



Orkla

Green Bond Second Opinion

May 24, 2021

Orkla supplies branded consumer goods to the grocery trade, catering, specialist trade, pharmacy and bakery market. Orkla is headquartered in Oslo, with main markets in the Nordic countries, the Baltics and selected countries in Central Europe. Orkla's food production makes them one of the biggest purchasers of agricultural and fish raw materials in the Nordic region.

The Green Bond framework allows for financing or refinancing of eligible projects in four categories. Eco-efficient and/or circular economy adapted products, production technologies and processes; Energy and resource efficiency; Green buildings; and Renewable energy. A significant share (around 40%) will be allocated to sourcing of certified raw materials and production under the first category, for example the production of plant-based food, whilst the majority of financing (around 60%) will be allocated to Green buildings. Orkla excludes financing of meat products as well as fossil fuel related infrastructure in production and distribution of products as well as heating in buildings. Orkla also excludes from green financing suppliers if associated with deforestation.

Production of many food raw materials is associated with high greenhouse gas emissions, high water consumption, risk of biodiversity loss and social challenges arising from climate change. Some of these raw materials, such as cocoa, soya and palm oil, may be associated with practices that are harmful to the environment and social challenges. Orkla also uses plastic packaging for certain products, which, although based on recycled/renewable materials, is associated with the use of fossil fuels.

Orkla has a wide-ranging and ambitious sustainability strategy, with robust climate targets. The issuer has also put in place a rigorous selection and reporting procedure. These strengths will mitigate the risks of selecting projects in the "Eco-efficient and circular economy adapted" category, which may fail to meet the environmental ambitions of the framework, as this category is wide-ranging and eligibility criteria are therefore vague.

To improve, the issuer should develop some more specific impact measures for eligible project categories. Given the multifaceted nature of Orkla's operations and the complexity of its supply chains – coupled with the broadness and generality of Orkla's Green Bond Framework – we encourage the company to be as transparent as possible in its reporting, particularly on the topic of sustainable sourcing. Orkla's TCFD-reporting and climate risk screening can also be strengthened.

Based on an overall assessment of the framework's alignment with the Green Bond Principles, the project categories and Orkla's governance, Orkla's Green Bond framework receives the overall **CICERO Medium Green** shading and a governance score of **Excellent**.

SHADES OF GREEN

Based on our review, we rate the Orkla's green bond framework **CICERO Medium Green**.

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in Orkla's framework to be **Excellent**.



GREEN BOND PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.





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1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated May 2021. This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green



Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.



Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.



Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.

Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



2 Brief description of Orkla's green bond framework and related policies

Orkla supplies branded consumer goods to the grocery trade, catering, specialist trade, pharmacy and bakery market. Orkla is headquartered in Oslo, with main markets in the Nordic countries, the Baltics and selected countries in Central Europe. It also has a strong position within selected product groups in India. Their branded consumer goods business consists of the business areas Orkla Foods (share of operating revenues 39%), Orkla Confectionery & Snacks (15%), Orkla Care (14%) and Orkla Food Ingredients (24%). In addition, the Orkla Consumer & Financial Investments business area, consists of Consumer Investments and Industrial & Financial Investments (8%). Orkla's ten largest categories are snacks; ready meals; confectionery: sauces and flavorings; personal hygiene; dietary supplements and Omega 3; pizza; bread toppings; biscuits; and wash and cleaning. In 2020 Orkla employed over 18 000 people across 30 countries. Orkla's mission is "Improving everyday life with sustainable and enjoyable local brands".

Environmental Strategies and Policies

Orkla has a sustainability strategy which outlines goals for 2025 across five areas, namely "Environmental engagement", "Sustainable sourcing", "Safe Products", "Nutrition and wellness" and "Care for people and society". Progress towards these goals is reported externally once a year in their sustainability report. Orkla's main environmental impact comes from raw material production and food waste, both at the production and at the consumption stage. Orkla's food production makes them one of the biggest purchasers of agricultural and fish raw materials in the Nordic region. Production of many food raw materials is associated with high greenhouse gas emissions, high water consumption, risk of biodiversity loss and social challenges arising from climate change. Moreover, some of these raw materials, such as cocoa, soya and palm oil, may be associated with practices that are harmful to the environment (such as deforestation, conversion of land, biodiversity loss and degradation of nature) and social challenges (such as irresponsible working conditions).

