

Árborg Sustainability Bond

Allocation and Impact Report

2025



Introduction

On 7 June 2021, Árborg municipality (“Árborg” or “the Municipality”) published its first Sustainability Bond Framework (“the Framework”). Árborg was the first Icelandic issuer of a sustainable bond intended to finance projects that have both environmental and/or social benefits. The bond was listed on Nasdaq’s sustainable bond index in June 2021 – instrument ARBO 31 GSB. The Municipality issued its second sustainable bond, ARBO 43 GSB, in September 2023.

The purpose of the Framework is to enable Árborg to issue bonds or other financial instruments with known use of proceeds, to finance certain parts of its operation that align with the Municipality’s sustainability objectives.

To ensure transparency, Árborg will publish an annual Allocation and Impact Report while it has sustainable financial instruments outstanding. Issuances under the Framework may be labelled respectively as “green”, “social” or “sustainable” instruments, depending on the category of projects financed under the Framework. This is the fifth Allocation and Impact Report (“the Impact Report” or “the Report”) under the Framework.

Accounting firm KPMG ehf. performed an independent limited assurance review on this Report in accordance with the issuer’s Sustainability Bond Framework, pertaining to the allocation of proceeds. No new proceeds were allocated in the reporting year.

Árborg and sustainable financing

Árborg intends to be a leader among Icelandic municipalities in the field of environmental protection with a focus on sustainable development. This strategy will make the Municipality more appealing to current and future generations. Árborg is an active member of the social progress index Framfaravogin that measures its progress. The Municipality also published its Environmental Policy in 2020, outlining specific goals that each aligns with a United Nations Sustainable Development Goal (SDG).

The goals set in the Environmental Policy are as follows:

Governance: Ensure professional governance and focus on sustainable development. Prioritise environmentally certified products and services in procurement.

Climate change: Attain carbon neutrality before 1 January 2030.

Nature conservation: Actively promote conservation of the natural environment and maintain biodiversity.

Cultural monuments: Protect cultural monuments.

Education: Increase general knowledge about local flora and fauna. All schools to reach “green flag” status by 2022.¹ Provide access to environmental education for adults.

Waste: Maximum of 5% of total waste disposed of in landfills. Incorporate the “polluter pays” principle in waste fees.

Industry: Contribute to the sustainable coexistence of industry with society and nature. Promote environmentally-friendly tourism.

Transportation: Promote environmentally-friendly transportation. All transport owned by the municipality to be electrified before 2026. Increase share of pedestrian, bicycle and equestrian paths.

Appearance and public health: Establish a reputation for cleanliness in public spaces.

Society: Promote the action plan² for public health and outdoor activity, and outdoor activity for disease prevention.

¹ The project is not complete and the work to achieve this goal continues.

² The action plan is a part of the Environmental Policy, see

<https://www.arborg.is/media/stefnur/Umhverfisstefna-Arborgar-10.06.2020.pdf>

Allocation

Árborg has issued two sustainable bonds:

- ARBO 31 GSB in June 2021 – Outstanding ISK 5.29 billion
- ARBO 43 GSB in September 2023 – Outstanding ISK 0.5 billion

There were no new issuances under the ARBO 31 GSB and ARBO 43 GSB sustainable bonds in 2025. As proceeds from the bonds were previously fully allocated, no further analysis of allocation is necessary in this Report.

Detailed information on the impact, prior to 2023 and 2024, from projects funded with proceeds from the bonds are provided in previous years Reports.

Proceeds from ARBO 31 GSB were allocated to a diverse portfolio of projects, including development and maintenance of renewable energy infrastructure, increased energy efficiency, improved infrastructure for pedestrian traffic, new schools, potable water for inhabitants and purchase of land to provide open spaces and playgrounds for younger inhabitants. 73% of the allocations were to social projects and 79% were considered as new financing.

Proceeds from ARBO 43 GSB were allocated to projects that contributed to the development, maintenance and operation of renewable energy infrastructure and facilities. The allocations were considered as 100% new financing.

