

SONAE CAPITAL

ENERGY

SIAF GREEN BOND | IMPACT REPORT

2021

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INTRODUCTION

Sociedade de Iniciativa e Aproveitamento Florestais – Energia, S.A. (“SI AF”) is a Portuguese company, 80% owned by SDCL Energy Efficiency Income Trust plc (SEEIT) and 20% owned by Capwatt, SA (Capwatt), the subholding dedicated to Energy business of Sonae Capital, SGPS, SA (“Sonae Capital”), a Portuguese company.

Capwatt, Sonae Capital’s Energy business, holds and operates decentralized energy production projects through cogeneration and renewable sources (solar, wind, biomass and biogas), taking responsibility for all activities inherent to its implementation, starting with design, licensing and construction, up to operation and maintenance throughout the useful life of the assets. In addition, the portfolio of Capwatt also includes two differentiating projects based on the use of biofuels. Capwatt complements its integrated offer through its activities of energy commercialization and energy efficiency services, also assuming the role of energy manager of its customers, using a digital multiplatform where it continuously monitors the consumption and decentralized production of customers, thus allowing for automatic, fast and assertive decision-making in order to improve efficiency.

The main objective of Capwatt is to provide a global energy solution to its partners, supplying all their energy needs, always raising their awareness for a rational energy consumption and providing energy management services that aim to improve their energy efficiency. Another environmental aspect that remains properly controlled is the management and treatment of the waste generated by Capwatt’s activity, with the objective of reducing its production assuring its appropriate final destination.

In terms of environmental sustainability, Capwatt contributes to the reduction of the ecological footprint of its customers by implementing measures to improve energy efficiency, integrating decentralized renewable energy production, implementing mechanisms for reduction of greenhouse gas emissions and boosting renewable electricity consumption.

GREEN BOND FRAMEWORK



In October 2021, Sonae Capital, through its subsidiary **SI AF** (at that time 100% held by Capwatt, SA), formalized its first bond issuance associated with sustainable project (Green Bonds) for 40.8 million euros. The issuance was organised by BPI and Banco Empresas Montepio, with private subscription of 50% each, and with a maturity of 12 years. (CVM Code: IAFAOM; ISIN Code: PTIAFAOM0003; CFI Code: DBVSBR).

The net proceeds from the **Green Bonds** issuance were exclusively used to finance the biomass power plant project located in Mangualde, Portugal and described below.

At 14th April 2022, SIAF repaid in advance 19 million euros of this loan, with the consent of the Banks. In addition, at 19th April 2022, SIAF repaid 1.4 million euros as scheduled in the financing agreement. Therefore, the current amount of the loan is 20.4 million euros.

As part of the drive, by different power sector participants, to push forward the decarbonization of the economy, SIAF believes that the issuance of Green Bonds was an important tool to encourage the transition to a low-carbon economy, giving financial backing to existing projects or new ones aimed at bringing about this transition.

The Eligible Green Project is deemed to provide environmental benefits (avoidance or reduction of greenhouse gas emissions) in alignment with Capwatt’s strategy and sustainability goals as previously outlined.

SIAF’s Green Bond Framework is based on and aligned with the latest version of the Green Bond Principles (GBP) published by the International Capital Market Association (ICMA).

Accordingly, this **Green Bond Framework** is based on the following 4 pillars:

1. Use of proceeds	2. Project evaluation / selection	3. Management of proceeds	4. Reporting
<p>The proceeds of the Green Bonds will go exclusively to financing the construction of the biomass power plant project, which will provide clear environmental benefits. The eligible Green Project categories are the following:</p> <ul style="list-style-type: none"> ▪ Renewable energy production; ▪ Pollution prevention and control. 	<p>The list of selected eligible projects is set up by Sonae Capital’s Corporate Centre, which integrates core functions such as Sustainability, Finance and Risk Management. The list of projects is then submitted to the Board of Directions for approval (following a proposal of the Executive Committee).</p>	<p>The net proceeds of the Green Bonds issued will be managed on a single project basis, according to the rules set in the Project Finance Facility Agreement. The Finance Department will guarantee the allocation of net proceeds by following an internal management system that aims to define the destination of cash flows, set reserved accounts for not invested funds and adjust periodically the net proceeds. Proceeds not immediately disbursed will be held and not invested in non green projects, GHG intensive activities, nor controversial activities: proceeds not disbursed shall be invested according to SIAF’s liquidity and/or liability management activities,</p>	<p>In accordance with the Green Bond Principles, SIAF will provide an annual update on the activities related to its Green Bond issuance. In such updates, SIAF will seek to provide information on the allocation of the use of proceeds as well as relevant impact metrics.</p>

