

**NKT**

# **Green Finance Framework**

**August 2022**

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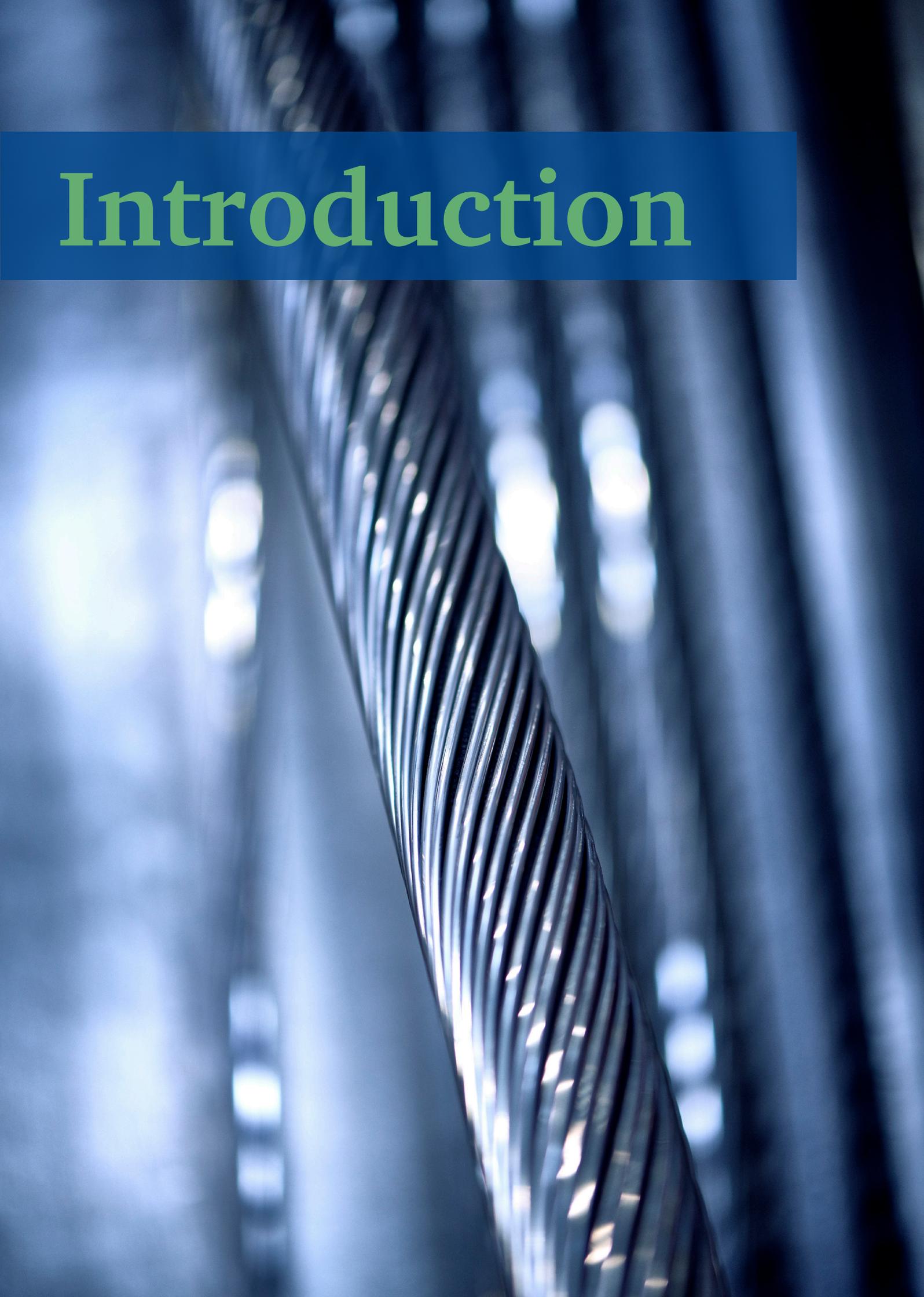
The background of the entire page is a photograph of three white wind turbines standing in a blue sea. The sky is a clear, light blue. The turbines are positioned in a line, with the closest one in the foreground and two others further back, creating a sense of depth. The overall aesthetic is clean and professional, reflecting the 'Green Finance' theme.



