

Statnett

Green Bond

**Investor letter and
impact report**

2022



Introduction

Statnett is the transmission system operator (TSO) in the Norwegian power system and is responsible for developing, operating and maintaining the transmission system in a socio-economically optimal manner.

Statnett is a state-owned enterprise established in accordance with the State Enterprise Act and is owned by the state through the Ministry of Petroleum and Energy (OED) and regulated by the Norwegian Water Resources and Energy Directorate (NVE) and the Norwegian Energy Regulatory Authority (RME).

Statnett is playing a key role in the transition to a renewable energy society by enabling electrification and new green value creation.

Sustainability is an important part of our strategic agenda. Statnett's work on sustainability is systematic and targeted, and integrated into our processes through our management systems and strategy. Our sustainability commitments follow international standards and frameworks.

The green change of pace

How we work with sustainability

Statnett is facilitating the electrification of society, and we perform our tasks in a sustainable fashion. The UN's sustainable development goals provide a framework for our efforts.

Statnett is central in the transition to a more climate-friendly society. The interconnected European power system contributes significantly to the green transition. A well-integrated energy market and energy system is a fundamental prerequisite for achieving Europe's climate targets.

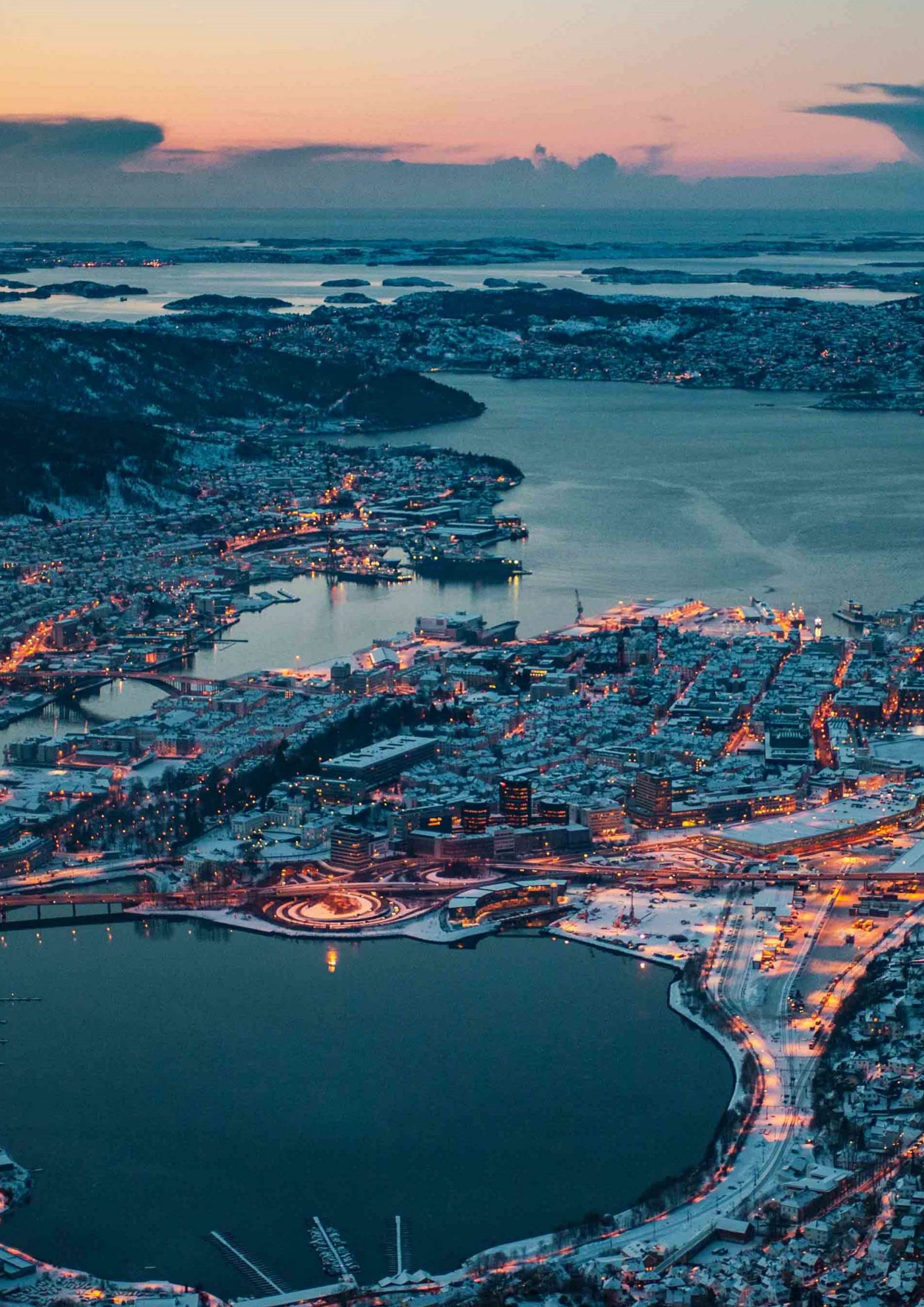
In order to prioritize our sustainability efforts, Statnett has carried out a double materiality analysis. The analysis examines our impact on society and stakeholders, as well as how relevant issues could affect our opportunities for long-term value creation. We have defined the three most important areas for Statnett's sustainability efforts (figure below) based on who we are, what demands and expectations are placed on us, and where we can make a difference. Furthermore, we have developed specific measures and indicators to help us achieve our overall objectives in our three priority areas, which also take account of risks and opportunities.



