

Green Financing Framework

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KALDALÓN



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Background

About Kaldalón

Kaldalón hf. (“Kaldalón” or “the Company”) is an Icelandic commercial real estate company listed on Nasdaq Iceland’s Main Market. The Company’s main purpose is ownership of real estate and property development, as well as purchase, sale, rental operations, and administration of such real estate property. Kaldalón’s portfolio consist of commercial properties located in the greater Reykjavík area, see <https://kaldalon.is>.

Sustainability at Kaldalón

Kaldalón’s Rules of Ethics and Sustainability Policy¹ set out the Company’s sustainability aims, describe how it intends to implement sustainability in its core business, and its include goals. Kaldalón sets ambitious goals both for itself and all its stakeholders. Human rights and environmental factors are the sustainability issues Kaldalón is most focused on and are considered material sustainability issues in Kaldalón’s operations. The Company’s governance policy is based on the Guidelines on Corporate Governance,² published by the Iceland Chamber of Commerce, Nasdaq Iceland hf. and the Confederation of Icelandic Employers (6th edition, issued 1 July 2021 and hereafter “the Icelandic Guidelines on Corporate Governance”).

Kaldalón is a participant of the UN Global Compact and adheres to its ten principles, actively working towards human rights, labour, environment and anti-corruption through its operations. Going forward, Kaldalón aims to determine which SDGs are most relevant for its operation and implement two of them in the Company’s strategy.

In 2023, Kaldalón was the first real estate company in Iceland to achieve BREEAM certification of a hotel. SAND Hotel and related properties of Kaldalón at Laugavegur 32-36 in Reykjavík were awarded BREEAM In-Use environmental certification. This was the first step on Kaldalón’s journey to increase the weight of green buildings in its portfolio.

¹ <https://kaldalon.is/wp-content/uploads/2024/03/Kaldalon-Sidareglur-og-sjalbbaernistefna.pdf>
² <https://leidbeiningar.is/english/>

Environment

Kaldalón contributes towards improvement of the environment through conversation with and education of its lessees. Lessees of environmentally certified facilities must adhere to certain environmental obligations and the Company also includes an environmental section in its standard rental agreements that sets out requirements for all lessees. All newly made rental agreements apply to the standard.

One of Kaldalón’s most important environmental projects, besides growing its green building portfolio, is to measure greenhouse gas (GHG) emissions from its operations. The Company is aiming to define 2024 as its base year for setting GHG emission reduction goals. Kaldalón is responsible for its own emissions and its lessees are responsible for their emissions. Nevertheless, Kaldalón tries to exert a positive influence on its lessees through education, installation of measurement devices for energy consumption, and through its lease agreements. In another initiative, Kaldalón is improving its waste management system. Waste is mainly produced on building sites and the Company is working to reduce the volume of waste that goes to landfill and increase the percentage of sorted waste.

Human rights

Kaldalón is vigilant in securing the rights of its employees and workers hired through contractors. In tender processes, contractors are required to comply with Kaldalón’s provisions on supply chains, safety standards, staff turnover, and environmental objectives. Kaldalón monitors its smaller contractors and maintains a business relationship with trusted contractors that comply with the requirements stated above, especially about staff. Kaldalón has terminated business relationships with contractors who have not fulfilled their obligations.

Kaldalón's operating environment

Kaldalón operates in Iceland. The country's carbon emission factors for energy production are among the lowest on a global level. Iceland's source of domestic heating and electricity production is almost all from renewable energy sources, mainly from geothermal and hydro energy. Heating is provided through district heating.

Iceland is one of the most developed nations in the Human Development Index. The Icelandic government is committed to the well-being economy agenda, and its strategies, governance structures and mechanisms. As a part of the well-being economy, the role of public health is measured and monitored.³ The government's fiscal policy supports the aim of improving the quality of life of the public across a broad spectrum with the well-being economy.⁴ The country is also a frontrunner in gender equality, which was written into the Icelandic constitution in 1995, and equal pay legislation entered into force in 2018. Iceland's sovereign ESG risk is considered to be low. Iceland's anti money laundering risk is also considered to be very low.⁵

³ Country deep dive on the well-being economy: Iceland (who.int)

⁴ Government of Iceland | What is a well-being economy?