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# Introduction

The background of the slide is a close-up, low-angle photograph of a thick, braided metal cable, likely a cable-stayed bridge cable. The cable is the central focus, running diagonally from the bottom left towards the top right. It has a complex, multi-strand braided texture. The background is heavily blurred, showing a series of bright, out-of-focus lights and structural elements, possibly from a bridge or a large industrial building, all bathed in a cool, blue-toned light. The overall mood is technical and industrial.

# Introduction

# 01

## 1.1 About NKT

### A pioneer in the cable industry

Since our foundation in 1891, our journey has been a story of constant innovation in developing the cable solutions that are the backbone of our modern world. NKT A/S (or “NKT”) connects a **greener world with high quality power cable technology and takes center stage as the world moves towards green energy.**

We pride ourselves on delivering sustainable solutions for a lifetime and for generations to come. This Framework, as specified in section “Eligible Green Assets and Expenditures” will focus on Renewable Energy Projects mainly within high voltage cable solutions.

With locations in more than 16 countries and manufacturing facilities in Germany, Sweden, UK, Poland, Czech Republic, Norway and Denmark, NKT is a world-leader in cable technology. NKT employs over 4,000 people and is listed on Nasdaq Copenhagen.

### Market overview

NKT foresees a growing high-voltage power cable market in the coming years driven by underlying megatrends driving a need for growth in offshore wind, more interconnectors and grid expansion and reinforcement. The annual order allocation will be subject to uncertainty as the pipeline includes a number of large projects with no fixed award date.

In the period from 2022-2024, NKT expects the market size of new project awards (NKT’s assessment of addressable high-voltage power cable projects) to be around EUR 7-8bn on average per year. Based on the current assessment of the project pipeline, the potential awards in the market are expected to span interconnector, offshore wind, and power-from-shore projects. The market for onshore cabling is expected to continue to grow as a result of the need to prepare and modify existing power grids to accommodate the shift towards renewable power generation.