Within the area of "Environmental engagement" the strategy has specific goals, including a share of at least 60% renewable energy, 63% reduction in greenhouse gas emissions from own operations (77% reduction by 2040)¹ and 29% reduction in the value chain (75% reduction by 2040)². They aim to achieve this through product innovation, investing in renewable energy, reducing energy use and waste, and action in the supply chain. The targets for greenhouse gas reduction have been validated by the Science Based Targets initiative. Orkla has already reduced their greenhouse gas emissions from their own operations by 62% from 2014-levels³, mainly achieved by switching energy consumption from fossil fuels to renewable energy, buying Guarantees of Origin for electricity and reducing energy consumption. Renewable energy accounted for 47% of their energy use in 2020. Orkla's climate accounts are prepared in accordance with the GHG Protocol and verified by the audit and consulting company EY. Orkla was awarded the score 'A' from the CDP (previously Carbon Disclosure Project) on climate change in 2020. Orkla also has goals to reduce energy and water consumption by 30 % and food waste by 50% compared to 2014-levels by 2025. In 2020, Orkla had reduced its energy usage per revenue by 19%, though its energy usage from fossil fuels had decreased by 1%. Its total energy usage from its own operations were 1 100GWh. Orkla has also reduced their water consumption by 6% since 2014, though withdrawal of groundwater

¹ Scope 1 and Scope 2 in accordance with the Greenhouse Gas Protocol. Base year 2014.

² Scope 3 in accordance with the Greenhouse Gas Protocol. Base year 2014.

³ Emission-levels in 2019 were 121 266 tCO₂e (Scope 1), 71 300 tCO₂e (Scope 2) and 1 618 700 tCO₂e (Scope 3)



in 2020 was 350% of 2014-levels (2.8 mill. m3 in 2019). In 2020, Orkla had achieved a 23 % reduction of organic waste per revenue.

Within the area “Sustainable sourcing” Orkla aims to achieve verified sustainable production of key raw materials (cocoa, hazelnut, cashew, sugar cane, palm oil, coconut, soy, black pepper, rice, animal products and vanilla) by 2025. Orkla aims to promote sustainable farming and fishing by screening and monitoring its suppliers, purchasing certified raw materials, participating in improvement projects and engaging in political dialogue. Orkla has a zero deforestation policy and the direct soy purchased is mainly from Europe and the US. Their zero deforestation policy outlines supplier standards, and a commitment to monitor suppliers and engage in dialogue with them. The goal of the policy is ‘to be able to document that the raw materials are produced sustainably without deforestation’ by 2020, though this has not yet been achieved. However, Orkla did receive a B score for the CPD Forest module for 2020. In 2020, 94% of palm oil was certified by the RSPO⁴, 66% of marine raw materials were MSC or ASC certified, 84% of cocoa purchased was UTZ or Fairtrade certified, and 11% of soya was certified (either by the Roundtable on Responsible Soy, ProTerra, Donau Soja, U.S. Soy Sustainability Assurance Protocol or EU Organic, and Orkla only used ProTerra for their directly purchased soy). The relatively low share of certified soy in 2020 is due to Orkla’s change in certification procedures since 2019, which is now based on higher quality data and stricter internal criteria for certification programs. Orkla has a plan for 2021 to source soya with a specific level of certification and expects the share of certified soy to increase significantly. In addition, Orkla aims for 100% recyclable packaging, and that 75% of packaging will be made of recycled material whilst 50% of plastic packaging will be made of recycled or renewable materials. They aim to achieve this through collaboration with packaging suppliers, the waste sector and external centers of expertise. In 2020, 95% of packaging used by Orkla was made of materials that can be recycled and 47% of total packaging (and 9% of plastic packaging) used recycled materials. In 2020, 35% of packaging was made from renewable materials, whilst recycled materials accounted for around 47% of packaging.

As part of its efforts to “Care for people and society”, Orkla introduced Climate Labelling in 2019 – starting with its TORO soups and subsequently expanding to more products and countries, such as Sweden, the Czech Republic and Slovakia. In calculating the climate footprint of the products, emissions from the raw materials, transportation, packaging and production process are included, and products are categorized as low, medium or high.

Orkla also has a goal to become one of Europe’s leading competitors in the alternative proteins space before 2030. The Group consequently established Orkla Alternative Proteins (OAP) as a separate business unit in April 2021.

