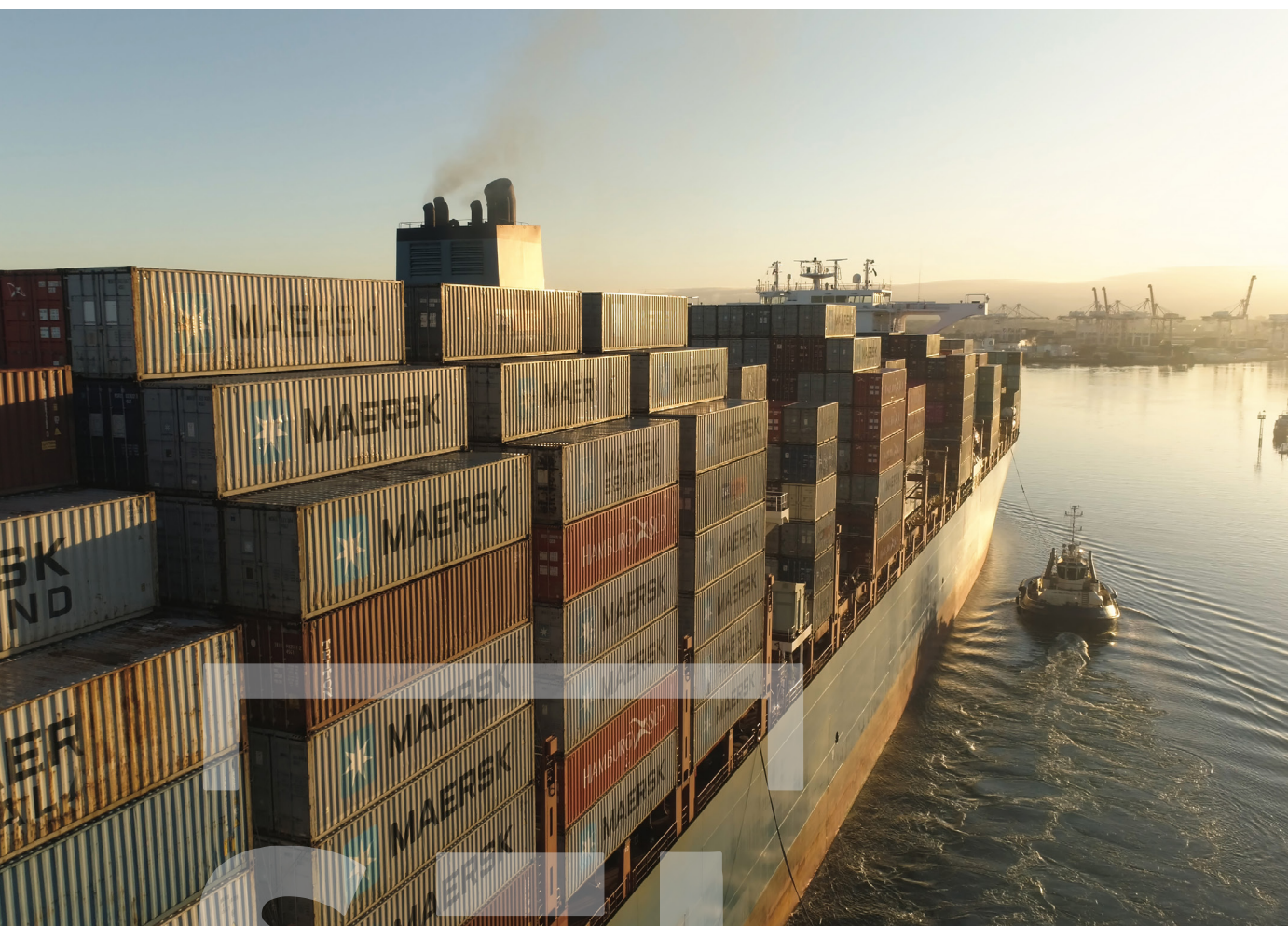


# SUSTAINABILITY-LINKED BOND FRAMEWORK

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April 2021



# BRIEF INTRODUCTION TO SFL CORPORATION LTD.

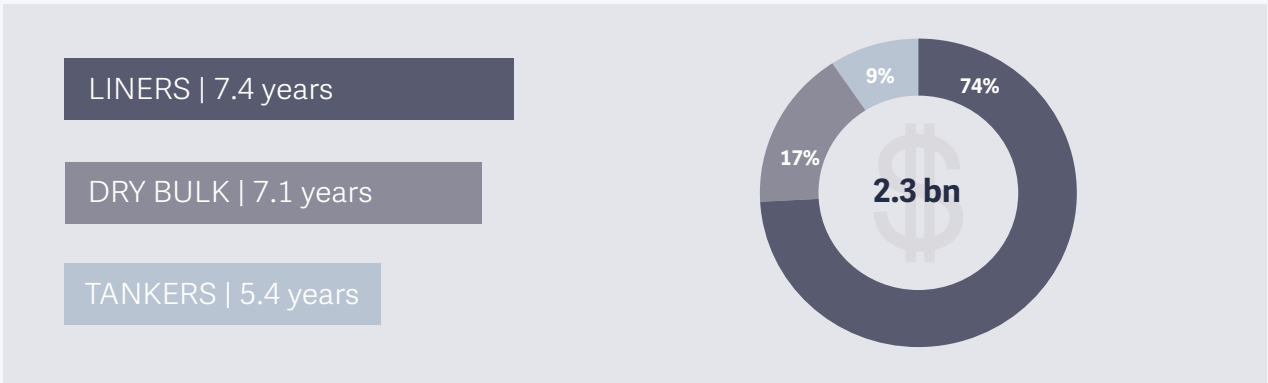
**ESTABLISHED IN 2003** and listed on the New York Stock Exchange in 2004, SFL Corporation Ltd. (NYSE: SFL) has developed from a pure tanker owning company to one of the world's largest ship owning companies, with investments in the tanker, bulk, container and offshore space and with a significant charter backlog.