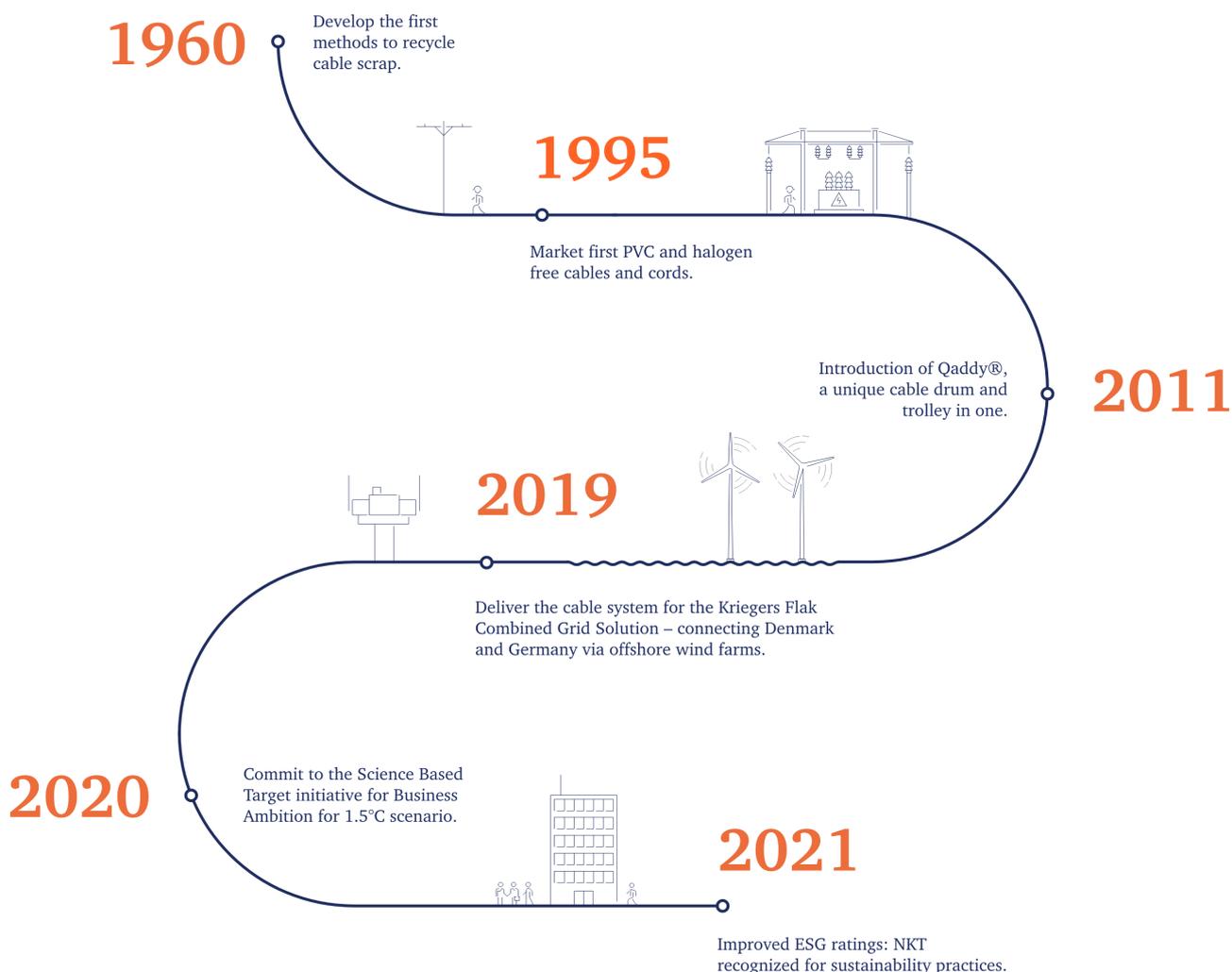
# 1.2 NKT's sustainability contribution

## We connect a greener world

In NKT, we are dedicated to power cable technology and our purpose is to connect a greener world by **enabling sustainable energy transmission**. Our cable technology is key in powering modern life, global society and future generations with clean and renewable energy.

Our sustainability journey dates back to 1960 when we developed the first methods of recycling cable scrap at the dedicated facility in Stenlille, Denmark. Since then, we have continued our journey to enabling sustainable energy transmission.

### Our sustainability journey



### Environment

**Part of our journey is to constantly reduce our environmental impact** and become a net-zero emissions company. To fuel that journey, we have officially signed up for the Science Based Target initiative as the first major power cable manufacturer.

The target is clear. We will become a net-zero emissions company no later than 2050. We are constantly working to reduce our CO2 emissions in all three Scopes. Our

efforts are anchored in three main pillars; Energy efficiency (Scope 2), Green production and E-mobility (Scope 1 and 2) and Decarbonization of value chain (Scope 3).

Since 2021, all our factories have switched to using electricity originating from renewable energy, significantly reducing our scope 2 emissions. This green move has played a key role in cutting our CO2 emissions significantly in the past years.

The change in energy supply is documented by EU Guarantees of Origin, market-based instruments which are certified by an auditor. The guarantees provide proof that our electricity consumption is based on renewable energy for the production in Germany, Denmark, Sweden, Norway, Poland and Czech Republic.

In addition to climate, circularity is a material topic for NKT among environmental matters. **The NKT recycling process plays a key part in our ambition to limit our environmental footprint.** Over the years, we have steadily reduced our landfill disposal and have reached significant results on the journey towards zero landfill. Across the organization, we are reducing the use of the landfill. NKT's current use of landfills constitutes only 4% of the total waste treatment processes of NKT. Efficient material utilization has been a long-term focus enabling a high utilization.

