Second-Party Opinion

EDA's Framework for Green Financing

Evaluation Summary

Sustainalytics is of the opinion that the EDA's Framework for Green Financing is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2023. This assessment is based on the following:

USE OF PROCEEDS The eligible categories for the use of proceeds - Renewable Capacity, Modernization of Networks and Energy Efficiency in the Community - are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impact in the Azores and advance the UN Sustainable Development Goals, specifically SDGs 7 and 9.

PROJECT EVALUATION AND SELECTION EDA's internal process for evaluating and selecting projects is managed by a cross-functional management team. EDA has an environmental and social risk management process in place which applies to all allocation decisions under the Framework. Sustainalytics considers the project selection process in line with market practice.

MANAGEMENT OF PROCEEDS EDA's treasury department will be responsible for management of proceeds. The net proceeds will be managed on a portfolio basis and tracked using an internal management system. EDA intends to allocate net proceeds to eligible assets with 36 months of issuance. EDA may temporarily invest the unallocated proceeds in its treasury liquidity portfolio in cash or cash equivalents. This is in line with market practice.

REPORTING EDA commits to report on allocation of proceeds on an annual basis until full allocation on the Company website. Allocation reporting will include the total amount of proceeds allocated to each eligible category, the balance of unallocated proceeds, description of the eligible projects and breakdown of the outstanding green bond proceeds. EDA is committed to reporting on relevant impact metrics. Sustainalytics views EDA's allocation and impact reporting as aligned with market practice.

Second-Party Opinion
Reviewed by: MORNINGSTAR | SUSTAINALYTICS

Evaluation date	April 17, 2023
Issuer Location	Ponta Delgada, Portugal

Report Sections

For inquiries, contact the Sustainable Finance Solutions project team:

Mahesh Krishnamoorthy (Mumbai)
Project Manager
mahesh.krishnamoorthy@sustainalytics.com

Manali Vaidya (Mumbai)
Project Support

Stefan Spataru (Amsterdam)
Project Support

Ashok Yashwant (Mumbai)
Project Support

Andrew Johnson (Paris)
Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

Introduction

Electricidade dos Açores, S.A. ("EDA" or the "Company") is a regional utility group based in Ponta Delgada, Azores, Portugal with a business focus on the production, acquisition, transmission, distribution and sale of electricity. EDA is majority owned by the Autonomous Region of the Azores ("Azores" or "RAA") and is the only supplier of electricity with a concession for the transmission and distribution of electric energy in the Autonomous Region of the Azores until 2050. EDA provides electricity to approximately 125,000 clients and had 774 employees in 2021.

EDA has developed the EDA's Framework for Green Financing dated April 2023 (the "Framework") under which it intends to issue green financial instruments, such as bonds, loans (bilateral as well as foreign market loans), revolving credit facilities, notes and commercial papers, and use the proceeds to finance or refinance, in whole or in part, existing or future projects intended to improve energy efficiency and reduce GHG emissions in the Azores. The Framework defines eligibility criteria in three areas:

1. Renewable Capacity
2. Modernization of Networks
3. Energy Efficiency in the Community

EDA engaged Sustainalytics to review the Framework and provide a second-party opinion on the Framework's environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)[1] and the Green Loan Principles 2023 (GLP).[2] The Framework will be published in a separate document.[3]

Scope of work and limitations of Sustainalytics' Second-Party Opinion

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[4] opinion on the alignment of the Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Green Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2023, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer's sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.13.1, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of EDA's management team to understand the sustainability impact of its business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. EDA representatives have confirmed that: i) they understand it is the sole responsibility of EDA to ensure that the information provided is complete, accurate and up to date; ii) they have provided Sustainalytics with all relevant information; and iii) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and EDA.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market

