



GREEN FINANCE FRAMEWORK

Sydvatten April 2023

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1. Introduction to Sydsvatten

1.1. About Sydsvatten

Sydsvatten AB is a municipally-owned company, producing drinking water for 1 million inhabitants, companies and public organisations in 17 municipalities in the Swedish region of Skåne. The company was founded in 1966 and is today one of Sweden's largest producers of drinking water with the mission to process and distribute drinking water of consistently high quality.

Sydsvatten conducts operations on the same terms as all Swedish municipalities, and is therefore subject to both the Municipal Act and the Act on Public Water Services, which means that the company does not distribute profits to its owners and operates to the interest of common public welfare.

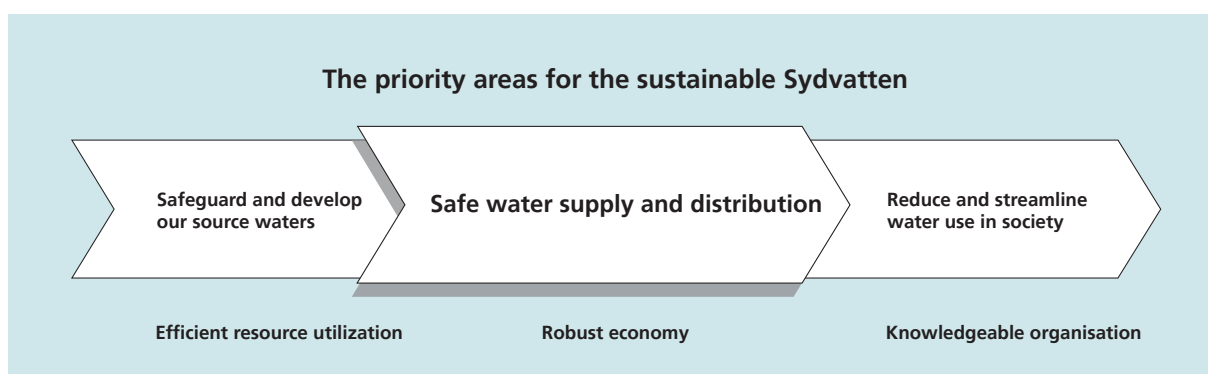
Sydsvatten owns and operates the Bolmen water tunnel, the two high-quality water works, Ringsjöverket and Vombverket and the main pipeline system for the distribution of drinking water. The drinking water Sydsvatten produces comes from lake Bolmen, located in Småland, and lake Vomb, located in Skåne. From Bolmen in Småland, the water is led in the 82 km long Bolmen tunnel to Skåne. Should problems arise with the supply from Bolmen, there is a possibility to produce water from the reserve source Ringsjön in Skåne.

Sydsvatten works in a systemic way with a long-term perspective to drive the industry's sustainable development as well as to contribute to a positive impact on the environment. This is done by engaging with stakeholders, regulators and industry groups on the regional and national level.

1.2. The value of fresh water and future challenges to Sweden's water supply

The raw water resource is increasingly exposed to the influence of society and climate change and in addition there is an increased competition between different land and water use interests. This has placed renewed focus on the need to safeguard reliable water supply globally but also in Sweden. Climate change impacts, such as increased frequency and intensity of floods, longer periods of droughts and more frequent downpours, all have highlighted the vulnerabilities of water as a resource.

The United Nations Sustainable Development Goals (UN SDGs) address water under Goal 6, *Clean water and sanitation for all*, covering drinking water production and wastewater management. Without access to clean water and sanitation, there is little chance of a functioning society and as such, Goal 6 provides a foundation for the achievement of all other Goals. This is particularly obvious in parts of the world where access to water is not self-evident, but it is also becoming more relevant in Sweden. Sydsvatten has defined its value chain of water and key issues it has to address in order to ensure the availability of clean water, and thus ensure that Goal 6 is met in the long term. The company addresses the sustainable provision of drinking water on three dimensions across the supply chain: Securing and developing natural water sources; safe production and delivery of drinking water; and ensuring more efficient water use at the destination. >



Since 2014 *Svenskt Vatten*, the Swedish Water and Wastewater Association, has compiled and published the Sustainability Index¹, an annual study measuring long-term, strategic issues for water and wastewater companies. In 2021, 62 % of Sweden's municipalities and 84 % of the population participated in the survey. The final report highlights climate adaptation as a key issue in need of being addressed, particular with regards to risk assessments of floodings and increased water levels. Upgrading Sweden's water systems to ensure long-term sustainable water supply and management will require large investments from Sydsvatten as well as from the full industry.

