An S&P Global Second Party Opinion (SPO) includes S&P Global Ratings’ opinion on whether the documentation of a sustainable finance instrument, framework, or program, or a financing transaction aligns with certain third-party published sustainable finance principles. Certain SPOs may also provide our opinion on how the issuer’s most material sustainability factors are addressed by the financing. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings. See Analytical Approach: Second Party Opinions.

Second Party Opinion

Integrated Wind Solutions Green Financing Framework

Nov. 1, 2023

Location: Norway  Sector: Transportation

Alignment With Principles

- Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- Green Loan Principles, LMA/LSTA/APLMA, 2023

See Alignment Assessment for more detail.

Strengths

The overall business strategy has a positive impact on the climate-related risks the transportation and energy sectors face. Integrated Wind Solutions (IWS) intends to use the proceeds to acquire, construct, reconstruct, and maintain vessels to support the offshore wind energy industry. In our view, the company is providing an essential service for the renewable energy industry and facilitating the transition to a low-carbon future.

IWS goes beyond regulation in its pollution prevention measures, including mitigation of marine biodiversity impacts, through the “DNV SILENT” notation, which limits engine noise. Additionally, we note that IWS’ vessels are EU flagged, and therefore subject to the EU Ship Recycling Regulation. We view this positively as it mitigates local working conditions and pollution risks during the shipbreaking phase.

Weaknesses

Upon delivery, vessels will be running mainly on marine diesel oil, in combination with the onboard battery packs. We note that IWS does not have specific timebound targets to transition to lower emissions fuels or an action plan. While there is an option for running the engines on biofuels of different blends, this will still be subject to verification by the engine makers, and fuel availability and quality.

Areas to watch

The nascent operating state of IWS' vessels limits visibility on the actual and targeted greenhouse gas (GHG) footprint. In 2022, IWS started reporting on GHG emissions from its nonvessel operations. The issuer plans to use this data and actual emission data from its vessels once they start operating in 2023 to set its first carbon-related targets.

We note that, if the vessels are sold, there is a possibility that they could be used for activities linked to fossil fuels over their 25-30-year lifespan, due to technical similarities with vessels supporting oil and gas operations. We acknowledge that this would be outside of IWS’ scope of control, and the issuer informed us that the vessels, while owned by IWS, will only be used to support wind farm operations and that its policy of no revenue from oil and gas will hold. IWS commits to not use the proceeds toward revenue stream from the exploration, production, and distribution of fossil fuels.
Eligible Green Projects Assessment Summary

Eligible projects under issuer’s green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

<table>
<thead>
<tr>
<th>Clean transportation</th>
<th>Medium green</th>
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<tbody>
<tr>
<td>Acquisition, construction, reconstruction, and maintenance of hybrid power vessels with the main purpose of supporting the construction and maintenance of offshore wind farms (both fixed and floating). The CO2 efficiency of the vessels must be in line with or better than Skywalker-class commissioning service operation vessels (CSOVs).</td>
<td></td>
</tr>
<tr>
<td>Investments in research and development (R&amp;D) related to decreasing the CO2 emissions from eligible vessels and operations.</td>
<td></td>
</tr>
<tr>
<td>Investments in measures to improve the energy efficiency of eligible vessels and/or reduce the CO2 footprint of the eligible vessels or operations.</td>
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See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer’s sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Integrated Wind Solutions (IWS) is a Norway-based transportation company providing service solutions to the renewable energy sector. The company operates in two business activities. Its first business, IWS Fleet, is the owner-operator of CSOVs, ships designed to support the construction and maintenance of wind farms. It is currently in the start-up phase, with six vessels under construction and a first delivery expected in the fourth quarter of 2023. Its second business, IWS Services, provides design, engineering, and construction, along with operations and management services to the global wind industry, both onshore and offshore. In 2022, IWS’ revenue amounted to Norwegian krone (NOK) 215.6 million (equivalent to about €21 million), and it was solely derived from the IWS Services business. The company’s main shareholders include Awilco AS (39.4% ownership), Clearstream Banking S.A. (16.4%), and State Street Bank and Trust Co. (7.1%).
Material Sustainability Factors