Orkla has been affiliated with the UN Global Compact since 2005 and has been included in the Dow Jones Sustainability Index for the past nine years. It reports annually on its corporate responsibility and sustainability work based on GRI standards (GRI 103) and is included in the FTSE4Good Index. In 2020, Orkla’s sustainability report⁵ received recognition from both The Governance Group (which awarded it with score A) and from PwC’s Climate Index (according to which, Orkla is one of four Norwegian companies currently reporting emission reductions in line with the Paris Agreement). It was also ranked as one of the 100 most sustainable companies in the world by Corporate Knights.

Extreme weather has affected the production of certain agricultural raw materials, such as grain, fruit, vegetables and animal products, at times impacting on the price and availability of these raw materials. Changes in weather patterns have also led to higher energy prices in some of the countries in which they have production. Volatility in the prices of raw materials, energy and water is anticipated in the years ahead, but the consequences of extreme

⁴ Mass Balance (36%), Segregated (31%) and Credits (27%)

⁵ Unless otherwise stated, the key figures in Orkla’s sustainability reporting cover every business in which Orkla owned an interest of more than 50% as of 31 December 2019.



weather for Orkla is considered to be moderate in the short and medium term. This is because most of Orkla's production and sourcing takes place in the Nordics, the Baltics and Eastern Europe, where there is less likelihood of water shortage and drought than in areas with a warmer climate. The risk of Orkla's own production being affected by floods or other consequences of extreme weather are deemed to be low. Several Orkla companies in areas exposed to water shortage or power supply interruptions, such as India and Romania, are taking risk-mitigating action. MTR Foods in India has established systems for collecting rainwater, recycling water and ensuring access to locally produced solar energy. Orkla regularly identifies and reports climate risk in line with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). However, they have not yet carried out an in-depth analysis to quantify the effect of risk factors and opportunities based on different climate scenarios.

Use of proceeds

The net proceeds from the green bonds will be used to finance or refinance, in whole or in part, new and existing projects to promote the transition towards a low-carbon and environmentally sustainable society, in accordance with the green project categories: eco-efficient and/or circular economy adapted products, production technologies and processes (expected to be allocated around 40 % of the proceeds, divided mainly between the subcategories 'Sourcing' and 'Production'); energy and resource efficiency; green buildings (expected to be allocated around 60 % of the proceeds); and renewable energy. The distribution between new financing and refinancing will be reported in Orkla's annual green bond investor report, with the majority of funds expected to be attributed to refinancing. The majority of investments will be in the Nordic and Baltic countries, and potentially in Central and Eastern Europe (e.g. Czech Republic).

Net proceeds will not be allocated to projects involving the production of fossil energy (including heating of buildings), nuclear energy generation, weapons and defense, potentially environmentally harmful resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco. According to the issuer, Orkla also excludes raw material suppliers if associated with deforestation.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Orkla has established a Green Bond Committee (GBC) to evaluate and select projects that are in line with its green bond framework. The GBC is responsible for the ongoing monitoring of the green portfolio and for the reporting on its environmental benefits. The green portfolio will be reviewed and updated on a yearly basis, and the GBC will meet on an annual basis (or when needed). The GBC consists of six members of the Group Management, Treasury and Sustainability functions in Orkla. Decision-making to allocate net proceeds will require a consensus decision by the GBC. Any future updates of the green bond framework must be approved by the GBC. A list of eligible assets is kept by Treasury who is also responsible for keeping this list up to date. The list of eligible assets is monitored on a regular basis during the term of the green bond to ensure that the proceeds are entirely being allocated to eligible projects. Orkla has appointed an external independent auditor to annually assure that the selection process for financing eligible projects and allocation of net proceeds are done in accordance with the green bond framework.

Management of proceeds

CICERO Green finds the management of proceeds of Orkla to be in accordance with the Green Bond Principles.