[1] The Green Bond Principles are administered by the International Capital Market Association and are available at https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/.
[2] The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at https://www.lsta.org/content/green-loan-principles/
[3] EDA's Framework for Green Financing is available on EDA's website at: http://www.eda.pt/sustentabilidade
[4] When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon 24 (twenty-four) months following the evaluation date, EDA is encouraged to update the Framework, if necessary, and seek an update to this Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that EDA has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the EDA's Framework for Green Financing

Sustainalytics is of the opinion that EDA's Framework for Green Financing is credible and impactful, and aligns with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of EDA's Framework for Green Financing:

- The eligible categories – Renewable Capacity, Modernization of Networks and Energy Efficiency in the Community – are aligned with those recognized by the GBP and GLP.
- The projects financed will be located in the Autonomous Region of the Azores.
- EDA has established a look-back period of three years for its refinancing activities. Sustainalytics considers this to be in line with market practice.
- Under the Renewable Capacity category, EDA intends to finance or refinance: i) development, construction, installation and maintenance of renewable energy projects; and ii) systems and facilities for renewable energy generation. The intended expenditures under this category may include:
    - Hydropower projects with power density greater than 10 W/m^2 or GHG emissions intensity below 50 gCO_2e/kWh would be considered eligible under the Framework. EDA has confirmed that it will ensure that an environmental and social impact assessment by a credible body will be carried out for each project, to identify and address any significant risk, expected negative impact and controversies related to the hydropower projects financed under the Framework.
    - Investment in onshore photovoltaic (PV) solar and onshore and offshore wind energy projects whose facilities have a GHG emissions intensity lower than 100 gCO_2e/kWh.
    - Ocean energy projects such as energy generation from tides and waves. EDA has confirmed to Sustainalytics that fossil fuel back-up will be limited to power monitoring, operating and maintenance equipment, as well as resilience or protection measures and restart capabilities. Sustainalytics considers this activity to be in line with market practice.
    - Low-carbon hydrogen projects with direct CO_2 emissions from manufacturing of hydrogen of 5.8 tCO_2e/tH_2. For hydrogen produced by electrolysis, the electricity use will be limited at or lower than 58 MWh/tH_2. EDA has confirmed to Sustainalytics that production of hydrogen using electrolysis will be made using renewable energy sources, such as wind, solar, geothermal (with a maximum emissions threshold of 270 gCO_2e/kWh) and hydropower. Sustainalytics notes that hydrogen production from geothermal projects may exceed thresholds set by widely accepted science-based thresholds and therefore, encourages EDA to favour the sourcing of low carbon intensity power for electrolysis and to report, where feasible, on such intensity. For more information, please see geothermal projects in Section 1. Overall, Sustainalytics considers this expenditure in line with market practice.