SFL owns wholly and partially a \$3.2 billion portfolio of more than 80 maritime and offshore assets. We offer a highly predictable cash flow from long term contracts plus upside from profit

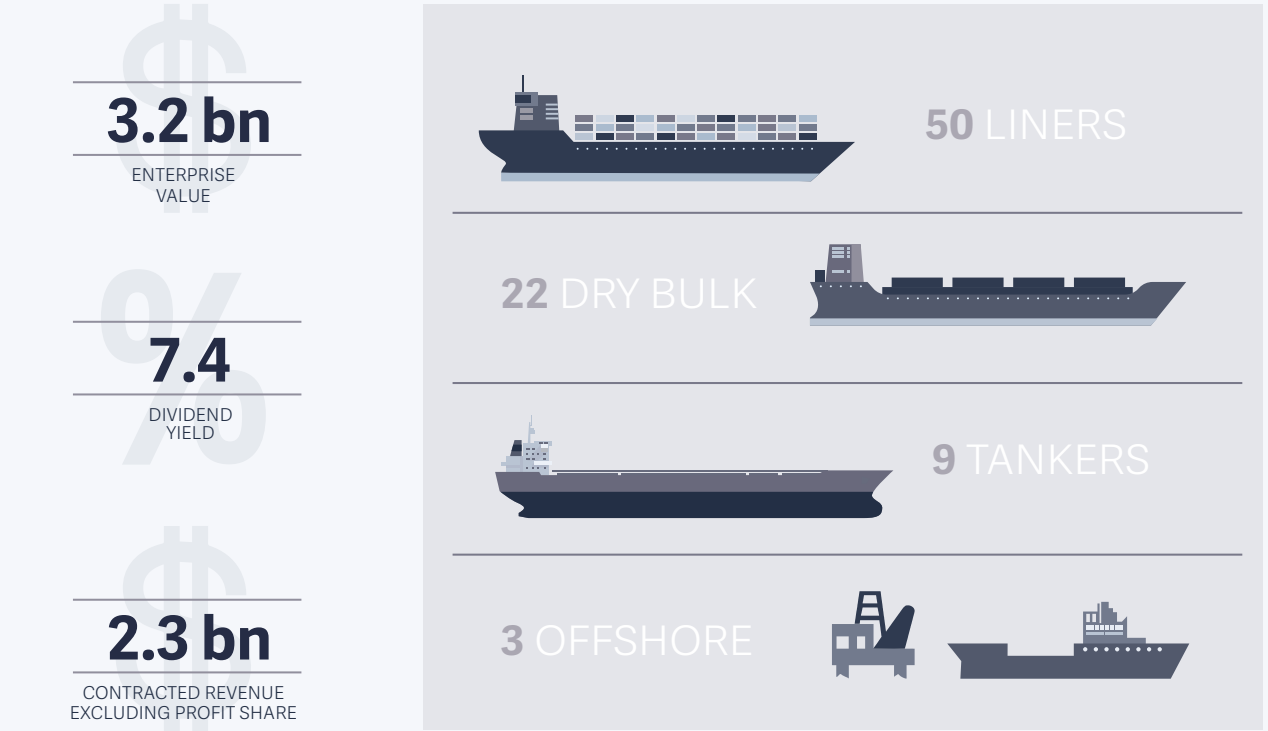
splits and limited spot exposure. With a record of 68 consecutive quarterly dividends, SFL combines a high dividend yield with a moderate payout ratio. SFL has been tested through the market cycles, and our track record and industry relationships provide unique access to accretive growth opportunities.

Our Sustainability-Linked Bond Framework provides an opportunity for investors to learn about SFL's priorities in contributing to lower climate gas emissions in the shipping sector.

## CONTRACT BACKLOG



## ASSETS AS OF APRIL 2021



# SUSTAINABILITY AT SFL CORPORATION

SFL is constantly enhancing its efforts to increase efficiency and reduce the greenhouse gases emitted from our vessels: We believe this will generate both environmental and economic advantages.

**WORLDWIDE WATERBORNE** transport remains the most cost and energy efficient means of transporting large volumes of commodities and produced goods. As such, shipping supports and enables international trade with dedicated fleets optimized for specific trade patterns or cargo needs, ensuring optimal trade flows.