An amount equal to the net proceeds will be credited to a segregated green account, with the purpose of financing eligible projects as defined above. This account will be reviewed annually by the GBC to account for any re-allocation, repayments or expenditures. Orkla expects allocations to cover a portfolio of disbursements. Unallocated proceeds will be held in a separate bank account. The balance of unallocated funds will be disclosed in annual reporting. The company monitors and accounts for the allocation of the proceeds through internal information systems and databases. If a financed project no longer meets the eligibility criteria, it will be removed from the databases of projects financed with proceeds from Orkla's green bonds.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Orkla will provide reporting on the expected or actual environmental outputs and/or impacts of the Eligible Projects portfolio in line with Green Bond Principles. The impact reporting will be based on a list of Key Performance Indicators (KPIs) provided in the framework for each project category. For example, in the category "Eco-efficient and/or circular economy adapted products, production technologies and processes" they will report on the estimated reduction in GHG emissions as a result of the investment; volume of purchased certified raw material in tonnes/year (the fraction allocated to each certification will also be included); the fraction allocated to each sub-category; recycled packaging measured in tonnes/year; and the average amount of prolonged expiration measured in days per product.

The information may be provided on an aggregated portfolio basis because of confidentiality agreements, competitiveness consideration, or numerous projects limiting the amount of detail that can be made available. The impact reporting aims to disclose the environmental impact of the eligible projects financed under the framework. The green bond investor report will be published on an annual basis and made available on Orkla's webpage. The methodology for deriving the impact indicators will be outlined in the investor report, and impact reporting will be externally reviewed.

Allocation reporting will for example include a summary of green bond developments, information on outstanding amounts of green bond issues, the balance of green projects in the green register and the available headroom in the value of green assets, the proportion of green bond net proceeds used to finance or refinance green projects, and the total aggregated proportion of green bond net proceeds used per green project category.

The green bond framework, the second party opinion, and the investor letter will be publicly available on Orkla's website.



3 Assessment of Orkla's green bond framework and policies

The framework and procedures for Orkla's green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Orkla should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Orkla's green bond framework, we rate the framework **CICERO Medium Green**.

Eligible projects under the Orkla's green bond framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Eco-efficient and/or circular economy adapted products, production technologies and processes	<p>Investments under the category are eligible only when related to:</p> <ol style="list-style-type: none">1. environmentally certified raw materials,2. plant-based food,3. new products with 30% reduction in GHG emissions,4. certified products or5. packaging materials being recyclable or based on recycled or renewable materials <p>for R&D, capital expenditures or operational expenditures throughout the complete value chain as specified below.</p> <p>Meat-related projects are excluded in this category.</p>	<p>Medium Green</p> <p>R&D:</p> <ul style="list-style-type: none">✓ Developing new technologies, processes, concepts, packaging and raw materials that lower GHG emissions, such as plant-based food, have a climate benefit, as plant-based products normally have a lower CO₂-footprint than animal products.✓ R&D to reduce the amount of raw materials used, such as palm oil, can also be included in this category. Reducing the amount of palm oil in products helps reduce pressure on deforestation and biodiversity.✓ Funds could be used to develop or improve plastic packaging. Improvements of plastic packaging, e.g. increasing the recycled or renewable content, can lead to GHG reductions, although is still associated with the use of petroleum.



R&D - The development of new technologies, processes, concepts, packaging and raw materials

- Eligible projects in this subcategory include projects that involve environmentally certified raw material, new products with 30% reduction in GHG emissions and plant-based food.

Sourcing - Investments in material or purchasing of certified raw materials.

- Eligible assets in this subcategory include purchasing, storage and distribution of RSPO, FSC, Rainforest Alliance, UTZ, ProTerra, Fair Trade, Nordic Swan ecolabel or equivalent environmental certified raw materials. For operational expenditures used for purchasing of relevant raw materials only previous year's (on a rolling basis) purchase will be included.

Production - Investments in production facilities or replacements of facilities needed to produce, store and distribute new products with 30% reduction in GHG emissions and plant-based food.

- Eligible assets in this subcategory include production, distribution facilities and product lines for production of new products (e.g. personal or home care products) and plant-based food.

Packaging – Investments in tools or methods needed to prolong the expiration date of food, increase share of recyclable/recycled/renewable packaging as well as lowering levels of waste (both packaging and organic waste).