Statnett report on sustainability in accordance with the Global Reporting Initiative (GRI) Standards. Our 2022 Sustainability report, part of our annual report, is available on our webpage:

<https://www.statnett.no/en/about-statnett/investor-relations/annual-and-semi-annual-reports/>

The 2022 annual report includes reporting on EU taxonomy.



The Framework

Statnett established a Green Bond Framework as part of its financing strategy in December 2018. The Green Bond Framework has been assessed by the independent third-party *Center for International Climate and Environmental Research* (CICERO) who issued their Second Opinion.

The Green Bond Framework covers three project categories:

1. Connecting renewable power
2. Enabling efficient use of clean energy
3. Increasing the market for renewable energy

Statnett achieved the highest possible shading (Dark Green) in the Second Opinion, with an “Excellent” governance score. The Framework and the Second Opinion are available on our web page: <https://www.statnett.no/en/about-statnett/investor-relations/green-financing/>

The framework describes what can be financed by proceeds from Green Financing. The selection and evaluation of Green Eligible Projects is conducted with representatives from at least three of the four following functions present: Grid Planning Function, Land Use and Environmental Function, Finance and Treasury Function, ESG Function.

Only projects which meet the criteria of Statnett’s Green Bond Framework, and have a high likelihood for positive, net long-term environmental effects, will be approved. A record is kept of meetings held and decisions made.

Statnett has evaluated the green bond financed projects’ alignment¹ with The EU Taxonomy. Our reporting includes the outcome of this evaluation for each project category of the reported portfolio of projects. The evaluations include the following technical screening criteria (TSCs): Substantially contribution (SC), Do no significant harm (DNSH) and Minimum Safeguards (MS).

Issue of Green Bonds

The 2022 energy market situation resulted in unprecedented high congestion revenues for Statnett². As a result of this Statnett’s funding needs were postponed and Statnett did not issue any Green Bonds or any other bonds in 2022.

Statnett sees the Green Bond market as its main source of long-term funding going forward. Issuance of Green Bonds is attracting a larger and more diversified base of investors and contributes to an increased attention around the much-needed green transition. Statnett’s Green Bonds are issued under the company’s Euro Medium Term Note Programme and are listed.

¹ An activity is *eligible* according to the taxonomy if it is included in the list of activities covered by the delegated act. An activity is *sustainable (aligned)* according to the taxonomy when it meets all the criteria for a material contribution to at least one of the environmental objectives, does not do significant damage to the other five environmental objectives and meets a minimum of social and governance conditions.

² Congestion revenues are revenues that arise when power is transferred between areas with different prices, domestically or over cross-border interconnectors.



Green Bond Reporting

Reporting covering Statnett's total portfolio of Green Bonds and corresponding use of proceeds. All figures are as of 31.12.2022.

Green Bond Portfolio

Instrument	ISIN	Issue date	Maturity date	Currency	Amount (m)	NOK m ³
Green Bond	NO0010886799	30.06.2020	30.06.2023	NOK	1 250	1 250
Green Bond	XS2197989382	30.06.2020	30.06.2023	SEK	2 250	2 318
Green Bond	NO0011024341	15.06.2021	15.06.2028	NOK	800	800
Green Bond	NO0011024333	15.06.2021	15.06.2026	NOK	550	550

Total (NOK m)	4 918
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Green Bond Financed Portfolio by project category

EU Taxonomy ⁴

		Accumulated financed (NOK m) ⁵	SC	DNSH	MS	Alignment
New projects financed	Connecting renewable power	-	-	-	-	-
	Enabling efficient use of clean energy	1 446	✓	✓	✓	100 %
	Increasing the market for renewable energy	3 472	✓	✓	✓	100 %
Sum New projects financed		4 918				