Positive impacts		
<ul style="list-style-type: none"> ▪ Energy efficiency; ▪ National energy bill decrease; ▪ Decrease of the carbon intensity of the national power grid; ▪ Job creation and economic growth; ▪ Reduction of forest fire risk; ▪ Enhance circular economy. 		<p>following the market best practices.</p>



SIAF has appointed Sustainalytics to provide a Second Part Opinion (“SPO”) on its Green Bond Framework (“GBF”). The Second Party Opinion and the Green Bond Framework is available to the Green Bond investors on Sonae Capital’s website at:

https://www.sonaecapital.pt/fileManager/financiamento/ficheiro_pt_2.pdf



SIAF develops relevant KPIs as the market and standards develop. Such KPIs may change over time subject to providing a relevant understanding of the impact. The group-level sustainability KPIs are published annually in Sonae Capital ESG Report, demonstrating the company’s commitment to Sustainability, namely on climate action.

This information is made publicly available via Sonae Capital’s website:

<https://www.sonaecapital.pt/en/sonae-capital/sustainability>

BRIEF DESCRIPTION OF BIOMASS POWER PLANT PROJECT

SIAF biomass power plant was the first large-scale biomass energy project developed by Capwatt, with beginning in 2017. It is located in Mangualde, Portugal, in Sonae Arauco's site. This project, which represented an investment of approximately 53.4 million euros, started its operation in September 2020.

SIAF produces thermal energy from by-products resulting from Sonae Arauco's industrial process and forest biomass waste, in the form of steam and thermal fluid, which is delivered at Sonae Arauco's industrial unit process and, at the same time, generates electricity, which is injected into the Portuguese Electricity System network.

The plant consists of a boiler with a dynamic air-cooled stepgrate, a solution designed especially for forest biomass.

It should be also bared in mind that this biomass based electricity generation project is part of the strategy defined for the Portuguese National Energy Policy, through the construction of a power plant operating from the energy recovered from forest biomass waste, with a thermal power of 91 MWt and a net electrical power of 10MW, selling around 83 GWh of electricity a year to the Public Electricity System ("PES") network. Importantly, it consumes around 300 thousand tons of biomass annually, enough to satisfy 100% of the thermal energy needs of the plant and generate an additional 83 GWh/year of decentralized renewable energy.

Thus, the biomass plant contributes to the pursuit of a structural energy policy of reducing the external energy dependence and greenhouse effect resulting from the use of fossil fuels. Additionally, it makes an important contribution to the optimization of forest management in the region and consequently to the minimization of the risk of forest fires, as well as, with the use of by-products of the industrial process, promoting the circular economy with all the associated environmental benefits, while contributing to job creation and economic growth. With the integration of renewable energy and sustainable production (from Sonae Arauco), SIAF is a clear example of how circular bioeconomy can boost climate change mitigation by increasing carbon storage, reducing landfilling and facilitating fossil energy replacement

Finally, because the production of the biomass plant is not dependent on the availability and intermittency of the primary source of renewable energy – unlike wind and solar -, thus operating 24/7, this project provides a rare, but much-needed, renewable baseload production to the national grid and, therefore, a valuable contribution to the security of the electricity supply.

ALLOCATION REPORT

The net proceeds from **Green Bonds** issuance were exclusively used to finance the biomass power plant project located in Mangualde, Portugal and described below.

Eligible Green Project	Available amount (€) (October 2021)	Project description	Allocated amount (€) (October 2021)	Weight on asset value	Green Bond proceeds allocation
<ul style="list-style-type: none"> Renewable energy production; Pollution prevention and control. 	40.800.000	Mangualde biomass plant	40.800.000	75%	100%
Total	40.800.000		40.800.000		

IMPACT REPORTING - KEY PERFORMANCE INDICATORS (KPIs) FOR 2021

2021 SIAF biomass power plant figures are the following:

	RENEWABLE AND CLEAN ENERGY		Electrical	Thermal
	Installed renewable energy capacity (MW)		12.6	68.0
	Annual renewable energy generation (MWh)		69.673	324,782
	Annual GHG emission avoided or reduced (tCO2e)		9,372 ¹	

	INTEGRATED POLLUTION PREVENTION AND CONTROL	
	Reduction of biomass waste in the forest	266,508 ton
	Annual GHG emission avoided or reduced (tCO2e)	9,372 ¹

This information is made publicly available via Sonae Capital's website:

<https://www.sonaecapital.pt/pt/investidores/financiamento-sustentavel>

CONTACTS

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¹ Based on 2021 factor provided in the following link: <https://www.apren.pt/en/renewable-energies/others/>



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