- Eligible assets in this subcategory include investments

Sourcing:

- ✓ Purchasing of raw materials that are certified as sustainable contribute to improved environmental and labor standards relating to the respective products.
- ✓ Orkla inform us that the following certification schemes will be used for the following raw materials or products:
 - RSPO: Palm oil (Credits, Mass Balance and Segregation modules)
 - FSC: Paper-based packaging
 - RA/UTZ: Cocoa and hazelnuts (Mass Balance module)
 - ProTerra: Soy
 - Fairtrade: Cocoa
 - Nordic Swan: Care products
- ✓ Orkla estimates that 90% of the sourcing subcategory will concern cocoa, palm oil and soy.
- ✓ Orkla inform us that the environmental certification schemes will be at a minimum FSA Silver level or equivalent.
- ✓ Orkla has informed us that feed for animals and other meat-based raw materials will be excluded from this category, which will have a climate benefit by reducing demand for red meat and related emissions.
- ✓ The company informs us that storage and distribution solutions associated with the use of fossil fuels will be excluded.
- ✓ The company take several steps to reduce the environmental risk from suppliers and ensure that raw materials do not contribute to deforestation (see “Environmental Strategies and Policies”). The majority of the company's soy is purchased from North America and Europe, which is unlikely to be associated with deforestation.
- ✓ A problem with certification schemes is that major traders, e.g. soy traders, currently only certify a small share of their production, while the rest may contribute to deforestation. Different certifications schemes also have different strengths and weaknesses. With large amounts of different raw materials from different providers and



<p>in 100% recyclable packaging or packaging materials based on more than 50% recycled or renewable materials as well as packaging facilities and equipment resulting in a minimum 30% reduction of the use of packaging materials.</p>	<p>composite products, risks to deforestation cannot be excluded.</p> <ul style="list-style-type: none"> ✓ Orkla inform us that they exclude from green financing suppliers if associated with deforestation.
<p>Circularity - Investments in circularity of food waste and waste with an aim to move large amounts of material up the waste hierarchy.</p> <ul style="list-style-type: none"> ➤ Eligible assets in this subcategory include recycling of packaging materials and waste. 	<p>Production:</p> <ul style="list-style-type: none"> ✓ Production facilities to reduce the GHG emissions from new products, and the development of plant-based food, have a clear climate benefit (provided raw materials used in such products, e.g. soy, do not lead to deforestation). ✓ The company informs us that production facilities and distribution methods (including transport), financed under the green bond framework, will not be powered by fossil fuels, further strengthening the climate benefit. ✓ Investments could still be associated with fossil fuels through products that include plastic (e.g. packaging). However, Orkla inform us that investments under the framework will only cover plastic packaging which is based on recycled and/or renewable as well as recyclable materials, which is associated with a reduction in GHG emissions. <p>Packaging:</p> <ul style="list-style-type: none"> ✓ Improvements in packaging to reduce food loss and waste can have a substantial climate benefit by reducing the demand for food associated with GHG emissions and land needed for food production. ✓ Investments in 100% recyclable packaging, reducing the amount of non-renewable content in packaging, and investments to reduce the use of packaging overall, limit the environmental footprint of packaging and reduce GHG emissions. ✓ Packaging can nonetheless be associated with the use of petroleum if the packaging is plastic. Plastic packaging is included in this category. However, Orkla inform us that investments under the framework will only cover plastic packaging which is based on recycled and/or renewable as well as



recyclable materials, which is associated with a reduction in GHG emissions.

- ✓ Orkla also informs us that they use LCA-methodology to assess all aspects of the product footprint. Plastic packaging will only be part of an investment if the new plastic material has an overall positive impact on the product footprint, for example if the plastic material increases the shelf life of the product or reduces waste.
- ✓ Orkla informs us that packaging for meat products are not included in this category, which reduces the incentives for continued production of red meat and associated GHG emissions.

Circularity:

- ✓ Circularity of products, e.g. recycling of packaging materials, reduces the amount of resources needed and the climate- and environmental footprint of products.
- ✓ Orkla inform us that fossil fuels will not be used to power processes under this category.
- ✓ The whole category excludes meat-related projects.

Energy and resource efficiency



Investments in resource efficiency such as reduction of raw materials, waste and water in production as well as investments in energy efficiency such as installation of energy efficient ventilation, heating and cooling systems, adjusting light controls and light fittings.

The Green Finance Committee will only include investments that target a minimum of 30% reduction in raw material usage, waste or water reduction, as applicable, or energy saving of 30%, and where a minimum negative climate impact is achieved and potential rebound effect is avoided.