1.3. Sydsvatten's commitment to sustainable water supply

Secure and develop natural water sources

Sydsvatten's involvement in raw water issues is becoming increasingly important and the company is working on different ways to raise awareness of the conditions for drinking water supply. A prerequisite for us to be able to have a stable and safe water supply is also that we should have our lakes and water sources in as good a state as possible. Biodiversity and the land use, is a precondition to ensure high-quality, consistent water supply. Therefore, Sydsvatten operates and participates in a number of ongoing initiatives aimed at the promotion of biological diversity in and around raw water sources. One such initiative is to investigate the possibility to acquire wetlands for improved water quality, increased biodiversity and carbon storage.

Sydsvatten puts a lot of efforts on research on water quality and sustainable water management,

and holds an in-house research department. The research station Bolmen enables the company to gain long-term insights on the effect of water supply from lake Bolmen and potential climate and societal impacts.

Safe production and delivery

In order to meet the growing societal needs and to increase water safety on several dimensions, there are ongoing inquiries into future drinking water production facilities, as it may be necessary to carry out a major expansion of Sydsvatten's production capacity. Sydsvatten is continuously developing the two water treatment plants Ringsjöverket and Vombverket and is expecting large investments over the coming 10 years.

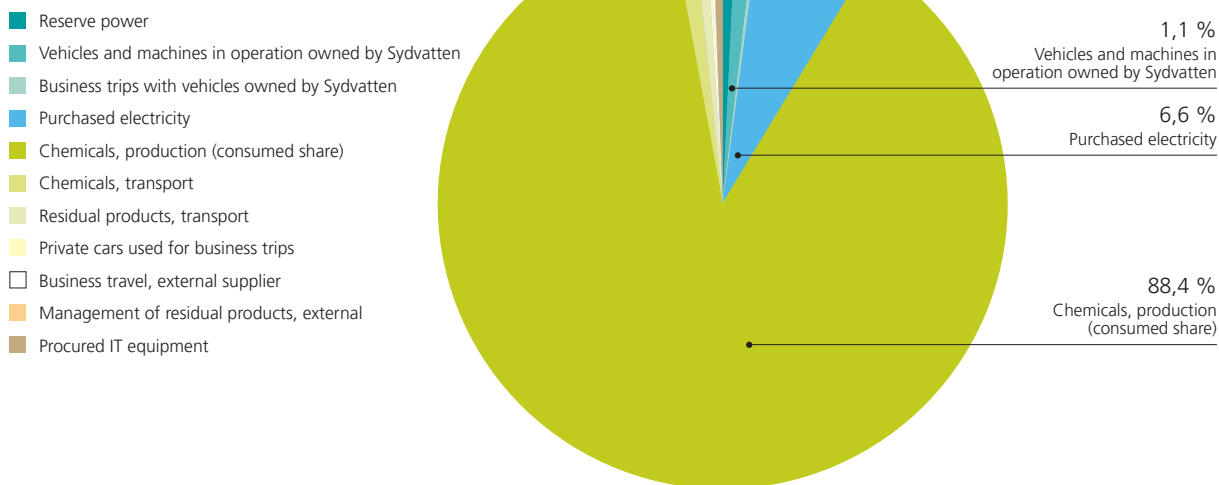
Some of the objectives of Sydsvatten's investments and projects are to create and maintain full redundancy of the fresh water supply system and to ensure that all co-owner municipalities will have the same access to both production facilities in case of a crisis. The raw water supply from lake Bolmen will increase to have a maximum capacity of 3 500 l/s and the drinking water pipe system will be upgraded and strengthened.