- Biofuel power projects using: i) advanced biofuels such as second-generation biofuels including residual biofuels, originating from fast growing non-food crops, from forest exploitation residues and related industries and from the biodegradable fraction of industrial and urban waste; and ii) hydrotreated vegetable oil (HVO) or fatty acids methyl esters (FAME). Sustainalytics notes that EDA intends to finance bioenergy facilities with GHG emissions at least 80% lower than the Company's existing fossil fuel baseline.[5] Sustainalytics notes that 80% reduction from EDA's fossil fuel baseline is 125 gCO_2e/kWh. Additionally, EDA has informed Sustainalytics that it will source biofuels that are certified by the National Laboratory of Engineering and Geology (LNEG), a Portuguese government entity responsible for ensuring compliance of production and imports of biofuels or bioliquids with the sustainability criteria established in national and EU Renewable Energy Directive.[6, 7] EDA has confirmed to Sustainalytics that biofuel projects using advanced biofuels will exclude algae. Regarding the usage of vegetable oil or FAME, EDA has communicated to Sustainalytics that these will not be derived from palm, soy or animal waste and will be sustainably sourced. Sustainalytics encourages EDA to report, where feasible, on the carbon intensity of these projects.
- Geothermal projects with emissions intensity lower than 270 gCO_2e/kWh. EDA intends to finance new geothermal projects and refinance three existing geothermal projects located in active volcanic areas on the Azorean islands. The Framework defines an emissions threshold of 270 gCO_2e/kWh for geothermal projects, which was informed by the average emissions data collected from EDA's three existing geothermal projects. The high emissions intensity of these facilities is driven by the release of relatively high levels of non-condensable gases (NCG), caused by local geological conditions. EDA has further informed Sustainalytics that one way to lower emissions from its existing geothermal projects is through reinjecting the NCGs along with the geothermal fluid downstream of the power plant.[8] EDA has communicated to Sustainalytics that it plans to retrofit one of its existing geothermal plants for reinjection of NCGs to try to test the economic and technical feasibility of this process for lowering emissions from its geothermal projects. Subject to economic and technical viability and the result of the test case of reinjection of NCGs, EDA plans to implement this process in other geothermal projects to achieve an emission threshold of 100 gCO_2/kWh for its three existing geothermal projects, after 2027.
  The threshold of 270 gCO_2e/kWh deviates substantially from widely accepted science-based thresholds for power generation.[9,10] However, Sustainalytics acknowledges that Azores islands are active volcanic areas where the volcanic gases are magmatic in origin and abundant in CO_2. Moreover, Sustainalytics acknowledges that EDA's investments, coupled with its intention to invest at a later date in NCG reinjection technologies, can be expected to contribute to the transition of EDA's assets towards lower-carbon power generation. Sustainalytics encourages EDA to report on the emissions intensity of its financed projects and on its progress in deploying NCG reinjection technologies.
- Systems and facilities supporting renewable energy generation with life cycle emissions intensity below 100 gCO_2e/kWh, such as battery energy storage systems, hydro-pumping stations and synchronous condensers. EDA has communicated to Sustainalytics that hydro-pumping stations financed under the Framework would require an environmental and social impact assessment. These assessments will be

[5] EDA has communicated to Sustainalytics that the Company's thermal diesel power plants had an emission factor of 625.0 gCO_2 /kWh in 2022 which will be considered as a fossil-fuel baseline.
[6] National Laboratory of Energy and Geology (LNEG), at: https://www.lneg.pt/en/homepage/
[7] European Commission, "Biofuels", at: https://energy.ec.europa.eu/topics/renewable-energy/bioenergy/biofuels_en#sustainability-criteria
[8] Sustainalytics understands that there are some geothermal projects in Europe located in active volcanic areas whose carbon emissions have successfully been lowered below the threshold of 100 CO_2e/kWh by reinjecting NCGs.
[9] Geothermal power generation facilities have weighted average direct emissions of 122 gCO_2e/kWh, with approximately two-thirds of global geothermal capacity having direct emissions below 100 gCO_2e/kWh.
Climate bonds Initiative, "Geothermal Energy and the Climate Bond Standard Background & Sector Specific Eligibility Criteria", at:
https://www.climatebonds.net/files/files/standards/Geothermal/Geothermal%20Energy%20Background%20paper%20and%20Criteria.pdf
[10] Sustainalytics considers 100 gCO_2e/kWh to be a credible science-based threshold, also used by the EU Taxonomy and the Climate Bonds Taxonomy.

carried out by independent entities and approved by the environmental authority. Sustainalytics considers this expenditure to be aligned with market practice.