Medium to Dark Green

- ✓ Energy efficiency measures are a good way to lower the climate footprint of products and ventilation/heating/lighting systems, unless it involves fossil fuel elements which then can be locked in. The issuer informs us that no fossil-based systems such as district heating will be involved, and no upgrading of fossil fuel technologies will be allowed.
- ✓ Investments in this category could include efficiencies in raw material, waste or water usage without any energy efficiency improvements.
- ✓ Be aware of potential rebound effects following energy efficiency improvements.



Green
buildings



Investments in buildings with a certification by BREEAM Excellent or higher;

and

Investments in renovations or improvements of existing buildings as well as replacements of existing buildings that lead to a reduction in primary energy use per square meter and year by at least 30 percent compared to pre-investment.

Investments will primarily cover office buildings, production buildings and warehouses in the Nordic and Baltic regions.

Medium Green

- ✓ Efficiency measures in existing buildings is a good way to lower the climate footprint of buildings, unless it involves fossil fuel elements which then can be locked in. The issuer informs us that no fossil-based systems will be involved, and no upgrading of fossil fuel technologies will be allowed.
- ✓ BREEAM Excellent or higher is a high standard for buildings. BREEAM also covers a broader set of issues, which is important to overall sustainable development.
- ✓ According to the IEA, efficiency of building envelopes needs to improve by 30% by 2025 to be aligned with the Paris target. The issuer is aligned with this goal.
- ✓ Be aware of potential rebound effects following energy efficiency improvements.
- ✓ Refurbishment of existing buildings are often better than new constructions from a climate point of view, but should ideally come with greater improvements in energy efficiency.

Renewable
energy



Investments in on-site solar power installations, stand-alone solar farms and related infrastructure.

Dark Green

- ✓ Solar power is key to a low-carbon transition.
- ✓ While solar power is generally low-carbon, local environmental impacts such as on biodiversity, habitat and landscape can be of concern for these projects. Orkla inform us that there will be environmental requirements to sub-contractors and life cycle impact assessments of solar modules.

Table 1. Eligible project categories

Background

Orkla's largest business areas in terms of revenue are within Food, Food Ingredients and Confectionary & Snacks. According to the Intergovernmental Panel on Climate Change (IPCC)'s Special Report on Climate Change and Land⁶, Agriculture, Forestry and Other Land Use (AFOLU) activities accounted for around 13% of CO₂, 44% of methane, and 81% of nitrous oxide emissions from human activities globally during 2007-2016, representing 23% of total net anthropogenic emissions of GHGs. If emissions associated with pre- and post-production activities in the global food system are included, the emissions are estimated to be 21–37% of total net anthropogenic GHG emissions. Between 25-30% of total food produced is lost or wasted, which is also associated with greenhouse gas

⁶ <https://www.ipcc.ch/srccl/>



emissions. Moreover, data available since 1961 show that global population growth and changes in per capita consumption of food, feed, fiber, timber and energy have caused unprecedented rates of land and freshwater use, with agriculture currently accounting for ca. 70% of global fresh-water use. The expansion of areas under agriculture have also contributed to a loss of natural ecosystems and declining biodiversity. Climate change has already affected food security due to warming, changing precipitation patterns, and greater frequency of some extreme events. Adaptation and mitigation response options include sustainable land management, reducing food loss and waste, dietary change (particularly reducing the consumption of red meat), increasing soil organic matter, improved fertilizer management and improved crop management.

In Norway (where Orkla is headquartered and where around a third of its revenues come from), agriculture constitutes 8.6% of the country's emissions, with a slightly falling trend since the 1990s. Close to 80% of Norwegian farms produce meadows for grass; around 30 and 35% producing cattle and sheep respectively, and just over 25% produce grains. Agriculture has been exempted from CO₂-pricing and most other climate regulation. However, under the current agreement with the EU, Norway will be required to reduce emissions not covered by the EU ETS by 40% from 2005 levels. This is expected to increase further given the EU's and Norway's updated Nationally Determined Contributions (NDCs) under the Paris Agreement (to net 55 % and between 50-55% respectively). As the second largest emission sector outside of the EU ETS, the Norwegian agricultural sector will be under increasing pressure to reduce emissions over the next decade. A non-binding agreement between the government and main agricultural producer organizations was signed in June 2019, committing all parties to work towards lowering emissions during the 2021-2030 period. The government has established an aspirational goal of achieving cumulative emission reductions of 5 Mt CO₂e in the agricultural sector over the same period. The sector is highly regulated and thus very sensitive to changes in domestic support structures. Climate policy targets may trigger structural changes in production support.⁷

The EU Taxonomy includes three subsectors within agriculture: A1.2 Growing of perennial crops, A1.1 Growing of non-perennial crops and A1.4 Livestock production.