Projects refinanced	Connecting renewable power	-
	Enabling efficient use of clean energy	-
	Increasing the market for renewable energy	-
Sum Projects refinanced		-

Total (NOK m)	4 918
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Green Bond Financed Projects

Project	Accumulated financed (NOK m) ⁵	Accumulated investments (NOK m) ⁵	Remaining financed to be allocated to next year	Impact assessment
Smestad - Sogn	1 446	1 485	0	Capacity: 2 500 MW ⁶
North Sea Link	3 472	7 473	0	Capacity: 1 400 MW Estimated CO ₂ -reduction: 367 600 ton/y ⁷

³ All debt in foreign currency is swapped to NOK.

⁴ The applicable EU Taxonomy technical screening criteria (TSC) are assessed by tick-box, for substantial contribution (SC), do no significant harm (DNSH) and minimum safeguards (MS), see Appendix.

⁵ In previous years there has been an error in the calculation of the accumulated investment in the *Smestad-Sogn* project, this is now corrected. As a result a modest adjustment has in 2022 been done to the allocation between *Smestad-Sogn* and *North Sea Link*.

⁶ Category 2 projects are a precondition for making category 1 and 3 projects possible and their contributions to CO₂ reduction. Hence, the CO₂ reductions for projects under category 2 are indirect, and not estimated here.

⁷ The reduction in European greenhouse gas emissions is from the 2018 Ten Year Network Development Plan published by the European Network of Transmission System Operators for Electricity (ENTSO-E). The CO₂ reduction estimate is the average assessment of the 2030 EU core policy scenario by the European Commission. The assessment is available on ENTSO-E's web page:

<https://tyndp-data.netlify.app/tyndp2018/projects/projects/110>



Investments financed with Green Bonds

SMESTAD – SOGN

Increasing the capacity in the Oslo main grid by new substation and cables.

Statnett is building cable interconnectors in a tunnel between Smestad and Sogn in Oslo and a 420kV substation at Smestad. The new cables and substation will replace the current two cables and substation in order to increase capacity. This is necessary to provide a better supply of electricity to the residents of Oslo.

The City of Oslo's target is to reduce emissions by 95 per cent by 2030 and to be carbon neutral by 2050. One of the measures to achieve these ambitious targets is promoting zero emission transport and emission free construction work. The city is dependent on a strong electricity supply in order to implement the measures. Statnett's project will support Oslo's targets and have an indirect effect on emission reduction.

Facts about the project:

- Location: Oslo
- Length of cables: 4.5 km
- Voltage level: 300/420 kV
- Expected completion: 2023
- Expected costs: 1 530 - 1 570 NOK m
- Capacity cables: 2 x 1250 MW
- Green Bond framework category: *Enabling efficient use of clean energy*

The construction work is fossil free. Light duty vehicles and tunnel machinery use electricity. Trucks and heavy machinery use renewable diesel without palm oil. These measures have reduced emissions from the construction by 2 750 tonnes of CO₂, which is around 90 per cent of the estimated emissions. The tunnel, which is now completed, is the first tunnel in Norway built without using fossil fuel.

By building a tunnel the project has less environmental impact on biodiversity and land use compared to a trench, which would be the alternative to a tunnel.





NORTH SEA LINK

Linking the British and Nordic power markets by the world's longest subsea interconnector.

Statnett has built a new subsea interconnector between Norway and England together with the British energy company National Grid. The North Sea Link (NSL) will provide benefits on both sides of the cable, such as increased security of electricity supply and increased utilisation of low emission power.

The project is owned 50 per cent by Statnett and 50 per cent by National Grid.

Facts about the project:

- Length: 720 km
- Voltage: 525 kV
- Capacity: 1400 MW
- Location: Between Kvilldal in Norway and Blyth in the UK
- Completed: 2021
- Statnett's expected costs: 0.75-0.85 EUR bn
- Green Bond framework category: *Increasing the market for renewable energy*

When the wind blows in the UK and wind power production is high, Norway will be able to import and conserve the water in Norway's many hydropower reservoirs. When there is little wind and a greater need for power in the UK, the situation will be the other way around. UK then can import Norwegian hydropower and secure its power supply.

The advantages of this exchange of green energy include:

- Increased security of supply because one can import more electricity at a lower price when the power situation is tight
- Increased market for power producers when there is a surplus of power in the national market
- Facilitation of electrification and new renewable power production in Norway and the UK, thereby contributing to a climate-friendly future
- More predictable supply situation and price throughout the year and from year to year

In June 2022 the *Edison Electric Institute (EEI)* awarded National Grid with the **2022 International Edison Award** for the North Sea Link project. The award recognizes the climate benefits North Sea Link facilitates, as well as the engineering feat made to realize the world's longest interconnector.