Climate transition risks
Transportation is the fastest-growing source of emissions worldwide, and accounts for about a quarter of global greenhouse gas emissions according to the International Energy Agency, behind the power sector. Emissions from international shipping accounted for about 2% of global energy-related CO2 emissions in 2022. This share is expected to increase further because shipping volumes are projected to grow, and as other sectors can decarbonize more easily. As international and country-level climate targets become more ambitious, this could lead to higher compliance costs, given that shipping companies that fail to meet regulations risk losing their licenses to operate. Compliance with regulations will require investments in new engine technologies and the use of more expensive alternative fuels (such as ammonia, liquified natural gas, or green hydrogen).

Pollution
Pollution can take the form of airborne emissions (such as nitrogen oxides and soot), accidental spills of (hazardous) cargo, ground pollution at facilities such as gas stations, and excessive noise. These have severe impacts, especially for people living near major sea or road transportation routes. For instance, air pollution from transportation, along with that from other sources, kills more than 3.5 million people across the world every year and causes health problems for many more, according to the Organisation for Economic Co-operation and Development. There has been some progress in reducing pollution through regulation, engine improvements, safety procedures, and in some cases changes to equipment. With regard to marine transportation, air and water pollution from ships in operation creates regulatory and reputational risks. Moreover, pollution is also a concern during decommissioning, as scrapping ships poses environmental risks, including release of hazardous substances that are no longer permitted.

Physical climate risks
Acute weather events--like storms--can make operations complex and immobilize assets, such as vessels. They may also limit the accessibility of essential infrastructure the industry relies on, including ports, and increase the risk of accidents. Ports will in addition be affected by higher temperatures, sea level rise, and increased precipitation. Over time, both acute and chronic risks--changing temperature and increased frequency of storms--may shorten the useful life of vessels and infrastructure. Implications to stakeholders may be widespread over a region or the service area of the damaged infrastructure (or beyond), suspending transportation and disrupting supply chains.

Workforce health and safety
The health and safety of employees and passengers is critical, given that the transportation industry sees regular incidents and accidents, especially on roads. Workplace incidents can result in injuries and fatalities, which can also affect companies’ operations, legal exposure, and reputation.
Issuer And Context Analysis

All proceeds are aimed at addressing climate transition risk, which we view as a key sustainability factor for IWS. IWS’ Skywalker-class vessels are estimated to produce 60%-75% lower emissions than Tier 2 and Tier 3 CSOVs, and consume 20% less energy than comparable CSOVs currently under construction. Moreover, we note positively the possibility to convert the hybrid vessels to be fully zero-emission in the future. IWS maintains a policy of no revenue from oil- and gas-related activities.

We view favorably that the issuer’s overall business strategy has a positive impact on material climate risks of the sector. IWS intends to offer a fleet of state-of-the-art service vessels to the offshore wind industry. In our view, the company is providing an essential service for the renewable energy industry and facilitating the transition to a low-carbon future.

IWS' start-up state limits visibility on the actual and targeted greenhouse gas footprint of its vessel operations. In 2022, IWS started reporting on greenhouse gas emissions from its nonvessel operations. The issuer plans to use this data and actual emission data from its vessels once they start operating in 2023 to set its first carbon-related targets.

The framework projects introduce additional risks of pollution during the construction, operation, and decommissioning of hybrid power vessels, such as emissions from fuel combustion, noise from engines impacting marine life, and risks of accidental spills that could lead to marine pollution. In line with industry standards, IWS manages these risks through its certification in accordance with ISO 14001 - environmental management, which certifies that the vessels will be operated in a way that continuously improves and reduces environmental impact. Moreover, the vessels are built with a “DNV SILENT” notation, which mitigates the negative impact of noise on marine life below water. Additionally, we note positively that the vessels are EU flagged, and therefore subject to the EU Ship Recycling Regulation that reduces pollution risks during shipbreaking.