Impact

Tables 1 and 2 set out either the impact associated with the projects financed under sustainable bond issuances or an ex-ante impact assessment, which is the expected impact from the projects either upon completion or on annual basis as appropriate. Construction or development phase is on-going for some projects and the impact as yet unrealised. The impact metrics are mostly in line with our published framework though with one exception in the category

“Sustainable water and wastewater management”. In this category it was considered more suitable for some projects to report on the population gaining improved

Tables 1 and 2 set out either the impact associated with the projects financed under sustainable bond issuances or an ex-ante impact assessment, which is the expected impact from the projects either upon completion or on annual basis as appropriate. Construction or development phase is on-going for some projects and the impact as yet unrealised. The impact metrics are mostly in line with our published framework though with one exception in the category

“Sustainable water and wastewater management”. In this category it was considered more suitable for some projects to report on the population gaining improved wastewater treatment facilities. In addition to disclosed impacts in the table below, some

impacts are immeasurable. For example, increased safety and accessibility of pedestrians and people with physical disabilities.

Detailed discussion of the projects allocated to ARBO 41 GSB can be found in the 2022 Report and for projects allocated to ARBO 43 GSB in the 2023 Report.

Table 1. Overview of the impact of allocated proceeds from ARBO 41 GSB under Årborg's Sustainability Bond Framework.

Project category	Impact metric	2021 & 2022 impact	2023 impact	2024 impact	2025 impact	Total accumulative impact	Ex-ante impact
Renewable energy	tCO2e avoided annually	2.526	-	-	-	2526,3	-
Energy efficiency	tCO2e avoided annually	3.385,3	53,9	53,9	53,9	3.546,9	53,9
Pollution prevention and control	Tonnes of annual absolute amount of waste separated and/or collected, and treated or disposed of	300	-	-	-	300	-
Terrestrial and aquatic biodiversity conservation	Hectares of new land purchased for conservation and public access	17,2	-	-	-	17,2	-
Clean transportation	Total kilometres of walking/cycling paths	9,54	-	-	-	9,54	Increased safety
Sustainable water and wastewater management	Annual absolute million m ³ of new water usage	1,54	1,54	1,55	1,55	6,18	1,55
Sustainable water and wastewater management	Reduction of m ³ water use at project level	97.7%	97,7%	97,7%	97,7%	97,7%	97,7%
Sustainable water and wastewater management	Population with improved wastewater treatment facilities	Under construction				-	14,000
Access to essential services	Number of new students served	320	50	60	60	490	360
Access to essential services	Improved kindergarten and/or school facilities; number of students served	201	-	-	40	241	-
Access to essential services	Improved healthcare and elderly; number of individuals served	78	-	-	-	78	-
Socioeconomic advancement and empowerment	Increased participation in sports and other social activities: number of individuals served	1.150	-	-	-	1.150	-
Socioeconomic advancement and empowerment	Maintenance and improved sporting and/or social facilities; number of participants served	12.000	-	-	-	12.000	-

Table 2. Overview of the impact of allocated proceeds from ARBO 43 GSB under Árborg's Sustainability Bond Framework.

Project category	Impact metric		2023 impact	2024 impact	2025 impact	Total accumulative impact	Ex-ante impact
Renewable energy	GWh (TJ) renewable energy generated		263 (946)	89 (320)	89 (320)	441 (1586)	89 (320)

Methodology

The methodologies used for the impact analysis in this Report are based on relevant international guidelines and standards, such as ICMA's Green Bond Principles' Handbook Harmonised Framework for Impact Reporting³, and defined impact metrics for the corresponding category in the Sustainability Finance Framework. Emissions factors used in previous years Reports are updated for the relevant year or the latest one available, using the same data sources. More detailed information on methodologies for certain categories can be found in previous years Report.