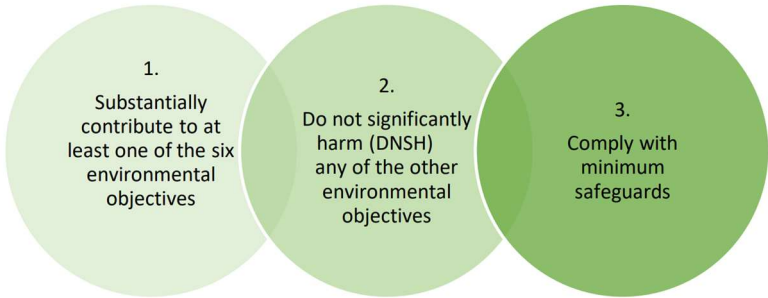


Appendix

EU taxonomy - Technical assessment

Statnett’s activity is taxonomy eligible, and practically all our business is part of the energy sector: *Activity 4.9 transmission and distribution of electricity*, in accordance with the Taxonomy Regulation. This means that we only have one activity to consider under the taxonomy.

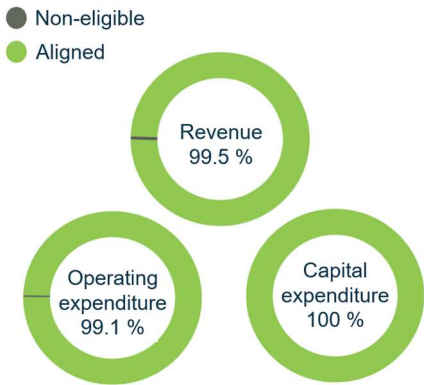
In order for a taxonomy eligible activity to be defined as aligned, it must meet the requirements in the figure below.



Our Green Bond financed projects are 100% EU taxonomy aligned.

Project	Substantial contribution criteria	Do not significantly harm criteria	Minimum safeguards
Smestad - Sogn	✓	✓	✓
North Sea Link	✓	✓	✓

For the 2022 accounting year the eligibility and alignment figures for Statnett overall are illustrated below.



Assessment:

1. Substantial contribution to climate change mitigation

Statnett’s activity 4.9 in the taxonomy meets the criterion of making a “substantial contribution” to the climate target “Climate change mitigation”, because we are part of the interconnected European system and the activities related to *4.9 transmission and distribution of electricity* are defined as an enabling activity.

The Norwegian and Nordic power markets are an integral part of the common European power market. The Norwegian power system is closely interconnected with other countries. Closer integration between countries and sectors, new technology and digital solutions are prerequisites for making the transition to a low-emission society possible. The interconnected Norwegian, Nordic and European power system, and its subordinate systems, meet the qualification criteria for activity 4.9 of the taxonomy.

2. No significant negative impact on the other objectives in the taxonomy

The below summarises our assessment of the DNSH criteria for our business activities in activity 4.9 of the taxonomy.

Climate change adaption: We have identified physical climate risks and conducted vulnerability assessments that are substantial for our activities⁸. The assessments shows that our facilities, depending on where in the country they are located, will experience both increased, reduced or unchanged climate impact.

The sustainable use and protection of water and marine resources: There are currently no criteria for water in relation to activity 4.9.

The transition to a circular economy: Statnett has plans for waste management, and our waste is processed so that as much as possible can be utilised as either material resources or energy resources.

Pollution prevention and control: We follow the stated HSE guidelines. We follow the requirement related to electromagnetic fields. Here, we apply Norwegian legislation, the provisions in the Norwegian Radiation Protection Regulations and the authorities' advice on caution and good practice. PCB-containing power conduits have been taken out of use.

The protection and restoration of natural diversity and ecosystems: We comply with relevant requirements and carry out environmental impact assessments in accordance with applicable statutory requirements and expectations.

3. Compliance with the criteria for minimum safeguards

Statnett's activities are carried out in accordance with the taxonomy requirements for minimum safeguards.

At Statnett, respect for human rights and requirements for decent working conditions are fundamental. Statnett's Code of Conduct and Supplier Code of Conduct, which have been approved by the Board of Directors, reflect this. Our contracts include special requirements for pay, working conditions and ethical guidelines for our suppliers. In 2022, Statnett also established Instructions for due diligence statements that follow the method in the OECD Guidelines for Multinational Enterprises. During 2023, we will consider further updates to our constitutive and governing documents to reflect new expectations and requirements.