Reduce and ensure more efficient use of water across the society

More attention needs to be drawn to the fact that the availability of water is limited and that water production does not come without environmental impacts. Therefore, Sydsvatten carries out extensive trainings and information efforts locally in the co-owner municipalities, but also drives and participates in national initiatives around increasing awareness of clean drinking water as a vulnerable and finite resource.

¹https://www.svensktvatten.se/globalassets/organisation-och-juridik/vass/hallbarhetsindex/svensktvatten_hallbarhetsindex_2021.pdf

Climate report, operations, 2022 – total 5 016 tons CO₂e



1.4. Sydvatten’s sustainability strategy

Long-term strategic planning

Since start, Sydvatten’s guiding principle has been long-term responsibility for the production of drinking water to the benefit of society. The company’s planning horizon spans over at least 25-30 years and covers the increasing challenges surrounding the availability of drinking water in Sweden. Sydvatten’s core governing document is the [Strategic Plan](#), which defines overarching priority areas and ways in which Sydvatten’s operations should develop in order to meet the requirements and needs of their stakeholders in the long term.

In 2018, the company’s board adopted a sustainability strategy which concretises the sustainability ambitions set out in the Strategic Plan. The company’s sustainability work is now an integral part of the organizational and operational development and the outcome of the sustainability work is monitored on an ongoing basis in the sustainability plan, which is followed up and reported on yearly in the Sustainability report.

Sydvatten’s climate impact from operations

Sydvatten has set the target to be climate neutral by 2030. Climate calculations are updated annually and guide the company in how to prioritise efforts,

set effective improvement measures and targets. They also function as an educational, motivational and tangible tool to show the results of measures carried out. Therefore, Sydvatten has now, for the fourth year in a row, reported on its climate impact across the whole value chain and its efforts in reducing the impact in the [Climate Report](#). The largest part of the total carbon dioxide emissions (88 %), is caused by the production of the chemicals used in operations.

Sydvatten has been a pioneer in the Swedish water sector in this issue and there has been a big interest in transferring the learnings to the rest of the sector. Since 2021, Sydvatten together with several regional actors engaged in a pilot project producing climate calculations for infrastructure development. A major insight from the project was that the choice of material plays a decisive role in development projects and has manifold greater impact than other activities when it comes to the reduction of the company’s climate footprint. Avoided emissions can correspond to as much as the climate impact from a full, to several years, of operation for the company. The learnings from the climate calculation pilot are now developed further on management levels and construction projects. Sydvatten aims to now make climate calculations a core element of the early decision-making process in infrastructure projects.



Efficient, secure and renewable energy

Sydvatten procures 100 % renewable electricity and uses a combination of solar, wind and water power for its operations. In addition, Sydvatten has a good margin to the energy usage related criterion for water supply systems included in the EU Taxonomy's Technical Screening Criteria for Climate Change Mitigation, i.e. having a net average energy consumption for abstraction and treatment that equals to or is lower than 0,5 kWh per cubic meter produced water supply. Despite this and the low emission factors from renewable electricity, production itself always has an impact, and the need for electricity in society is large and increasing. There-

fore, energy efficiency is an important and urgent issue.

To reduce the procurement need from external energy sources, Sydvatten will build its own solar farms, which will represent at least 30 % of the company's total energy needs. The two solar farms will be placed nearby our water treatment plants at Vombverket and are planned to be finalised during 2024. In addition to the contribution to the national production of renewable energy, the solar parks are also part of Sydvatten's security work as electricity supply to the water production process is ensured to a larger extent.

2. Green Finance Framework

This Green Finance Framework ("Framework") seeks to be aligned with market expectations, voluntary standards and recent regulatory developments. This Framework is based on the 2021 version of the Green Bond Principles² and the 2023 version of the Green Loan Principles³.