### Social

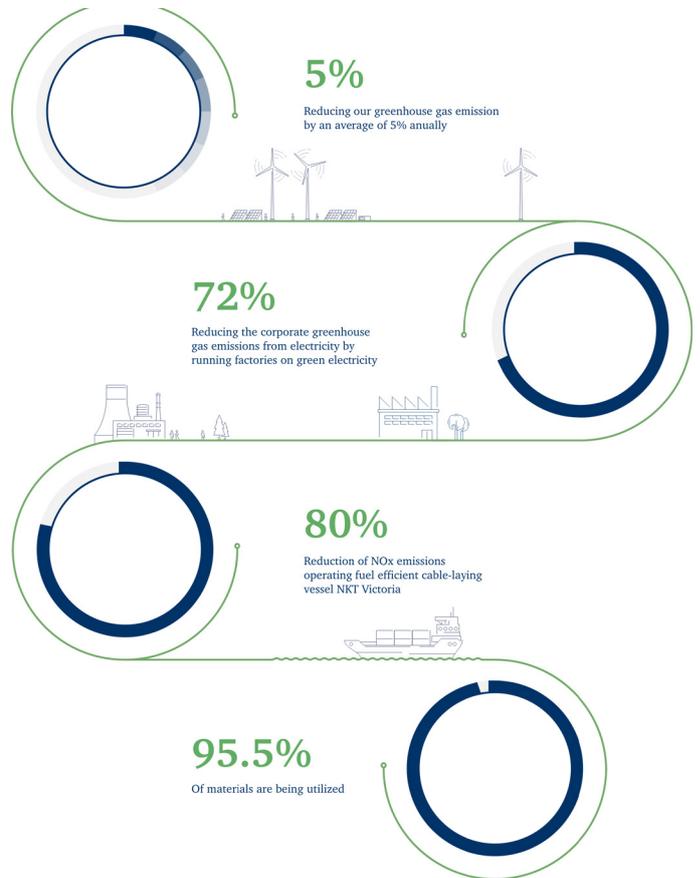
We take our social responsibility seriously and have programs and initiatives in place to drive employee health, safety and engagement as well as a diverse and inclusive culture. More information of initiatives and commitments NKT takes part on within diversity is found in section 1.3.

### Governance

A global mindset and responsible business conduct are key to NKT. We are committed to ensure a proper corporate governance and that we have the necessary

processes, rules and policies in place. Good corporate governance is an ongoing focus area for NKT and is ultimately anchored at the Board of Directors of the NKT Group.

### We have already achieved



## 1.3 Alignment with international commitments, memberships and sustainability recognitions

To demonstrate our sustainability commitment, we report our sustainability information in accordance with selected international initiatives and standards.



### Science Based Targets Initiative

In December 2020, NKT signed up to the Science Based Target initiative (“SBTi”) to become a net-zero emissions company by 2050.



### Europacable

NKT is an active member of Europacable supporting the focus on promoting sustainable and fair conditions in the wire and power cable industry.



### UN Global Compact

NKT has been a member of the UN Global Compact since 2009 and actively supports and acts on the principles to drive sustainable changes in the world. In addition, NKT has signed the commitment under the UN Global Compact to actively work to run its business within the 1.5°C scenario by setting science-based targets.

## Task Force on Climate-Related Financial Disclosures

The guiding framework for the integration process is TCFD (Task Force on Climate-related Financial Disclosures), which requires companies to report and disclose information about NKT's strategy, governance metrics and performance. NKT has incorporated its information into the Carbon Disclosure Project (CDP) climate disclosures, and an overview of the TCFD-related data can be found in the Sustainability Reports.

## EU Taxonomy

NKT is a European based turn-key provider of power cable solutions and accessories. NKT has evaluated the business activities against the EU Taxonomy eligibility criteria for climate mitigation and climate adaptation under the Regulation (EU) 2020/852 of the European Parliament. NKT has subdivided eligible activities into three activity types:

- |  |  |   |
|--|--|---|
| <b>3.1</b><br>Manufacture of renewable energy technologies | <b>4.9</b><br>Transmission and distribution of electricity | <b>7.6</b><br>Installation, maintenance and repair of renewable energy technologies |
|--|--|---|



1. For all the projects and products that relate to manufactured cable systems for the renewable energy sector as per NACE code C27.3 'Manufacture of wiring and wiring devices' - those projects have been deemed eligible for both activity 3.1 and 4.9.
2. Repair activities conducted for the renewable energy sector were also deemed eligible as per activity '7.6. Installation, maintenance and repair of renewable energy technologies'.
3. For projects and products related to construction and installation of interconnectors or enforcement of the grid under the '4.9. Transmission and distribution of electricity', the following conditions were applied:
  - a. Where the main purpose of the interconnector/power cable system was to enable transmission of renewable power between or within countries (based on the specific project data), those projects were considered eligible. If one of the countries' carbon intensity of the grid was less than 100g CO<sub>2</sub> e per kWh, the project was considered eligible.
  - b. If projects and products for installation within the same country or between two countries where the grid carbon intensity was above 100g CO<sub>2</sub> e per kWh, the projects and products were deemed not eligible, unless project specific information is available to ensure that installed cable system carbon intensity is below 100g CO<sub>2</sub> e per kWh.