³

<https://www.icmagroup.org/assets/documents/Sustainable-finance/2024-updates/Handbook->

Harmonised-Framework-for-Impact-Reporting-June-2024.pdf



KPMG ehf.
Borgartún 27
105 Reykjavík

Sími: 545 6000
Fax: 545 6001
www.kpmg.is

Sveitarfélagið Árborg
Austurvegi 2,
800 Selfoss

Takmörkuð staðfesting til Sveitarfélagsins Árborgar varðandi ráðstöfun fjármagns í tiltekin græn verkefni samkvæmt áhrifa- og úthlutunarskýrslu (Árborg Sustainability Bond - Allocation and Impact Report) fyrir árið 2025

Við vorum ráðin af Sveitarfélaginu Árborg (hér eftir Árborg) til að veita takmarkaða staðfestingu (e. limited assurance) á meðfylgjandi áhrifa- og úthlutunarskýrslu fyrir árið 2025 (hér eftir skýrslan). Staðfestingin tekur til ráðstöfunar á fjármagni í tiltekin græn verkefni eins og þau eru skilgreind í „Sustainability Bond Framework“ útgefið í júní 2021.

Álit með takmarkaðri vissu

Byggt á þeim aðgerðum sem við höfum framkvæmt kom ekkert fram sem bendir til annars en að upplýsingar um úthlutun í skýrslunni vegna 2025 sé í öllum megin atriðum í samræmi við þau gögn sem skoðuð voru.

Ábyrgð stjórnenda

Skýrslan er lögð fram af stjórnendum félagsins. Þeir bera ábyrgð á að hanna, innleiða og viðhalda innra eftirliti vegna upplýsinga sem viðeigandi eru til að útbúa skýrslu. Einnig bera þeir ábyrgð á söfnun, greiningu og framsetningu upplýsinga sem settar eru fram í skýrslunni og að skýrslan sé án verulegra annmarka hvort sem er vegna sviksemi eða mistaka. Þá eru stjórnendur ábyrgir fyrir því að starfsfólk sem kom að vinnslu og framsetningu skýrslunnar hafi hlotið viðeigandi þjálfun og að upplýsingakerfi séu uppfærð.

Ábyrgð okkar

Ábyrgð okkar er að veita takmarkaða staðfestingu á sjálfbærniskýrslu félagsins. Skoðun okkar var unnin í samræmi við alþjóðlegan staðal um staðfestingar, *ISAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information*, sem gefinn var út af International Auditing and Assurance Standards Board. Samkvæmt staðlinum ber okkur að skipuleggja og haga vinnu okkar svo unnt sé að veita takmarkaða staðfestingu um hvort sjálfbærniskýrslan sé í öllum meginatriðum án verulegra annmarka. Takmarkað staðfestingarverkefni er minna að umfangi en staðfestingarverkefni með nægilegri vissu (e. reasonable assurance). Að auki geta ófjárhagslegar upplýsingar verið háðar frekari takmörkunum en fjárhagslegar upplýsingar, bæði vegna eðlis þeirra og aðferða sem notaðar eru til að ákvarða, reikna og áætla slík gögn. Þær aðferðir sem beitt er við takmarkaða staðfestingu eru mismunandi eftir eðli hvers verkefnis og eru umfangsminni en óháð staðfesting. Þar af leiðandi gefur takmörkuð óháð staðfesting ekki eins mikla vissu og þegar um er að ræða óháða staðfestingu.

KPMG hefur innleitt alþjóðlegan gæðastaðal, International Standard on Quality Control 1, og hefur því innleitt viðtækt gæðakerfi, þar á meðal um að hafa skráðar stefnur og verklag varðandi fylgni við siðareglur, faglega staðla og viðeigandi kröfur laga og reglugerða.

Við höfum uppfyllt kröfur um óhæði og aðrar siðareglur sem fram koma í alþjóðlegum siðareglum fyrir endurskoðendur, sem gefnar hafa verið út af International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants, sem byggja í grunninn á heilindum, hlutleysi, faglegri hæfni og varfærni, trúnaði og faglegu framferði.

Aðgerðir sem framkvæmdar voru

Takmörkuð staðfesting skýrslunnar felst í að afla upplýsinga, einkum frá því starfsfólki sem er ábyrgt fyrir þeim upplýsingum er fram koma í skýrslunni, greina, meta og afla staðfestinga eftir því sem við á. Þessar aðgerðir fela m.a. í sér:

- Fyrirspurnir til stjórnenda og annars viðeigandi starfsfólks til að öðlast skilning á ferli Árborgar við gerð og yfirferð skýrslunnar.

Reykjavík, 17. ágúst 2026

KPMG ehf.



Árni Claessen
endurskoðandi