The eligible projects for green finance instruments will consist of projects and assets, that promote sustainable and reliable access to drinking water in line with Sydvatten's environmental goals, as outlined in the use of proceeds categories defined below. The categories seeks to promote Sydvatten's overall ambition to contribute to the fulfilment of Sustainable Development Goal 6 and are related to investments to support EU Objectives Climate Change Mitigation and Climate Change Adaptation.

Projects and assets financed under this framework are, to the extent feasible, aligned with the Technical Screening Criteria of the EU Taxonomy Regulation for the objectives *Climate change adaptation* and *Climate change mitigation*.

The Framework is applicable, but not limited to, for issuance of debt instruments such as green bonds, green hybrid bonds, green commercial papers, green loans and other types of debt instruments where an amount equal to the net proceeds will be applied to finance or re-finance, in part or in full, new and/or existing, expenditures and assets with clear environmental benefits, as defined in this Framework ("Green Financing").

2.1. Use of Proceeds

An amount equal to the net proceeds of the Green Financing issued by Sydvatten will be used to finance or re-finance, in part or in full, eligible assets and expenditures that have been evaluated and selected with distinct sustainable benefits by Sydvatten in accordance with this Green Finance Framework.

Financing and refinancing of capital expenditures (with no specific age restriction) and operational expenditure (with up to three (3) year lookback period before the issuance of any Green Financing), such as research and development costs, can qualify. >

²The Green Bond Principles are published by the International Capital Markets Association ("ICMA")

³The Green Loan Principles are published by the Loan Market Association ("LMA"), Asia Pacific Loan Market Association ("APLMA") and the Loan Syndications and Trading Association ("LSTA") respectively

Eligible Green Projects and Assets

Sustainable Water Management

Investments, projects and R&D to promote sustainable and reliable access to drinking water. This includes:

Construction, extension, upgrade and operation of water collection, treatment and supply facilities with a net average energy consumption for abstraction and treatment equals to or lower than 0,36 kWh per cubic meter to secure the future need for sustainable drinking water.

Examples of projects:

- Construction of fresh water mains
- Construction of reservoirs
- Investment in UV facilities for treatment of drinking water
- Rehabilitation of quick filters
- Renovation of fresh water pipes

Climate Change Adaptation to Secure Future Supply of Fresh Water

Investments to make water-related infrastructure more resilient to impacts of climate change as well as information support systems.

Examples of projects:

- Research and development projects to improve the sustainability properties of water management

Renewable Energy

Investments to secure Sydvatten's access to clean energy. This includes:

Investments in renewable energy such as solar energy technologies (Photovoltaic (PV) systems, Concentrated Solar Power (CSP) and solar thermal facilities) and wind power technologies.

Examples include:

- Construction of solar energy parks at Vombverket and Ringsjöverket

Exclusions

Sydvatten will not finance nuclear or fossil fuel projects through green finance instruments. The green finance instruments can be used to finance new projects and to refinance eligible projects and assets in accordance with this Green Finance Framework.

2.2. Evaluation and Selection of Eligible Projects and Assets

Sydvatten has designed and implemented a process to ensure that only projects and assets aligned with the criteria set out above will be selected as eligible projects and assets for its green financing. Sydvatten's Green Finance Committee, a committee of Sydvatten's management team including the CSO, CTO and CFO, will oversee the process. The process of including projects and assets into the portfolio of eligible green projects follows the below outlined process:

1. Sydvatten's finance unit and communication and sustainability unit evaluates eligibility of proposals according to the eligibility criteria specified in the above table and removes assets and projects that do not meet the criteria.
2. Sydvatten's finance unit presents the potential green assets and projects to the Green Finance Committee that verifies eligibility and give final approval. The CSO holds veto power.
3. Eligible projects and assets are booked into the Green Financing Register, which is further specified in 2.[3]

If, for any reason, a financed eligible project or asset ceases to meet the eligibility criteria, it will be removed from the pool of projects financed with proceeds from green finance instruments issued by Sydvatten.