When reporting on CAPEX and OPEX, a share of the site and business line CAPEX and OPEX was allocated based on revenues generated from eligible activities within the business lines. The majority of NKT's investments have been within the HV Solutions business line, where a relatively larger part of activities are eligible under the taxonomy. As investments can be used to produce both eligible and non-eligible projects, NKT has reviewed the activities within the specific business line and decided to use the revenue split within the business line as a proxy for eligible CAPEX and OPEX share.



### Powering Net Zero Pact

We are a founding member of the Powering Net Zero Pact, which brings together the power sector to collaborate for a just energy transition to net zero.



### Diversity and Inclusion initiatives

Among diversity, NKT has signed up for the UN Women's Empowerment Principles, is a member of the Above and Beyond Diversity Council, supports the Tekniksprånget internship programme to promote careers in engineering for female students in Sweden, supports the work of Femtec.Alumnae and NKT is a signatory to the Confederation of Danish Industry's Gender Diversity Pledge.

### The Danish Government's Global Climate Action Strategy

Denmark aims to be a green frontrunner in global climate action that inspires and encourages the rest of the world. In line with that The Danish Government has set a climate neutrality target by 2050 and interim target for 2030 to reduce carbon emissions 70%. At NKT we will continue our commitment of supporting the above national targets and strategy.

### External Sustainability Recognitions

**Being rewarded as a sustainability leader in our industry demonstrates that we have managed to continuously improve our sustainability performance.** Our current ratings are illustrated below:



- NKT is rated in the Leadership (A-) band
- NKT is among the 21% of companies reaching Leadership level in the group "Electrical and electronic equipment"



- NKT is rated AA in the MSCI ESG Ratings assessment in 2021



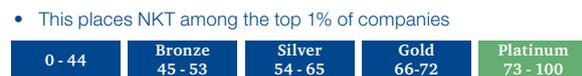
The use by NKT of any MSCI ESG research LLC or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of [entity] by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.

### UN Sustainable Development Goals (UN SDGs)

NKT's sustainability agenda and targets are aligned with the UN Sustainable Development Goals ("SDGs"). We have integrated the most relevant Sustainable Development Goals into our sustainability strategy. 7 SDGs has been identified as key areas and these are 5, 7, 9, 11, 12, 13 and 16, see the NKT Sustainability report 2021 for a full overview of the targets and progress of these areas.

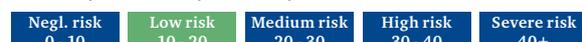


- NKT scored 75 out of 100 in 2021 and was awarded a Platinum rating in the industry "Manufacture of wiring and wiring devices"



- NKT was rated 16.8 in September 2021 and was therefore assessed to be at low risk of experiencing material financial impacts from ESG factors

- It places NKT in the top 25% of companies in the "Electrical Equipment industry assessed by Sustainalytics"



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# Green Finance Framework



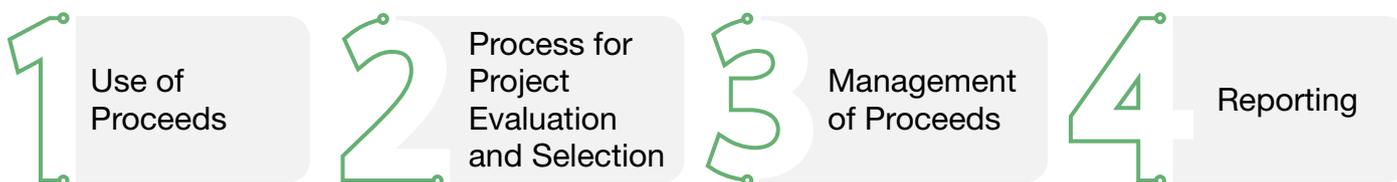
# Green Finance Framework

# 02

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 versions of Green Bond Principles<sup>1</sup> and Green Loan Principles<sup>2</sup>, alongside the EU Taxonomy and the anticipated EU Green Bond Standard.