⁵ According to CountryRisk.io on 1 July 2024



Green Financing Framework

The purpose of the Green Financing Framework (“the Framework”) of Kaldalón is to have a single robust methodology in place, in order to issue green financing instruments such as green bonds, green bills (commercial papers), and/or green loans (collectively “Green Financing Instruments”) where the use of proceeds will be applied to fully or partly finance or refinance eligible green assets. The legal documentation for each individual Green Financing Instrument shall include a reference to this Framework under the Use of proceeds section. The Green Financing Instruments can be unsecured or secured with green and/or non-green assets. As a result, green assets can provide security to both green and/or non-green financing instruments. This Framework is reviewed by an external independent party.

1. Use of proceeds

An amount equal to the net proceeds from Green Financing Instruments is to be fully or partly allocated to Kaldalón’s investments, expenditures and assets to finance or refinance instruments that align with its sustainability policy as defined in the Company’s Rules of Ethics and Sustainability Policy, and the categories, criteria and exclusions defined below (“Green Assets”). Kaldalón operates in the Icelandic market and net proceeds will therefore only be allocated to Green Assets in Iceland.

Allocation of net proceeds during the year of issuance or later is considered new financing. Operational expenditures incurred more recently than in the three calendar years prior to an issuance are considered eligible while others are without age restrictions.

Green Assets aim to support and contribute towards the United Nations Sustainable Development Goals (“UN SDG”) and at least one of the following environmental objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources

⁶ At least 30% reduction in energy use.

⁷ BREEAM Refurbishment is only viewed as eligible if more than 60% of the points have been achieved from Ene 01 Reduction of energy use and carbon emissions section.

- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

Green buildings

Main environmental objective: Climate change mitigation

For finance or refinance of:

- acquisition, major renovation⁶, refurbishment and development of existing buildings/properties that have or are intended to receive a design stage, post-construction or an in-use certification which is equal to or better than the defined threshold in any of the following building certification schemes:
 - BREEAM “Very Good or higher”
 - In-use
 - Refurbishment⁷
 - New constructions
 - LEED “Gold”
 - The Nordic Swan Ecolabel
- infrastructure, such as charging stations for electric vehicles, or other investments that support and emphasize the use of environmentally sound and low carbon solutions and contribute to a car-free living.

All buildings, infrastructure and solutions under this category use energy from 100% renewable sources in Iceland.



Exclusions

To address and mitigate environmental and social risks, net proceeds will not knowingly be allocated to the following activities that are related to: fossil fuel (extraction, storage, transport or manufacture), nuclear energy, potential environmentally negative resource extraction, conflict mineral, weapons and defence research and development, military, gambling, tobacco and child or forced labour. In addition, funds will not knowingly be invested in instruments connected to greenhouse gas intensive projects that are inconsistent with the delivery of a low carbon and sustainable economy.

2. Process for project evaluation and selection

Kaldalón has established a Green Finance Committee (“GFC”) that consists of three individuals including the Chief Financial Officer (“CFO”), the Director of Property Management and the Chief Executive Officer (“CEO”). The GFC is responsible for identifying, evaluating, approving and managing Green Assets in compliance with the Framework (see chapter 1, Use of proceeds) over the lifetime of a Green Financing Instrument. If necessary, the GFC may obtain input or guidance from external sustainability experts. Eligible Green Assets must be unanimously approved by the GFC.

The GFC is also responsible for evaluating the risks associated with projects during the selection phase. The risk assessment process is monitored by the GFC and ESG risk assessment is part of the investment process. Buildings are inspected and assessed according to applicable requirements, depending on their environmental certification status. The GFC identifies and monitors ESG risks that might arise from projects and follows internal processes in the governance of E and S risks. All projects that can be considered eligible Green Assets need to meet the requirements of environmental certification described above and adhere to internal processes for E and S risks.

Approved eligible Green Assets will be kept on an updated list (“Green Assets List”) by the CFO. The Green Assets List is used as a tool to determine if there is a current or expected capacity for issuing a Green Financing Instrument. If a Green Asset ceases to comply with the Framework, it will be removed from the Green Assets List and the funds will be recycled.