Please see the *Statement on Due Diligence* in our 2022 annual report.

⁸ Read more in the report "The importance of climate changes for Statnett's transmission infrastructure".

To the Management of Statnett SF

INDEPENDENT LIMITED ASSURANCE REPORT ON GREEN BOND INVESTOR LETTER AND IMPACT REPORT 2022

Independent Limited Assurance Report to the Management of Statnett SF (Statnett) relates to information set out in table "Green Bond Financed Projects" in the section "Green Bond Reporting" (the "Selected Information") within the Statnett Green Bond investor Letter and Impact Report for the reporting period ended 31 December 2022.

Our assurance conclusion

Based on our procedures described in this report, and evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information, as listed below has not been prepared, in all material respects, in accordance with the Applicable Criteria.

Scope of our work

Statnett has engaged us to provide an Independent Limited Assurance Report in accordance with International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000 (Revised)"), issued by the International Auditing and Assurance Standards Board ("IAASB") and our agreed terms of engagement.

The Selected Information in scope of our engagement, as presented in the Statnett Green Bond investor Letter and Impact Report, for the period ended 31 December 2022 is as follows:

Selected Information in the Statnett Green Bond investor Letter and Impact Report	Applicable Criteria
Table <i>Green Bond Financed Projects</i> , limited to; Column <i>Accumulated financed (NOK m)</i>	Whether the proceeds have been allocated to Eligible Projects as communicated in the table <i>Green Bond Financed Projects</i> as of 31.12.2022
Table <i>Green Bond Financed Projects</i> , limited to; Column <i>Project</i>	Whether the Eligible Projects comply with the criteria in Statnetts Green Bond Framework, "Use of Proceeds".

The scope of our work was limited to conclude whether:

- the proceeds have been allocated to the Eligible Projects as communicated in the table *Green Bond Financed Projects*
- the Eligible Projects comply with the criteria in Statnett Green Bond Framework, "2 Use of Proceeds".

Inherent limitations of the Selected Information

We obtained limited assurance over the preparation of the Selected Information in accordance with the Applicable Criteria. Inherent limitations exist in all assurance engagements.

Any internal control structure, no matter how effective, cannot eliminate the possibility that fraud, errors or irregularities may occur and remain undetected and because we use selective testing in our engagement, we cannot guarantee that errors or irregularities, if present, will be detected.

Managements' responsibilities

The Management is responsible for:

- ensuring that the Use of Proceeds follows the Statnett Green Bond Framework
- ensuring that the project evaluation and selection, management of proceeds and reporting described in the Green Bond investor Letter and Impact Report are in accordance with the purpose defined within the Statnett Green Bond Framework.
- Designing, implementing, and maintaining internal processes and controls over information relevant to the preparation of the Selected Information to ensure that they are free from material misstatement, including whether due to fraud or error.
- Providing sufficient access and making available all necessary records, correspondence, information and explanations to allow the successful completion of the services.
- Confirming to us through written representations that you have provided us with all information relevant to our services of which you are aware, and that the measurement or evaluation of the underlying subject matter against the Applicable Criteria, including that all relevant matters, are reflected in the Selected Information.

Our responsibilities

We are responsible for:

- Planning and performing procedures to obtain sufficient appropriate evidence in order to express an independent limited assurance conclusion on the Selected Information.
- Communicating matters that may be relevant to the Selected Information to the appropriate party including identified or suspected non-compliance with laws and regulations, fraud or suspected fraud, and bias in the preparation of the Selected Information.
- Reporting our conclusion in the form of an independent limited Assurance Report to the management.

Our independence and quality management

We are independent of the company as required by laws and regulations and the International Ethics Standards Board for Accountants' Code of International Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We apply the International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, and accordingly, maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Key procedures performed

We are required to plan and perform our work to address the areas where we have identified that a material misstatement of the description of activities undertaken in respect of the Selected Information is likely to arise. The procedures we performed were based on our professional judgment. In carrying out our limited assurance engagement on the description of activities undertaken in respect of the Selected Information, we performed the following procedures:

- Obtained an understanding of Statnett's systems and processes for the identification, processing and controls associated with the Selected Information.,
- Made inquiries with relevant personnel to obtain an understanding of the process for collecting and reporting the Selected Information and relevant internal controls; but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness.
- Performed limited substantive testing on a selective basis of the Applicable Criteria to test whether data has been appropriately measured, recorded, collated and reported.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Oslo, 04 July 2023
Deloitte AS

Guro Magnetun Heimvik
State Authorised Public Accountant

This document is signed electronically