The four core components of the Green Bond and Loan Principles are:



Furthermore, recognising the importance of a common definition of sustainable economic activities and enhanced transparency in the green bond market, eligible green expenditures are intended to align with the definitions and technical screening criteria in the Delegated Regulation (EU) 2021/2139 as published in the Official Journal of the European Union on 9 December 2021 and as supplementing the Regulation (EU) 2020/852 known as the EU classification system for sustainable economic activities (the “EU Taxonomy”). Further, this framework includes various key elements of the proposed regulation on a European Green Bond Standard (“EU GBS”) from 6 July 2021, including the bond-related reporting and external verification requirements.

In relation to the EU Taxonomy alignment, the Green Finance Committee will, on a best efforts basis,

specifically ensure alignment of each Eligible Green Asset with the EU Taxonomy in the following areas (1) substantial contribution to at least one of the six environmental objectives, (2) do-no significant harm (DNSH) to other environmental objectives, (3) minimum safeguards and where developed (4) meeting the technical screening criteria (“TSC”).

The Framework is applicable, but not limited to, 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”).

<sup>1</sup> The Green Bond Principles are published by the International Capital Markets Association (“ICMA”).

<sup>2</sup> The 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.

## 2.1 Use of proceeds

We strive to put ourselves and our customers in the perfect position to drive sustainable transformation. To achieve our high ambitions, this Green Finance Framework is focused on our commitment on connecting a greener world. An amount equal to the net proceeds of the Green Financing issued by NKT 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 NKT in accordance with this Green Finance Framework.

Financing and refinancing of tangible assets (with no specific age restriction) and operational expenditures (with a lookback period of up to two preceding financial years before the issuance of any Green Financing), such as maintenance costs related to Green Assets that increase the lifetime of the asset, can qualify. The combined allocated amount to a specific Asset, by one or several sources of financing with specified Green use of proceeds, may not exceed its value.

### Eligible Green Assets and Expenditures

Eligible Green Assets and Expenditures are listed in the below table. It has been mapped to both the EU Taxonomy and the UN Sustainable Development Goals.

ICMA GBP Category	Description of projects	EU Taxonomy activities	UN SDG mapping
<b>Renewable Energy</b>	<p>Expenditures are intended to support the production and development of renewable energy, thereby contributing to climate change mitigation. This is achieved through the production and laying of High-Voltage Cables that will facilitate the connection of renewable energy to the electric grid. Specifically, eligible projects relate to the production of cables to connect renewable energy production sites (e.g. wind farms) to the grid or ‘interconnectors’ where the relevant project is deemed to predominantly ensure higher proportion of renewable energy in the relevant grids. Specifically, expenditures eligible as Green assets include, but may not be limited to:</p> <ul style="list-style-type: none"> <li>Capital expenditures such as production machinery and equipment, capacity expansion, technology and IT, buildings and R&amp;D</li> <li>Operational expenditures such as staff cost, repairs and maintenance, energy and utilities, transportation, and administration.</li> </ul>	<p>3.1. Manufacture of renewable energy technologies</p> <p>4.9. Transmission and distribution of electricity</p> <p>7.6. Installation, maintenance and repair of renewable energy technologies</p>	  

### Minimum Social Safeguards

NKT will ensure that as a company it will maintain utmost integrity for the below mentioned minimum safeguards and hence it is ensured that the aforementioned Eligible Green Assets and Expenditures will meet the minimum safeguards as outlined in the EU Taxonomy. Furthermore, assessments will not be done on a project specific basis but will be done through NKT’s Group level commitments to these safeguards. The minimum safeguards that NKT adheres to, as a signatory to the UN Global Compact, cover all aspects of the Universal Declaration of Human Rights. The minimum safeguards in alignment with the EU Taxonomy are the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

## 2.2 Selection and evaluation of eligible assets and expenditures

The evaluation and selection process for Eligible Green Assets and Expenditures is a key process in ensuring that an amount equal to the net proceeds from Green Financing is allocated to eligible assets and expenditures that meet the criteria in this Framework. NKT will during the selection and evaluation process aspire to give certain projects priority in the allocation of the net proceeds based on current market preferences.