2.3. Management of Proceeds

Sydvatten will establish a Green Finance Register for green finance instruments issued by Sydvatten for the purpose of monitoring the eligible projects and assets and the allocation of net proceeds from green finance instruments to eligible projects and assets. Furthermore, the purpose of the Green Financing Register is to ensure that an amount equal to the Green Financing net proceeds only support the financing or refinancing of green assets and ex-

penditures. Sydvatten will over the duration of the outstanding green finance instruments build up and maintain an aggregate amount of projects and assets in the green finance register that is at least equal to the aggregate net proceeds of all outstanding green finance instruments. There may be periods when the total outstanding net proceeds of green finance instruments exceed the value of eligible projects and assets in the green finance register. Any such portion will be held in accordance with Sydvatten's normal liquidity management policy. The Green Finance Register will form the basis for impact reporting.

For the avoidance of doubt, Sydvatten ensures that eligible projects and assets will not be double counted as green eligible projects.

2.4. Allocation and Impact Reporting

To enable investors, lenders, and other stakeholders to follow the development of the projects and assets funded by Green Financing, an annual investor report will be made available on the Company's website ("Green Finance Report"). First such report will be made available for investors approximately 12 months after the issuance of Sydvatten's inaugural bond transaction under this Framework. The Green Finance Report will include an allocation report and an impact report. The Green Finance Report will be published annually as long as there are Green Financing outstanding. However, in case Sydvatten has Green Financing outstanding in a form of bank loans, Sydvatten may report necessary annual details related to such bank loans directly to its lenders, as may be described in respective loan documentation.

The Green Finance Report, including the allocation and impact of proceeds, tracking and management of funds, will be assured by Sydvatten's auditor. The opinion of the auditor and the Green Finance Report will be made publicly available on Sydvatten's web page.

Allocation Report

The allocation report will, to the extent feasible, include the following components:

- Total amount of Green Financing outstanding
- Share of proceeds used for financing and re-financing as well as share of proceeds used for categories described in “Eligible Green Projects and Assets”
- Share of unallocated proceeds (if any)
- Types of temporary unallocated funds placements (if any)

- Examples and case studies of the relevant Eligible Green Projects and Assets

Impact Report

The impact report includes the environmental impact of the green eligible projects and assets financed under this Framework. The impact report may, to some extent, be aggregated due to large number of eligible green assets and depending on data availability, calculations will be made on a best effort basis. The impact report will be based on the below listed metrics, and the reporting will always include methodologies used.

Sustainable Water Management

- Water provided to municipalities (m³)
- Net average energy consumption in production and distribution (kWh/m³)
- Length of distribution network (km)
- Production capacity (m³/s)
- Number of inhabitants in municipalities (1000’)
- Annual GHG emissions from operations (CO₂e)
- Examples and project description of investments made

Climate Change Adaptation to Secure Future Supply of Fresh Water

- Examples and project description of investments made
- Expected impact from the specific investments and projects made

Renewable Energy

- Annual renewable energy generation (MWh)
- Annual GHG emissions avoided (CO₂e)

Sydvatten may choose to report the impact and allocation of green finance instruments other than bonds (such as green loans) directly, and non-publicly, to the lenders or counterpart.

2.5. External review

Sydvatten has engaged CICERO Shades of Green to act as an external verifier of this Green Finance Framework. Amongst other things, it confirms the alignment of this Framework with the 2021 version of Green Bond Principles and

the 2023 version of Green Loan Principles. The Framework has a Medium green shading and an Excellent governance score from Cicero Shades of Green. This Framework and Second Party Opinion as well as supporting material is publicly available on Sydvatten’s website.

An independent external party, appointed by Sydvatten will on an annual basis provide a review of the allocation and impact report. The external review will be publicly available on Sydvatten’s website.

APPENDIX: Supporting documents

Governing documents

[Strategisk plan \(Strategic Plan 2018–2022\)](#)

[Hållbarhetsplan \(Sustainability Plan\)](#)

Reports

[Hållbarhets- och årsredovisning \(Sustainability and Annual Report\)](#)

[Klimatbokslut \(Climate Report\)](#)

[Sydvatten in English](#)
