Medium Green framework, the issuer is encouraged to have a more balanced allocation towards Dark and Light Green projects (see Figure 1). VGP informed us that it anticipates that it will make substantially more renewable energy investments from its second bond in the course of 2022.

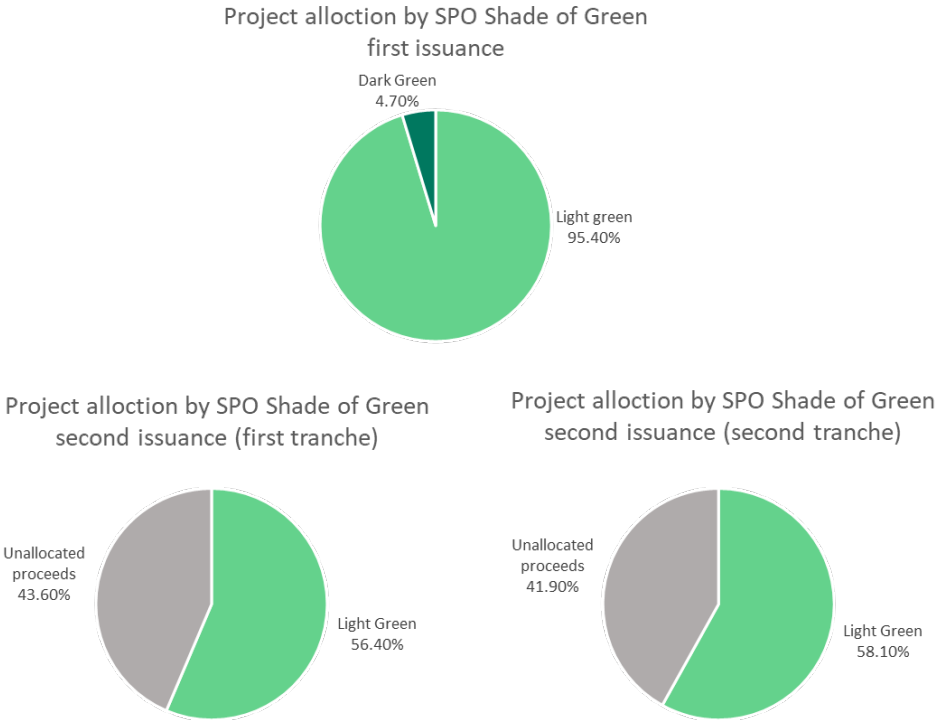


Figure 1: Allocation by SPO Shade of Green for the first issuance and the two tranches of the second issuance. Shading is based on evaluation at time of issuance and does not reflect ex-post project verification.

VGP’s Report satisfies the commitments in respect of allocation reporting contained in its Green Finance Framework. The Report, for example, sets out:

- The total outstanding amount of green finance instruments issued under the Green Finance Framework (EUR 1.60 billion);
- The allocation of the proceeds of issued green finance instruments by project category and linked to individual bonds;
- The amount of unallocated proceeds (approx. 30%); and
- The geographic distribution of green building investments.

VGP reports allocation of the proceeds for all investments split between CAPEX financing (56%) and refinancing (44%).

VGP confirms in the Report that the selection process for allocations of proceeds from the green bonds was as described in its Green Finance Framework.

Impact metrics

VGP reports impacts as of December 31, 2021.

In respect of renewable energy projects financed by green bond proceeds, VGP reports three metrics: i) total installed capacity for both operational projects and projects under construction in KWp, ii) total energy generated in MWh, and iii) avoided CO₂ emissions in tCO₂e. Installed capacity is reported on a project level, while energy generation and avoided emissions are reported on a portfolio basis.

VGP discloses the methodology used for calculating avoided CO₂ emissions from renewable energy projects (using the average grid factor of the VGP Parks portfolio of 0.368 tCO₂ / MWh generated). VGP uses the average grid factor of the 14 different European countries in which it operates. While annual reduced emissions represent a relevant metric, there is always uncertainty around emissions data and especially avoided emissions where there are less developed guidelines.

In respect of green buildings financed by green bond proceeds, VGP lists the environmental certification level linked to each green building investment. Reporting on environmental certificates is a fair way to report impact of green building investments, however given these schemes do not, for example, guarantee low energy performance, they are best reported with other metrics such as energy performance.

VGP's Green Finance Framework contains additional indicators it would endeavor to report on, subject to the availability of data, e.g., freshwater savings. VGP has not reported any impacts for its sustainable water management investments. It is a weakness that no such impacts have been reported, notwithstanding that these investments are a very small share of overall investments from the green bond proceeds.

The inclusion of metrics commonly used for green bond reporting allows investors to better compare across issuances in the same sectors. Investors should, however, use caution when making these comparisons as methodologies, assumptions and baselines are typically not uniform.

VGP stated in its Green Finance Framework that it would pro-rate according to the ownership of a facility, which has occurred according to the issuer.