The vessels currently under construction are equipped to handle harsh weather conditions. While the Issuer’s exposure to physical climate risks is somewhat limited by the fact it operates in Northern Europe, IWS recognizes that increased frequency of extreme weather conditions, or potential expansion to other markets with more significant physical climate risks, increase the risk of personal injury or damage to property. To manage these risks, IWS ensures that its vessels are built to resist extreme weather conditions.

Health and safety risk is a key sustainability issue during the construction, operation, and decommissioning of vessels, which is relevant, given the projects included in the framework. The activities could also lead to situations posing safety risks to workers or contractors, leading to potential injuries or fatalities. To mitigate health and safety risks, IWS has certified its management system according to ISO 45001 - occupational health and safety, which we view as a standard industry practice. IWS follows up on accidents and near misses, with the goal of reducing the risk of recurrence. It tracks health and safety indicators for all its operations. The company did not experience fatalities, personnel injuries, or accidents in 2022, which we view favorably. Hence, we believe IWS mitigates health and safety risks sufficiently.
Alignment Assessment

This section provides an analysis of the framework’s alignment to relevant principles.

Alignment With Principles

Aligned = ✔  Conceptually aligned = ⬜  Not aligned = ✗

✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
✔ Green Loan Principles, LMA/LSTA/APLMA, 2023

Use of proceeds

We consider IWS’ overall use-of-proceeds commitments to be aligned with the principles. The issuer commits to allocate 100% of the net proceeds issued under the framework exclusively to finance or refinance eligible green projects. The framework has only one eligible green project category - clean transportation, under which IWS aims to contribute to climate change mitigation and pollution prevention and control. The issuer can both finance and refinance eligible projects, with a maximum look-back period of three years from first issuance. IWS commits to disclose the proportion of funds used for financing and refinancing, within its annual impact reporting. Refer to the “Analysis of Eligible Projects” section for more information on our analysis of the environmental benefits of the expected use of proceeds.

Process for project evaluation and selection

The issuer will establish a green finance committee responsible for selecting the projects that are in line with the green eligibility criteria, as well as evaluating the compliance of proposed assets with the criteria and replacing investments that no longer meet the eligibility requirements.

Furthermore, the framework describes the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant projects, and we view positively the level of detail provided regarding the process, which is more extensive than commonly seen in frameworks. The issuer has completed an initial assessment of social and environmental risks as part of the process to achieve its certification according to ISO standards 9001, 14001, and 45001.

To identify social risks, IWS will for example map its supply chain and business partners, and identify risks linked to the activities and business conditions of suppliers, considering the industry and geography where they operate, among other factors. Regarding environmental risks, IWS will identify all environmental impacts from the vessel operations, and rank its impacts by relevance, severity, probability, and reversibility.

Management of proceeds

IWS commits to using a green financing register to manage the net proceeds from the instruments issued under the framework, to document and monitor the allocation of proceeds to the eligible green projects. The company aims to achieve a level of allocation of eligible green projects that at least matches the proceeds of its green financing instruments. Unallocated proceeds will be held in accordance with IWS’ liquidity management policy and deposited at financial institutions.

We view positively that IWS will appoint an external independent auditor to annually assure that the allocation of the net proceeds of the green financing is made in accordance with IWS’ green financing framework.

Reporting

The issuer commits to annually disclose the allocation and impact of proceeds within its green financing investor report, starting a year after the first issuance and continuing until for as long as there are green financing instruments outstanding.
The report will include information on the projects being financed, such as a description of the projects and the split between new financing and re-financing, among others. IWS will also report on the actual environmental impact of the eligible projects financed under the framework and intends to disclose on specific key performance indicators (KPIs), laid out in the framework, when feasible and where relevant data information is available. According to the issuer, the impact indicators in the framework are based on recommended indicators for clean transportation in ICMA’s Harmonized Framework for Impact Reporting (e.g., greenhouse gas emissions), and customized to be relevant to IWS’ operations and the activities of the vessels being financed.