- Under the Modernization of Networks category, EDA intends to finance or refinance the establishment, acquisition, expansion and upgrade of transmission lines or the associated infrastructure which may include:
  - Transmission of renewable energy sourced electricity from its production site to the electricity grid.
  - System grids for the transmission of electricity from renewable sources (except geothermal energy), where the emissions factor for the grid is lower than 100 gCO_2e/kWh.
  - System grids for the transmission of electricity from geothermal energy sources. EDA has confirmed that the emissions factor for the grid will be lower than the average power generation emission for the combined power generation in the Azores Archipelago over the most recent five years[11]. Sustainalytics notes that the emission factor for system grids used for transmission of geothermal energy may be higher than 100 gCO_2e/kWh. Furthermore, Sustainalytics acknowledges EDA's intended future investments in NCG reinjection technologies which can be expected to reduce the emission factor for the system grid for transmission of geothermal energy. Please refer geothermal projects under Renewable Capacity category in Section 1 for more details.
  - Smart grid technologies, such as automated control and optimization systems, energy management systems (EMS), supervisory control and data acquisition systems (SCADA), demand-side management systems (DMS) to optimize energy generation, storage, distribution and use. EDA expects these technologies to measure and reduce energy losses and to ensure an undisrupted supply of energy.
  - Storage facilities and metering systems connected to the grid, which help manage intermittency of energy production. Sustainalytics notes that the metering systems might be connected to a grid that supports both renewable and non-renewable energy. Furthermore, EDA has communicated to Sustainalytics that the storage facilities will be connected to the grid that would support and integrate at least 90% renewable electricity.

    Sustainalytics considers expenditures under this category to be aligned with market expectation.
- Under the Energy Efficiency in the Community category, EDA intends to finance or refinance the following:
  - Development, operation and maintenance of electric charging stations and associated infrastructure such as installing solar panels in parking facilities. EDA has confirmed that such expenditures will exclude financing the development and construction of parking facilities. Sustainalytics considers these expenditures to be in line with market practice.
  - Projects aimed at improving energy efficiency in buildings, including: i) generation of solar or wind energy for own use; ii) adoption of electric heat pumps; and iii) smart electric water heaters that lead to at least a 20% improvement in energy efficiency. Sustainalytics notes that heat pumps offer an energy-efficient heat transfer alternative to conventional systems. Nevertheless, Sustainalytics recommends EDA to exclude financing of heat pumps with high-GWP refrigerants, and to promote robust refrigerant leak control, detection and monitoring, while ensuring recovery, reclamation, recycling or destruction of refrigerants at end of life.
  - Installation of sensors for household water-heating equipment. Development and maintenance of hydrogen stations and associated infrastructure. Sustainalytics notes that such infrastructure may support hydrogen produced with carbon intensity levels that are above credible international thresholds and therefore encourages EDA to report on the positive impact achieved from such expenditures.

- Project Evaluation and Selection:

[11] EDA has communicated to Sustainalytics that the average power generation emission for the combined power generation in the Azores over the most recent five years was 212 gCO_2e/kWh.

  - The Company will set up a cross-functional management team (FGF management team), which will be responsible for the project evaluation and selection process under the Framework. The FGF management team will meet at least annually to evaluate all eligible projects. Projects selected by the FGF management team will be taken to the Company's Executive Committee for final approval.
  - During the project evaluation stage, EDA assesses if the potential projects comply with the Company's ESG risk assessment criteria. EDA has established internal policies and processes to mitigate the environmental and social risks associated with the projects financed. For additional details, please refer to Section 2.
  - Based on the cross-functional oversight for project evaluation and the presence of adequate risk management systems, Sustainalytics considers this process to be aligned with market practice.
- Management of Proceeds:
  - EDA's treasury department will be responsible for management of proceeds. The net proceeds will be managed on a portfolio basis and tracked using an internal management system.
  - EDA intends to allocate net proceeds to eligible assets within 36 months of issuance. Pending full allocation, EDA may temporarily invest the unallocated proceeds in its treasury liquidity portfolio in cash or cash equivalents. Sustainalytics considers this process to be aligned with market practice.
- Reporting:
  - EDA commits to report on allocation and impact on an annual basis until full allocation on the Company website.
  - Allocation reporting will include the total amount of proceeds allocated to each eligible category, the balance of unallocated proceeds, description of the eligible projects and breakdown of the outstanding green bond proceeds.
  - Impact reporting will include relevant impact metrics such as estimated annual CO_2 emissions avoided (tCO_2/year), renewable capacity connected to the grid and annual outputs (MWh/year).
  - Sustainalytics notes that EDA intends to appoint an external reviewer to verify the internal tracking method and the allocation of proceeds on an annual basis until full allocation.
  - Sustainalytics notes that EDA intends to consider revolving credit facilities under the Framework and has committed to report on the allocation for the revolving credit facilities until the loan maturity.
  - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2021 and Green Loan Principles 2023

