



HS ORKA

Green Finance

Framework
July 2022



Introduction

HS Orka is an Icelandic power generator with approximately 177 MW of installed power. The company owns and operates two geothermal power plants, in Svartsengi and in Reykjanes, along with a run-of-river power plant in the upper part of the river Tungufljót in the Biskupstungur area. HS Orka produces and sells renewable electricity throughout the country as well as hot and cold water to municipalities and local communities in the Reykjanes area. Of installed power, geothermal accounts for about 167 MW and hydro power for 9,9 MW. HS Orka also trades energy, which accounts for about 25% of total revenues. All purchased energy is renewable, from small hydro power plants (less than 10 MW) or other “pure-players” in Iceland.

In the vicinity of HS Orka’s power plants, a Resource Park of almost a dozen companies have been established. Companies in the Resource Park use multiple streams from the geothermal resource in their operation. The Park marks the ground for a circular economy in the future.

HS Orka is owned 50 % by Jarðvarmi slhf (a dedicated investment vehicle owned by several Icelandic pension funds) and 50% by funds managed by Ancala Partner LLP.

Our Environmental policy and performance

HS Orka emphasizes the sustainable use of natural resources, reflected by the circularity measures in the Resource Park. The company is actively working on improving the sustainability of its operations and has set goals to reduce its carbon footprint to 26 gCO₂-eq/kWh combined heat and power (CHP) by 2030 and become carbon neutral by 2040. HS Orka is ISO 9001, 14001 and 45001 certified and operates in alignment with continuous improvement to ensure safe operations, with regards to people and the environment. HS Orka 2021 sustainability report offers a closer look at the policy and performance¹.



HS Orka Green Finance Framework

HS Orka's Green Finance Framework is based on ICMA Green Bond Principles from June 2021² and the Green Loan Principles from LMA/APLMA/LSTA from February 2020³. The framework takes into account the core components of the Green Bond Principles and the Green Loan Principles being:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External Review

This Framework defines assets which are eligible for financing or refinancing by proceeds of Green Finance Instruments issued by HS Orka including, but not limited to, bonds and loans. The Framework outlines the process used to select and report on eligible assets and the organization of the management of proceeds of Green Finance Instruments.

The company is conducting LCA for its geothermal plants in Svartsengi and Reykjanes, which are expected to be finished before the end of 2022. HS Orka intends to update this framework in 2023 to become EU Taxonomy aligned. The framework may be updated or to comply with future changes in green financing guidelines, taxonomies, and general green market practices as well as to reflect changes in HS Orka own operations.

¹ HS Orka Sustainability Report 2021 - HS Orka Green-Bond-

² Principles-June-2021-140621.pdf (icmagroup.org) Green

³ LoanPrinciples - LSTA



Use of Proceeds – Eligible projects and assets

The proceeds from the issuance of Green Finance Instruments will be used to finance and/or re-finance HS Orka Eligible Green Assets as defined below.

Renewable Energy

- Geothermal, hydro-, solar- and wind power station with emissions less than 100 g CO₂eq/kWh (hereafter called “green power stations),
- Capitalized research, modelling, and development cost of new and existing green power stations,
- Drilling of new boreholes for new and existing power stations and/or permanent carbon storage, including research and development cost,
- Intangible assets, geothermal- and water rights and acquisition or lease of land for solar and wind turbine parks,
- Acquisition of small green power stations,
- Upgrading of existing green power stations to better utilize resources.

Clean transportation

- Investment in Electrical Vehicles (EV) or equipment and vehicles using derivatives like hydrogen, biogas, methanol, and Renewable Fuels of Non-Biological Origin (RFNBO),
- EV infrastructure including EV charging stations.

Pollution prevention and control

- Investment in Carbon Capture facilities for direct air capture and for carbon capturing and/or upgrading of carbon from HS Orka geothermal power plants for further downstream utilization in RFNBO, food- or industrial processes,
- Investment in Carbon Capture and Storage facilities, including research and development.

Sustainable water and wastewater management

- Investing in water collection and distribution facilities, including treatment and supply, of drinking water to the general public and municipalities,
- Research and modelling of water resources and prevention of resource contamination.

HS Orka will not use any of the proceeds to finance renewable energy projects with emission above 100 g CO₂eq/kWh nor will proceeds be used to finance investments or projects or infrastructure which facilitates use of fossil fuel.



Project evaluation and selection

HS Orka can be considered as a “pure-player” as all installed capacity is based on renewable energy as well as all traded energy. Independent of that, HS Orka will evaluate eligibility of each project.

HS Orka was one of the main participants developing the Geothermal Sustainability Assessment Protocol (GSAP) which was led by the National Energy Authority of Iceland⁴. The protocol as well as statutory requirements under Icelandic and EU legislation, including but not limited to the EU Taxonomy Directive⁵ with technical annex and the renewable Energy Directive, will be used to assess the sustainability and eligibility of projects.

Assessment of projects will be performed by HS Orka Green Financing Committee with representatives from HS Orka legal, finance and environmental divisions.

⁴ Geothermal Sustainability Assessment Protocol (GSAP) - International Geothermal Association (lovegeothermal.org)

⁵ EU taxonomy for sustainable activities | European Commission (europa.eu)



Management of proceeds

The proceeds from Green Finance Instruments will be managed by HS Orka's treasury department in accordance with Eligible projects and assets under the balance sheet approach. Unallocated proceeds from Green Financing will be held in cash, short term and liquid instruments, or paid back.



Reporting

HS Orka will, report, at least annually its Green Finance Impact to provide investors with relevant information. Reporting will, among other, include:

- List of eligible projects and assets with a brief project description and expected impact, including information on:
 - installed capacity of renewable energy,
 - estimated saved/avoided CO₂-emissions,
 - energy performance, or
 - other relevant metrics based on the type of project
- Accumulated environmental impact of the funded projects.
- Information on funding under the Green Financing Framework, allocated and unallocated proceeds

HS Orka intends for reporting to be verified by an external consulting company and/or HS Orka certified auditor.

Second Party Opinion

HS Orka has obtained Second Part Opinion (SPO) from CICERO, which is available on HS Orka website, www.hsorka.is