The GFC will meet as often as required but at least twice a year for the assessment of eligible Green Assets and to update the Green Assets List. All decisions made by the GFC are documented to facilitate external verification. Furthermore, the GFC is responsible for reporting relevant information to investors as outlined in the Framework (see chapter 4, Reporting) and updating the Framework and eligibility in accordance with developments in the sustainable finance sector.

3. Management of proceeds

An amount equivalent to net proceeds of issued Green Financing Instruments will be credited to a dedicated account (“Green Account”) or tracked by the CFO (collectively the “Green Portfolio”). Deductions will be made from the Green Portfolio by an equivalent amount that matches the financing, refinancing, investment or expenditure of eligible Green Assets or upon repayment of any Green Financing Instrument. Kaldalón aims to fully allocate net proceeds of a Green Financing Instrument within two years from the year of financing.

Kaldalón will document any change in the Green Portfolio to ensure that the total value of Green Assets matches or exceeds the value of issued Green Financing Instruments and to ensure that the total value of a specific Green Asset, split between more than one sources of green financing or other financing with specific use of proceeds, does not exceed its values.

If a Green Asset is divested, lost or ceases to comply with the Framework, it will be removed from the Green Asset List and its proceeds will be recredited to the Green Portfolio or reallocated to other eligible Green Assets as soon as practically possible. Reallocation will not take place if specifically restricted by terms in any loan

documentation. Similarly, if changes in the value of Green Assets causes the value of outstanding Green Financing Instruments to exceed the value of the Green Assets List, the unallocated proceeds will be recredited.

The GFC will review, at least annually, the eligible Green Assets and review and approve the allocation of net proceeds from the issued Green Financing Instruments until full allocation is achieved.

Pending full allocation of proceeds and while the Green Assets have a positive balance, unallocated proceeds may be temporarily utilised or invested in line with Kaldalón's investment policy, such as in deposits and money market funds.

4. Reporting

In order to ensure full transparency on the allocation of net proceeds and the resulting impact, Kaldalón will publish an annual⁸ Green Financing Instrument report ("Allocation and Impact Report") on its website until full allocation is achieved. The Allocation and Impact Report will provide, per issuing entity, the following information⁹ subject to its availability and baseline data:

Overview and amount of outstanding Green Financing Instruments

- Total amount of net proceeds allocated to each project category
- Remaining balance of unallocated net proceeds
- Amount and percentage of new financing and refinancing
- Full list of Green Assets to which net proceeds have been allocated
- Qualitative and/or quantitative environmental impact reporting measures
- Description of methodology for the impact reporting

Where possible, the report will be based on the latest ICMA's Harmonized Framework for Impact Reporting or best market practice to report on the environmental impact of Green Assets financed by Green Financing

⁸ Starting no later than one year from an issuance.
⁹ Based on data from the end of the preceding year.



Instruments. The impact assessment is provided with the reservation that not all data can be obtained and that calculations are therefore based on a best-effort basis.

The following indicators are examples of likely or eligible input for an impact assessment of each Green Asset, where relevant information and data is available, in the Green Building category:

- Type and level of certification
- Total certified gross floor area ("GFA") in m²
- Share of renewable energy used for electricity and space heating
- Energy performance in kWh/m² per annum
- Estimated annual emissions as absolute (tCO₂e) and/or intensity (kgCO₂e/m²)
- Annual energy use reduction in kWh/m² or as a percentage of previous usage
- Number of charging stations installed
- Estimated annual emissions reduced/avoided as absolute (tCO₂e) and/or intensity (kgCO₂e/m²)
- Annual water usage by absolute consumption (m³) and/or intensity (m³/m²)

External review

This Framework has been assessed and received a second party opinion (SPO) by Sustainalytics to ensure its credibility, impact and alignment with the ICMA Green Bond Principles and the Green Loan Principles.

An independent external auditor with relevant expertise and experience will verify the internal tracking method and allocation of net proceeds to confirm that the net proceeds from the issuance of Green Financing Instruments have been fully allocated to Green Assets in compliance with the eligibility criteria outlined in the Framework and whether unallocated proceeds and impact assessment has been correctly reported in the Allocation and Impact Report. The conclusion will be provided in a signed statement and made publicly available on the Company's website.



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