Governance Assessment

Four aspects are studied when assessing the Orkla's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Orkla has an encompassing sustainability strategy, with targets for greenhouse gas reduction validated by the Science Based Targets initiative. Orkla's climate accounts are prepared in accordance with the GHG Protocol and verified by the audit and consulting company EY. Orkla was awarded the score 'A' from the CDP on climate change in 2020. The company reports annually on its corporate responsibility and sustainability work based on GRI standards (GRI 103) and is included in the FTSE4Good Index. In 2020, Orkla's sustainability report received recognition from both The Governance Group and from PwC's Climate Index.

Orkla aims to achieve verified sustainable production of a wide range of key raw materials (cocoa, hazelnut, cashew, sugar cane, palm oil, coconut, soy, black pepper, rice, animal products and vanilla) by 2025. Orkla has a Supplier Code of Conduct and a zero deforestation policy. New suppliers undergo a pre-screening, examining financial, ethical and compliance risks. Existing suppliers go through a desktop assessment based on external

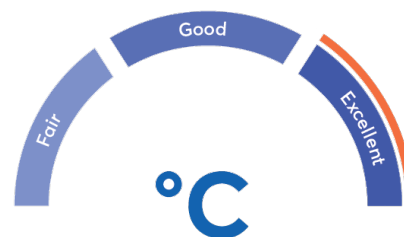
⁷ See CICERO Shades of Green's [Sector Brief for Agriculture](#)



indices, as well as Sedex or SMETA 4-pillar audits if necessary. The company has been assessing emissions from raw materials since 2008 and are working on improving data availability.

Orkla has established a Green Bond Committee, consisting of members from the management, treasury and sustainability functions, to evaluate and select projects that are in line with its green bond framework. Decision-making requires a consensus decision. Orkla has appointed an external auditor to annually assure that the selection process for financing eligible projects and allocation of net proceeds are done in accordance with the green bond framework.

Orkla will report annually on the environmental impact of eligible projects, and impact reporting will be externally reviewed. However, the list of Key Performance Indicators is relatively brief considering the coverage of the framework. Overall, the assessment of Orkla's governance structure and processes gives it a rating of **Excellent**.



Strengths

Orkla shows a genuine interest in and has high ambitions towards being a sustainable company. We welcome the company's excellent governance and enthusiasm in this work.

A substantial share of Green Bond proceeds will finance the development of new products, either plant-based products or non-meat products (e.g. personal or home care products) with a reduced GHG emissions. The development of such products constitute important steps towards sustainability. Orkla's specific targets for the GHG-reduction and efficiency improvements in its products and operations (including energy, water and waste) of 30 % are specific and relatively ambitious. Their goal of 100% recyclable packaging or packaging materials based on more than 50% recycled or renewable materials is a significant step towards circularity.

A significant share of the Green Bond proceeds will also finance the purchasing of certified raw materials at a minimum of FSA Silver level or equivalent. Through certification, Orkla will ensure its supply chain adhere to high environmental standards despite being situated in different regulatory contexts. It is a strength that Orkla sources most of their soy from North America and Europe, which are not associated with deforestation (although certification levels are relatively low in 2020). However, some of Orkla's suppliers of raw materials are associated with significant deforestation risk. The framework highlights in particular that Orkla will exclude purchases from such suppliers from financing under their Green Bond Framework. We encourage Orkla actively to focus their supply chain dialogue on such companies to demand a change in behavior. The exclusion of animal feed and meat-based raw materials further strengthens the environmental benefit of this sub-category.

Orkla's target of 30 % energy efficiency improvements in building projects is in line with the Paris Agreement targets. Investments in buildings with a certification by BREEAM Excellent or higher is commendable.

It is a clear strength that Orkla's framework includes investments in on-site solar power installations and stand-alone solar farms. Production of electricity from solar PV is considered to contribute substantially to climate mitigation and represents a key step to a low-carbon transition.



Weaknesses

We find no material weaknesses in Orkla's Green Bond Framework.