IWS commits to receiving limited assurance on the selection process for the financing of eligible projects and on the allocation of the net proceeds. Nevertheless, IWS does not commit to include the key underlying methodologies and assumptions used to calculate KPIs, or disclose expected impacts of projects financed, both of which we recognize as industry best practices.
Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

For each financing under the framework, IWS expects to allocate over 95% of proceeds from its first bond or loan under the framework to the acquisition, construction, reconstruction, and maintenance of hybrid power vessels with the main purpose of supporting construction and maintenance of offshore wind farms, and less than 5% to R&D investments related to decreasing CO2 emissions from vessels and operations and measures to improve the energy efficiency of these vessels and/or reduce the CO2 footprint of the vessels or operations.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in IWS’ Green Financing Framework, we assess the framework Medium green.

Green project categories

**Clean transportation**

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Description</th>
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<tbody>
<tr>
<td>Medium green</td>
<td>Acquisition, construction, reconstruction, and maintenance of hybrid power vessels with the main purpose of supporting the construction and maintenance of offshore wind farms (both fixed and floating). The CO2 efficiency of the vessels must be in line with or better than Skywalker-class CSOVs. Investments in R&amp;D related to decreasing the CO2 emissions from eligible vessels and operations. Examples of relevant projects would include R&amp;D investment to increase operational efficiency, for instance lower weight and more efficient operations through digital solutions, or R&amp;D investment in preparation for other fuel types, such as methanol. Investments in measures to improve the energy efficiency of eligible vessels and/or reduce the CO2 footprint of the eligible vessels or operations. Measures to improve energy efficiency would include actual retrofit projects on existing CSOVs or additional investments for newbuild vessels with the specific intention to reduce CO2 emissions. Exclusions: IWS will not use the proceeds toward revenue stream from the exploration, production, and distribution of fossil fuels.</td>
</tr>
</tbody>
</table>

Analytical considerations

- Most of the proceeds will be used to acquire, construct, reconstruct, and maintain hybrid power vessels. We view positively that the vessels will be hybrid - allowing dual use of conventional and low-carbon fuels, as well as electrical power, and therefore enable emissions savings. We view favorably that the vessels will include several pioneer features, including the largest battery pack in the industry with solar panels for additional charging. Furthermore, we view positively that, according to the issuer, the CSOVs are purposely built to support offshore wind farm operations, therefore facilitating low carbon energy transition for offshore wind. Nevertheless, we note that the framework does not include a commitment to exclusively dedicate the vessels to wind farm operations support.

- The vessels have an estimated energy consumption 20% lower than comparable CSOVs currently under construction, as well as 60%-75% lower emissions than Tier 2 and Tier 3 CSOVs (estimated on an annual basis with typical expected use). The emissions savings calculations were based on IWS’ own estimated emissions, based on an operational profile developed together with Kongsberg Shipdesign. Enova, a company owned by the Norwegian Ministry of Climate and Environment, has provided grants to IWS, to support improvements to the hull, hybrid, battery, and propulsion systems. According to IWS, the fleet will consist of...
battery hybrid vessels based on diesel fuel and future proofed for fuel cell technology and offshore charging. The vessels have the potential to reduce greenhouse gas emissions, because they can use a traditional engine combined with an electric battery system. The vessels’ design also contributes to emissions savings, mainly through optimization of the hull. In our view, the hybrid vessels therefore have strong potential to reduce emissions and use less energy. We also note that the future proofing of the vessels’ design partly mitigates lock-in risks. Nevertheless, we note that vessels upon delivery will be running on marine diesel oil.

- While there is an option for running the engines on biofuels of different blends, this will still be subject to verification by the engine makers, and dependent on fuel availability and quality. The new vessels allow for future conversion to fully electric zero-emission operations. However, this conversion is not yet viable in the short term, due to limits of battery power, inability to charge the vessels in the field, and lack of charging infrastructure in some of the ports from which the vessels would be operating. In particular, charging facilities in the U.K. are limited to some cruise ports, while their availability is increasing rapidly in the EU. According to the company, full zero emissions operations depend on the batteries being charged by renewable energy in the field and on shore. IWS’ vessels are supplied with flexible systems for accepting shore power from most relevant systems. We note that IWS does not have specific timebound targets to transition to lower emissions fuels or an action plan, for instance including collaboration with other stakeholders, to switch to lower carbon fuels, besides the future proofing of vessels.