Sustainalytics has determined that the EDA's Framework for Green Financing aligns with the four core components of the GBP and GLP. For detailed information, please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Strategy of EDA

Contribution to EDA's sustainability strategy

Sustainalytics is of the opinion that EDA demonstrates a commitment to sustainability by implementing a sustainability strategy that focuses on the following environmental aspects: i) sustainable use of environmental resources; ii) climate change mitigation; and iii) limiting atmospheric emissions of primary and secondary pollutants.[12]

As of 2023, EDA supplies the Autonomous Region of the Azores (RAA) with electricity generated by nine thermal plants, three geothermal plants, seven wind farms, 12 hydroelectric plants and two solar PV power plants, all of which EDA also operates. To ensure sustainable use of environmental resources, EDA focuses on improving the energy performance of its power plants. By 2027, the Company plans to develop five PV power plants, one wind farm, two hydroelectric plants and considers expanding the capacity of 13 of its existing renewable energy generation facilities. In 2021, the energy consumption of EDA's power plants added up to 39,563 MWh, representing an 8.5% reduction from the previous year. EDA also monitors the amount of water its hydroelectric, geothermal and thermoelectric power plants use, having reduced this amount by 17.2% in 2021 compared to 2020. EDA also considers limiting GHG emissions by increasing the energy efficiency of

[12] EDA, "Relatório e Contas 2021", at: https://www.eda.pt/Mediateca/Publicacoes/Paginas/Relatorios.aspx

its facilities through heat recovery to produce electricity and by implementing fuel emulsion technologies, using biofuels and eFuels.[13] In addition, EDA carries out environmental impact assessments on its projects to lower their impact on the environment.[14]

EDA maintains a carbon inventory for setting CO_2 emissions reduction targets for its various activities. Up until 2021, approximately 34% of the electricity produced by EDA came from renewables, especially geothermal energy, reportedly avoiding 159,798 tonnes of CO_2 emissions. EDA also aims to increase the share of renewable energy in its energy mix to 57% by 2027.[15]

EDA is part of the Life IP Climaz project, which focuses on implementing a regional climate change adaptation and mitigation strategy for the Azores from 2022 to 2030.[16] The Company also participates in the IANOS project, which aims to decarbonize the energy systems and facilitate the energy independence of several European islands by 2050, to which EDA has contributed EUR 233,625.[17]

EDA has also entered into a partnership agreement with the Azores Government for defining a roadmap to achieve carbon neutrality in the Azores.[18] The roadmap defines the operational strategy for the Regional Climate Change Programme, which has been implemented since 2019.[19]

Sustainalytics acknowledges that while EDA has not yet set time-bound quantitative targets to support its decarbonization efforts, the Company plans to develop in 2024 an action plan to formalize its efforts towards decarbonization. As detailed in Section 1, EDA has already begun tests for reducing emissions from its existing geothermal projects. Sustainalytics is of the opinion that EDA's Framework for Green Financing is aligned with the Company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues related to occupational health and safety (OH&S), land use and biodiversity, and adverse impact on local communities.

Sustainalytics is of the opinion that EDA is able to manage or mitigate potential risks through implementation of the following:

- To mitigate risks related to OH&S, EDA has established a Quality, Environment and Safety Management System in 2020 intended to ensure safe and healthy working conditions and regulatory compliance, and identify and manage environmental risks by integrating key environmental considerations in EDA's investment decision-making processes.[20] EDA also has a risk management methodology to classify risks according to relevance.[21] In 2021, the Company also updated its safety procedures document to guide employees on preventive measures related to workplace safety.[22] Since 2021, EDA's thermoelectric powerplants have been certified under ISO 45001, which indicates the presence of systems to improve working conditions, promote internal well-being and reduce accidents and near-misses to zero.[23]
- To ensure that risks associated with land use and biodiversity are managed and mitigated during project construction and operation, the Company undertakes environmental impact assessments which prescribe measures to reduce the impact of the distribution network on avifauna.[24]