Pitfalls

A key potential pitfall of Orkla's Green Bond Framework is its broad scope and consequent vagueness in certain categories. The category "Eco-efficient and/or circular economy adapted products, production technologies and processes" covers a wide range of sub-categories (R&D, sourcing, production, packaging, circularity) at different levels of specificity. Moreover, in relation to the scope of the Green Bond Framework, we find the list of Key Performance Indicators quite short. The scope and generality of the framework therefore increase the risk of a lack of transparency in how some proceeds may be used in certain categories. As an example, Orkla could for example report the volume of and from which countries key raw materials (such as soy, palm oil and cocoa) are sourced from, as well as key suppliers.

Orkla's food production makes them one of the biggest purchasers of agricultural and fish raw materials in the Nordic region. Production of many food raw materials is associated with high greenhouse gas emissions, high water consumption, risk of biodiversity loss and social challenges arising from climate change. A problem with certification schemes is that major traders, e.g. soy traders, currently only certify a small share of their production, while the rest may contribute to deforestation. Different certifications schemes have different strengths and weaknesses. Although Orkla will benchmark certifications against the FSA at a minimum Silver level, with large amounts of different raw materials from different providers and composite products, risks to deforestation cannot be excluded.

Given the the multifaceted nature of Orkla's operations and the complexity of its supply chains – coupled with the broadness and generality of Orkla's Green Bond Framework – we encourage the company to be as transparent as possible in its reporting, particularly on the topic of sustainable sourcing. We commend Orkla's detailed Sustainability Report for 2020 in this respect.

Some of Orkla's packaging will be made of plastic. Although Orkla inform us that plastic packaging will be based on recycled, renewable or recyclable material, which reduces GHG emissions and can increase the shelf life of food, plastic nonetheless includes petroleum and thus constitutes a lock-in of unsustainable materials. The use of recycled plastic can also help drive demand for plastic overall. Alternatives such as bioplastics could instead be considered, and Orkla does indeed use bioplastics for certain products, e.g. within their Confectionary & Snacks category.

The CICERO Dark Green shading is difficult to achieve in the building sector. As buildings have a long lifetime, CICERO Dark Green shading in the building sector should conform to strict measures and is reserved for the highest building standards such as Zero-Energy buildings and passive houses. National building regulations are often not sufficient to achieve such standards. Although standards of BREEAM Excellent or higher and energy efficiency improvements of 30 % have the potential for high impact in reducing the carbon intensity of the buildings, there is a risk of relying only on such standards. Orkla does not have a specific target for new buildings to be significantly better than national regulations, and as such we encourage Orkla to keep in mind the level of ambition needed in this sector long-term. Furthermore, the construction of new buildings may, e.g. based on locational factors or sourcing of materials, have a greater environmental impact than renovations (or vice versa). We therefore also encourage Orkla to consider the environmental impacts of new buildings in their decision-making process.

While solar power, and renewable energy in general, is typically low-carbon and considered to have a very positive climate mitigation impact, there can nonetheless be emissions associated with their life cycle, e.g. during the



construction and demolition process. Local environmental impacts, such as on biodiversity, habitats and landscape, can also arise from renewable energy projects, and renewable energy projects can sometimes be socially controversial for these reasons. Orkla inform us that there will be environmental requirements to sub-contractors and that life cycle impact assessments of solar projects will be conducted. We commend this approach, as it can point to suppliers and lead to a reduction in emissions or environmental harm. However, we encourage Orkla to take a systematic approach to screening for- and excluding potentially controversial projects (including socially controversial projects) and suppliers with high emissions.

Extreme weather will continue to affect the production of certain raw materials and disrupt supply chains in the years ahead, increasing prices of energy, water and raw materials. We encourage Orkla to continue its work with identifying and reporting climate risk in line with the TCFD recommendations, and to carry out an in-depth analysis to quantify the effect of risk factors and opportunities based on different climate scenarios.

Orkla should be wary of any rebound effects from improvements in efficiency.



Appendix 1:

Referenced Documents List

Document Number	Document Name	Description
1	Green Bond Framework	
2	Annual Report 2019	Includes Sustainability Report
3	Sustainability Report 2020	
4	TCFD Report 2020	
5	Supplier Code of Conduct	
6	“Orkla wants to be one of the foremost players in alternative proteins in Europe”	Press release April 30, 2021



Appendix 2: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).