The selection of Eligible Green Assets and Expenditures is managed by a dedicated group, the Green Finance Committee (“GFC”). Members of the GFC consist of members from NKT’s Group Treasury, Sustainability, Financial Planning & Analysis (“FP&A”) and Investor Relations departments. Chairman of the committee is NKT’s Head of Group Treasury. NKT will make sure that sustainability expertise always resides within the GFC. All decisions are made in consensus, and that applies to the selection process of Eligible Green Assets and Expenditures as well. The GFC will meet at least once a year and will keep track of all decisions made.

A list of Eligible Green Assets and Expenditures is kept by Group Treasury.

### The GFC follows the below process when selecting and evaluating potentially Eligible Green Assets and Expenditures:

1

The FP&A department identifies a list of potential eligible assets and/or expenditures to be financed by proceeds from green financing

2

The list will in cooperation with the Sustainability department be evaluated to ensure alignment with the eligibility criteria defined in this framework and a prioritised list will be presented to the GFC on an annual basis

3

The GFC verifies the eligibility of the asset or expenditure and decides on the final allocation of proceeds

4

The allocation of proceeds to eligible assets and expenditures are booked into the Green Financing Register, which is further specified in 2.3

### Exclusions

The eligibility criteria outlined in this framework aims to support and enhance transparency, e.g. by ensuring that all eligible green expenditures are evaluated according to relevant objective criteria. Following this, economic activities that are not currently covered by the EU Taxonomy will not be considered.

The proceeds of NKT’s Green Financing will not be used to (re-)finance assets and/or expenditures which are specifically and directly intended towards accommodating fossil fuel energy, such as project for the onshore electrification of oil platforms.



## 2.3 Management of Proceeds

### Tracking of Green Financing net proceeds

Net proceeds from NKT's Green Financing will be tracked through the use of a register where all issued amounts of green debt instruments will be monitored (the "Green Financing Register"). 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 Expenditures.

The Green Financing Register will contain the list of Eligible Green Assets and Expenditures mentioned in Section 2.1. Information available in the Register will in turn serve as basis for regular reporting described in Section 2.4.

The list of Eligible Green Assets and Expenditures is monitored on a regular basis during the term of the green debt instruments to ensure that the proceeds are sufficiently allocated to Eligible Green Assets and Expenditures. This too is the responsibility of the GFC. The Green Financing Register will form the basis for the impact and allocation reporting.

### Temporary Holdings

There may be periods when the total outstanding net proceeds of Green Financing exceed the value of the Eligible Green Assets and Expenditures in the Green Financing Register. Any such portion will be held in accordance with NKT's normal liquidity management policy. Furthermore, any unallocated proceeds temporary held by NKT will be placed in the liquidity reserve and managed accordingly by NKT.

## 2.4 Reporting

To enable investors, lenders, and other stakeholders to follow the development of the assets and expenditure funded by Green Financing, an annual investor report will be made available on NKT's website ("Green Finance Report"). First such report will be made available for investors approximately 12 months after the issuance of NKT'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 NKT has Green Financing outstanding in a form of bank loans, NKT may report necessary annual details related to such bank loans directly to its lenders, as may be described in respective loan documentation

### 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 Section 2.1
- Share of unallocated proceeds (if any)
- Types of temporary unallocated funds placements (if any)
- Examples and case studies of the relevant Eligible Green Assets and Expenditures penditures.

### Impact Report

The impact report includes the environmental impact of the Eligible Green Assets and Expenditures 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 include the below listed metrics, and the reporting will always include methodologies used. The impact indicators will be divided between a primary and a secondary indicator:

- Primary Indicator: Estimated Total Capacity Connected in MW
- Secondary Indicator: Total Green House Gas Emissions Avoided

The Impact Report will always include the Primary Indicator while the Secondary Indicator will be reported on when possible. NKT's ambition is to split both of these indicators into sublevels for wind-farm and interconnector projects respectively.

# External review



To confirm the transparency and robustness of this Framework, NKT has engaged CICERO Shades of Green to act as an pre-issuance external reviewer of this Green Finance Framework, by way of a Second Party Opinion. Amongst other things, it confirms the alignment of this Framework with the 2021 versions of Green Bond Principles and Green Loan Principles.

This Framework and the Second Party Opinion will both be publicly available on NKT's website.

Post-issuance, NKT will endeavour to include a third-party audit of the allocation of the use of proceeds.

# 03



**NKT**

*We connect a greener world*