[13] Ibid.
[14] Ibid.
[15] Ibid.
[16] European Commission, "Regional Program for Climate Change in Azores", at: https://webgate.ec.europa.eu/life/publicWebsite/index.cfm?fuseaction=search.dspPage&n_proj_id=7889
[17] European Commission, "IntegrAted SolutioNs for the DecarbOnization and Smartification of Islands", at: https://cordis.europa.eu/project/id/957810
[18] Shared with Sustainalytics confidentially.
[19] European Commission, "Portugal National Energy and Climate Plan 2021-2030", (2019), at: https://energy.ec.europa.eu/system/files/2020-06/pt_final_necp_main_en_0.pdf
[20] EDA, "Manual de Gestão da Qualidade, Ambiente e Segurança", at: https://www.eda.pt/Sustentabilidade/Paginas/SGQA.aspx
[21] EDA, "Gestão do Risco". The Company has shared the document with Sustainalytics on a confidential basis.
[22] EDA, "Relatório e Contas 2021", at: https://www.eda.pt/Mediateca/Publicacoes/Paginas/Relatorios.aspx
[23] International Organization for Standardization, "ISO 45001:2018 – Occupational health and safety management systems", at: https://www.iso.org/standard/63787.html
[24] EDA, "Relatório e Contas 2021", at: https://www.eda.pt/Mediateca/Publicacoes/Paginas/Relatorios.aspx

- To mitigate adverse impact on local communities, EDA carries out environmental noise monitoring campaigns in its facilities and undertakes actions to reduce noise levels, if necessary. Additionally, the Company uses a complaint handling system to manage requests from local communities.[25]
- The proceeds from the instruments issued under the Framework will be used in Portugal, which is recognized as a Designated Country under the Equator Principles,[26] indicating the presence of strong environmental and social governance systems and institutional capacity designed to protect local environments and communities.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that EDA has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by the GBP and GLP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

Importance of renewable energy in Portugal and the Azores

In 2019, 76% of Portugal's primary energy supply came from imported fossil fuels. To reduce dependency on energy imports and ensure affordable access to energy, Portugal is now focused on expanding its renewable energy capacity.[27] In order to align with the European Union's goal of increasing the share of renewable energy in the overall energy consumption to 32% by 2030 and achieving carbon neutrality by 2050,[28] Portugal has set a target to increase the share of renewable power to 80% of total generation by 2026 and to reach carbon neutrality by 2050.[29] In 2022, approximately 60% of Portugal's energy was supplied from renewable production.[30]

In the case of the Azores, in 2019, approximately 38% of all energy came from renewable sources, with 24% from geothermal, 9% from wind and 4% from hydro, highlighting the potential to expand the exploration of sun, wind and mostly geothermal, thanks to the volcanic formation of the islands.[31] In 2022, 40% of the electricity in the Azores was produced from renewable energy sources.[32] The regional government of the Azores has set a target to increase the share of renewable energy to 61% by 2025 and capitalize on its endogenous potential by annually producing 187 GWh of energy from geothermal sources by 2025.[33]

In 2020, the Azores Government launched the Azorean Energy Strategy 2030, which created an energy security policy that includes ambitions to reduce costs and GHG emissions.[34] Since 2021, the regional government of the Azores has also been supporting the Azores Regional Programme for Climate Change through the European Commission's Life IP Climaz project, which provided approximately EUR 20 million for investment in climate change adaptation and mitigation initiatives, including renewable energy capacity development.[35,36] The European Commission has also funded the IANOS project, which was launched in 2020 with the goal of decarbonizing the energy system on select European islands, including the Azores. Part of the project includes developing a virtual power plan based on artificial intelligence, efficient forecasting of renewable energy sources intermittency and demand profiling through a decentralized smart contracts approach.[37,38]