- We view positively that the vessels have the main purpose of providing support to offshore wind farm operations. As per IWS’ internal policy, vessels are not to be sold to exploration and production companies in the oil and gas sector. However, we note that if the vessels are sold, there is a possibility they would be used for activities linked to fossil fuels, due to their technical similarity to vessels supporting oil and gas operations. Nevertheless, we acknowledge that this would be outside of IWS’ control. Considering the hybrid characteristics of the vessels and the fact that they will be used to support offshore windfarm operations, we view this category as medium green.

- A minority of the proceeds will go to R&D and will include preparation for increasing electrical charging opportunities, transitioning to alternative fuels, and increasing operational efficiency, which represent a range of potential shades of green. In our view, investments to develop alternative low-emission fuels for vessels, such as electricity, ammonia, hydrogen, and methanol is of high importance, as the fossil fuels are the major source of greenhouse gas emissions in the shipping sector. We view preparation for in-field charging as a dark green activity allowing for vessel renewable electrification for longer periods away from ports. While R&D investment focused on other alternative fuels is also an important potential contribution to vessel decarbonization, we note the lack of visibility on the sourcing criteria for ammonia, hydrogen, and methanol substitutes, which are key to ensuring lifecycle climate emissions benefits and avoiding other environmental risks that will impact the ultimate shading of these activities. R&D investment will also be directed to increase operational efficiency (e.g., through digital solutions), which we view as a light green activity, given energy use improvements but potential links to ongoing fossil fuel use.

- A minority of the proceeds will go to measures to improve energy efficiency, such as retrofit projects on existing CSOVs. While these activities represent a transition step in the near term to reduce emissions and energy use, they do not represent a long-term low-carbon climate resilient solution without additional measures to transition away from fossil fuels, and therefore we view them as light green elements.

- IWS Fleet’s management system is certified in accordance with ISO 14001 - environmental management, providing assurance regarding the company’s management of environmental risks beyond climate. IWS goes beyond regulation in some aspects, such as in mitigating marine biodiversity impacts, through its lower-noise engines. Additionally, we note that the vessels are EU flagged, and therefore subject to the EU Ship Recycling Regulation. We view this positively because the regulation requires that the vessels will be properly dismantled to achieve safe disposal and recycling of vessel components, including hazardous materials. Moreover, EU flagged vessels may only be recycled in one of the facilities listed in the European list of ship recycling facilities, which mitigates local working conditions and pollution risks during the shipbreaking phase.

- IWS considers physical climate risk in the design of its vessels, which are equipped to handle harsh weather events. According to the issuer, this constitutes a competitive advantage. However, we note lack of scenarios risk assessment regarding how physical climate change could impact infrastructure on which IWS depends, such as ports.

- Regarding the sourcing of materials for vessel batteries that can be associated with high emissions and other environmental risks, we view positively that IWS’ main supplier, Corvus, complies with Norway’s Transparency Act, and therefore conducts supplier audits and site visits to ensure alignment with its code of conduct, which covers environmental topics, such as climate emissions, local pollution, and waste management.
S&P Global Ratings’ Shades of Green

<table>
<thead>
<tr>
<th>Assessments</th>
<th>Description</th>
<th>Example projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dark green</td>
<td>Activities that correspond to the long-term vision of an LCCR future.</td>
<td>Solar power plants, Energy efficient buildings, Hybrid road vehicles, Health care services, Conventional steel production, New oil exploration</td>
</tr>
<tr>
<td>Medium green</td>
<td>Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.</td>
<td></td>
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<tr>
<td>Light green</td>
<td>Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.</td>
<td></td>
</tr>
<tr>
<td>Yellow</td>
<td>Activities that do not have a material impact on the transition to an LCCR future, or. Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.</td>
<td></td>
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<tr>
<td>Orange</td>
<td>Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.</td>
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<tr>
<td>Red</td>
<td>Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.</td>
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</tbody>
</table>

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR—Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2°C), with efforts to limit it to 1.5°C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term—For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in—Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets—Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).
Related Research

- [Analytical Approach: Shades Of Green Assessments](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

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<td>Frankfurt</td>
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