Alignment with principles for impact reporting

CICERO Green reviews the Report against the ICMA Handbook, Harmonized Framework for Impact Reporting and concludes that the Report follows its recommendations.²

Terms

CICERO Shades of Green provides the elements of VGP's Corporate Responsibility Report 2021 relating to its green financing activities based on documentation provided by VGP and information gathered during teleconferences and e-mail correspondence with VGP. VGP is solely responsible for providing accurate information. All financial aspects of the sustainable finance reporting - including the financial performance of the bond and the value of any investments in the bond - are outside of our scope, as are general governance issues such as corruption and misuse of funds. CICERO Shades of Green does not validate nor certify the existence of the projects financed and does not validate nor certify the climate effects of the projects. Our objective has been to provide an assessment of the extent to which the bond has met the allocation and reporting criteria established in VGP's 2021 Green Finance Framework. The review is intended to inform VGP management, investors and

² ICMA Handbook, Harmonized Framework for Impact Reporting

other interested stakeholders and has been made based on the information provided to us. CICERO Shades of Green cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Our review does not follow verification or assurance standards and we can therefore not provide assurance that the information presented does not contain material discrepancies.



Detailed Review

Category	Description	Review against framework criteria	Impact Metrics	Relevance of metrics	Transparency considerations
Renewable Energy	<ul style="list-style-type: none"> Projects, investments and expenditures in products, technologies and services ranging from the generation and transmission of energy to the manufacturing of related equipment including among others onshore and offshore renewable energy facilities. This includes among others solar, wind, hydro, and geothermal energy projects. 	<p>Discrepancy identified</p> <ul style="list-style-type: none"> In our Second Opinion, we noted that VGP expects most proceeds to be allocated in a balanced way between renewable energy projects and green buildings. However, only a minor share (less than 5%) has been allocated to renewable energy projects. The issuer confirmed that only solar PV projects have been financed. 	<ul style="list-style-type: none"> Annual production capacity (KWp) Total energy generated (MWh) Avoided CO₂ emissions (tCO₂e). 	<ul style="list-style-type: none"> ✓ The metrics provide a fair indication of the environmental impact of the investment. ✓ The metrics are commonly used in green finance reporting and are core indicators in the ICMA Handbook. 	<ul style="list-style-type: none"> ✓ Energy generation and avoided emissions are reported on a portfolio basis, while production capacity is reported at a project level. ✓ VGP reports on capacity of both installed projects and those under construction. This is helpful and transparent information. ✓ Methodology, including grid factor, is disclosed for calculating avoided emissions.
Green Buildings	<ul style="list-style-type: none"> Projects, investments, and expenditures in relation to real estate assets which have received, or are designed and intended to receive, 	<p>No discrepancies identified</p> <ul style="list-style-type: none"> The largest share of proceeds has been allocated to this project category. VGP has selected DGNB Silver, and LEED Silver as equivalent to BREEAM Very Good. The company 	<ul style="list-style-type: none"> Environmental certification achieved or expected to be achieved. 	<ul style="list-style-type: none"> ✓ The metric indicates which buildings have attained what environmental certifications (or are expected to do so). However, given that environmental 	<ul style="list-style-type: none"> ✓ VGP is reporting on the level of certification achieved on a project-by-project basis. ✓ VGP could provide more transparency by reporting on other relevant metrics

<p>BREAAAM “Very Good” certification (or equivalent DGNB/LEED rating).</p>	<p>bases this equivalence on a paper dated 2014³. Investors should note there is no consensus about the equivalence of different certification schemes.</p> <ul style="list-style-type: none"> The company confirmed that if any buildings fail to receive the relevant environmental certification, they will be removed from the green bond portfolio. The company informed us that that no proceeds have been allocated to gas heating systems and that no oil-fired heating systems have been installed in any of its buildings included under the Green Framework. 	<p>certifications do not guarantee e.g., a specific energy use, use of additional indicators such as energy use is encouraged.</p> <p>✓ Reporting on environmental certifications is common in green finance reporting and is a core indicator in the ICMA Handbook.</p>	<p>contained in the ICMA Handbook.</p>	
<p>Sustainable water and wastewater management</p>	<ul style="list-style-type: none"> Reduction of freshwater consumption. Capturing and recycling rainwater. Green roofing. 	<p>No discrepancies identified</p> <ul style="list-style-type: none"> A minor share has been allocated to this project category. The Report mentions different projects financed in this project category, including: the construction of infiltration basins including plants/vegetation; the construction of rainwater channels with rainwater retention basin; the utilization of rainwater for toilet facilities; the creation of rainwater channels with 	<ul style="list-style-type: none"> N/A – no impacts reported. ✓ N/A – no impacts reported. 	<p>We encourage VGP to report impacts for this project category. Indicators should ideally align with the ICMA Handbook.</p>

³ [A comparison between BREEAM, LEED, and DGNB rating levels Source: DGNB... | Download Scientific Diagram \(researchgate.net\)](#)

large rainwater retention basins; the installation of infiltration crates; and the development of green roofs for water retention.



Appendix 1: 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, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.