[25] Shared with Sustainalytics confidentially.
[26] Equator Principles, "About the Equator Principles", at: https://equator-principles.com/
[27] International Energy Agency, Portugal 2021 – Energy Policy Review, (2021), at: https://www.iea.org/reports/portugal-2021
[28] European Commission, "Renewable energy directive", at: https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-directive_en
[29] Enerdata, "Portugal targets 80% renewable power generation by 2026", (2022), at: https://www.enerdata.net/publications/daily-energy-news/portugal-targets-80-renewable-power-generation-2026.html#:~:text=The%20new%20Portuguese%20government%20aims,up%20from%20the%20current%2058%25
[30] Reuters, "Renewables supplied 88% of Portugal's electricity consumption in January", (2023), at: https://www.reuters.com/world/americas/renewables-supplied-88-portugals-electricity-consumption-january-2023-02-01/
[31] Azores Government, "Açores no rumo da sustentabilidade", at: https://sustainable.azores.gov.pt/
[32] Azores Government, "Açores no rumo da sustentabilidade", at: https://sustainable.azores.gov.pt/
[33] Azores DMO, "Action Plan 2019-2030", (2022), at: https://sustainable.azores.gov.pt/wp-content/uploads/2022/10/EC08_02PlanoAcao2019-2030_EN-2.pdf
[34] Azores Government, "Azorean Energy Strategy 2030", at: https://portaldaenergia.azores.gov.pt/portal/Politica-energetica/EAE-2030
[35] European Commission, "Regional Program for Climate Change in Azores", at: https://webgate.ec.europa.eu/life/publicWebsite/index.cfm?fuseaction=search.dspPage&n_proj_id=7889
[36] Life IP Climaz, "The Project", at: https://www.lifeipclimaz.eu/o-projeto
[37] Pico Analytics, "Analysing Renewable Energy in the Azores", at: https://www.picoanalytics.co.uk/insights/renewableenergyazores
[38] European Commission, "IntegrAted SolutioNs for the DecarbOnization and Smartification of Islands", at: https://cordis.europa.eu/project/id/957810

In this context, EDA's investments in renewable energy facilities are expected to deliver environmental benefits by supporting the growth of the renewable energy sector in the Azores and contribute to achieve local and national climate goals.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the EDA's Framework for Green Financing are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Capacity	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Modernization of Networks	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Energy Efficiency in the Community	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency

Conclusion

EDA has developed the EDA's Framework for Green Financing under which it may issue green financial instruments, such as bonds, loans (bilateral and foreign market loans), notes and commercial papers, and use the proceeds to finance projects in the following categories: Renewable Capacity, Modernization of Networks, and Energy Efficiency in the Community. Sustainalytics considers that the projects funded with proceeds from the above instruments are expected to provide positive environmental impact.

The EDA's Framework for Green Financing outlines a process for tracking, allocating and managing proceeds, and makes commitments for EDA to report on the allocation and impact of their use. Sustainalytics believes that the EDA's Framework for Green Financing is aligned with the overall sustainability strategy of the Company and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goals 7 and 9. Additionally, Sustainalytics is of the opinion that EDA has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that EDA is well positioned to issue green financing instruments and that the EDA's Framework for Green Financing is robust, transparent and in alignment with the four core components of the Green Bond Principles (2021) and Green Loan Principles (2023).

Appendices

Appendix 1: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Electricidade dos Açores SA
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	EDA's Framework for Green Financing
Review provider's name:	Sustainalytics
Completion date of this form:	April 17, 2023
Publication date of review publication: **Original publication date *[please fill this out for updates]*:**	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

☒	Use of Proceeds	☒	Process for Project Evaluation and Selection
☒	Management of Proceeds	☒	Reporting

ROLE(S) OF REVIEW PROVIDER

☒	Consultancy (incl. 2nd opinion)	☐	Certification
☐	Verification	☐	Rating
☐	Other *(please specify)*:		

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds -Renewable Capacity, Modernization of Networks and Energy Efficiency in the Community - are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental impact in Azores and advance the UN Sustainable Development Goals, specifically SDGs 7 and 9.

Use of proceeds categories as per GBP:

☒	Renewable energy	☒	Energy efficiency
☐	Pollution prevention and control	☐	Environmentally sustainable management of living natural resources and land use
☐	Terrestrial and aquatic biodiversity conservation	☐	Clean transportation
☐	Sustainable water and wastewater management	☐	Climate change adaptation
☐	Eco-efficient and/or circular economy adapted products, production technologies and processes	☐	Green buildings
☐	Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP	☒	Other *(please specify)*: Modernisation of Networks

If applicable please specify the environmental taxonomy, if other than GBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

EDA's internal process for evaluating and selecting projects is managed by a cross-functional management team. EDA has an environmental and social risk management process in place which applies to all allocation decisions under the Framework. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

☒	Credentials on the issuer's environmental sustainability objectives	☒	Documented process to determine that projects fit within defined categories
☒	Defined and transparent criteria for projects eligible for Green Bond proceeds	☐	Documented process to identify and manage potential ESG risks associated with the project

☐ Summary criteria for project evaluation and selection publicly available

☐ Other *(please specify):*

Information on Responsibilities and Accountability

☒ Evaluation / Selection criteria subject to external advice or verification

☒ In-house assessment

☐ Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

EDA's treasury department will be responsible for management of proceeds. The net proceeds will be managed on a portfolio basis and tracked using an internal management system. EDA intends to allocate net proceeds to eligible assets with 36 months of issuance. EDA may temporarily invest the unallocated proceeds in its treasury liquidity portfolio in cash or cash equivalents. This is in line with market practice.

Tracking of proceeds:

☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner

☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds

☐ Other *(please specify)*:

Additional disclosure:

☐ Allocations to future investments only

☒ Allocations to both existing and future investments

☒ Allocation to individual disbursements

☐ Allocation to a portfolio of disbursements

☐ Disclosure of portfolio balance of unallocated proceeds

☐ Other *(please specify)*:

4. REPORTING

Overall comment on section (if applicable):

EDA intends to report on allocation of proceeds on an annual basis until full allocation on the Company website. Allocation reporting will include the total amount of proceeds allocated to each eligible category, the balance of unallocated proceeds, description of the eligible projects and breakdown of the outstanding green bond proceeds. EDA is committed to reporting on relevant impact metrics. Sustainalytics views EDA's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

☐ Project-by-project

☒ On a project portfolio basis

☐ Linkage to individual bond(s) ☐ Other *(please specify):*

Information reported:

☒ Allocated amounts ☐ Green Bond financed share of total investment

☐ Other *(please specify):* the balance of unallocated proceeds, description of the eligible projects and breakdown of the outstanding green bond proceeds.

Frequency:

☒ Annual ☐ Semi-annual

☐ Other (please specify):

Impact reporting:

☐ Project-by-project ☒ On a project portfolio basis

☐ Linkage to individual bond(s) ☐ Other (please specify):

Information reported (expected or ex-post):

☒ GHG Emissions / Savings ☐ Energy Savings

☐ Decrease in water use ☒ Other ESG indicators (please specify): renewable capacity connected to the grid and annual outputs (MWh/year).

Frequency

☒ Annual ☐ Semi-annual

☐ Other (please specify):

Means of Disclosure

☐ Information published in financial report ☐ Information published in sustainability report

☐ Information published in ad hoc documents ☒ Other (please specify): Company website

☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

☐ Consultancy (incl. 2nd opinion)	☐ Certification
☐ Verification / Audit	☐ Rating
☐ Other *(please specify)*:	

Review provider(s): **Date of publication:**

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

i. Second-Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.

ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.

iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

Disclaimer

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

Or contact us contact@sustainalytics.com