Clear guidance and robust control mechanisms are essential to safeguard that sustainability, safety and appropriate risk management is integrated in our daily operations. SFL is committed to complying with all applicable international and local laws and regulations. We have established a set of policies and control processes to safeguard our employees' and partners' diligent management of ESG issues in accordance with these policies. All our employees have access to relevant policies that can guide them in conducting tasks on behalf of our company, and policy briefings are part of our onboarding procedures. Compliance monitoring is also in place.

We monitor our fleet on a continuous basis, even if we do not necessarily operate the vessels ourselves. SFL ensures that key business partners and all employees sign off to be compliant with our policies and that adequate training is provided.

Some of the challenges our industry is facing require joint actions. Through cooperation with other stakeholders – including industry and regulatory authorities – we aim to stay ahead of the curve on material risks and opportunities. This helps to enhance our ESG risk management. We have joined the following initiatives:

- Maritime Anti-Corruption Network (MACN)
- Clean Shipping Alliance
- International Association of Independent Tanker Owners (INTERTANKO)
- Oil Companies International Marine Forum (OCIMF)

Collaborating with affiliates in the shipping industry such as Avance Gas, Flex LNG, Frontline and Golden Ocean, SFL has established an ESG forum where the goal is to design industry leading approaches to ESG risk management and reporting parameters.







SUSTAINABILITY PRIORITIES

To help identify our sustainability priorities, we recently conducted a materiality analysis as described in more detail in our 2020 ESG report. Through extensive stakeholder dialogue, we were able to get valuable feedback from investors, customers, business partners, crew, bank relations, analysts, board representatives and a selection of relevant NGOs. As reconfirmed by the materiality analysis, the largest environmental and ecological risks posed by the shipping industry are related to emissions, discharges and spills.

Greenhouse gas emissions deriving from maritime shipping activities have significant implications for air quality and the climate. Growing concerns about climate change have led the industry to take actions through more stringent ambitions. The IMO has launched a strategy towards 2050 in line with the Paris Agreement to combat climate change. Compared to 2008 levels, the strategy aims to reduce CO<sub>2</sub> emissions per transport work by at least 40 per cent by 2030, and 70 per cent by 2050.<sup>1</sup> SFL supports this strategy and is committed to increasing our ships’ efficiency and reducing the greenhouse gases emitted from our vessels.

Although we have already implemented several efficiency measures, we will gear up our fleet optimization and renewal plan to meet the CO<sub>2</sub> emission reduction ambitions. Vessel design and speed are material drivers of emissions. Our customers control the speed and trade routes of the assets we own, hence SFL’s main impact on emissions performance will be influenced by the design of our fleet, operational approaches and optimizations through our asset development program. It is with this in mind that we have now established a Sustainability-Linked Bond Framework (the “Framework”). We also realise that our assets can be fitted with new features to enable our clients to reach their markets with emission reduction technologies, and we are assessing what role we can play in this space.

Going forward, we will consider all technology advances that are deemed viable and that may contribute to improve the environmental footprint of our fleet. All future investments, as in the past, will be assessed on a cost-benefit basis, however we aim to be among the frontrunners to cater to the demands of our customers.

In our view, SFL can promote environmental performance by applying three different approaches:

I. Energy Efficiency

SFL has executed a fleetwide three-phase program to identify and address all potential areas of fuel savings and energy efficiency influencing the fleet’s carbon emission profile. The scope covers 1) Voyage performance and Operation; and 2) Ship performance and Machinery systems. This project is scheduled to be completed within the 1st half of 2021. The preliminary target is up to 10% improvement in fuel efficiency on existing tonnage by implementing operational and technical efficiency measures, some of which will require smaller investments in monitoring and optimization technologies to be applied throughout our fleet.

II. Lower-emission propulsion technologies

SFL is committed to an investment programme towards vessel acquisitions, newbuildings and vessel retrofits, which can be powered by low-carbon/alternative fuel sources. SFL reviews its fleet composition on a regular basis to meet the needs of current and potential customers, and phasing in new technologies is part of the review approach. Within the coming five years, SFL foresees considerable upgrades in lower-emission propulsion technology development. As soon as viable solutions are available, SFL will implement these in fleet renewal – this will make our company and our clients better prepared to meet the need to lower emissions in line with and exceeding the IMO 2050 Strategy. SFL’s plan is to strengthen this approach following the launch of our Sustainability-Linked Bond Framework.

III. Other emissions to air

Our approach to reduce SO<sub>x</sub> emissions is in line with best practice and complies with relevant regulations. This is partly driven by scrubber installments on all the large vessels in our operated fleet, which include e.g. Post Panamax Container-ships, Capesize Bulkers, VLCCs and Suezmaxes. Our scrubber installation programme has been completed, however further modifications may be considered if it will support lower emissions to air that are deemed material.

THE SUSTAINABLE DEVELOPMENT GOALS

As part of addressing sustainability in SFL, and in line with the materiality analysis concluded recently, we have identified four of the UN’s Sustainable Development Goals (SDGs) – 9, 13, 14 and 16 – where we believe we can contribute the most. These goals are closely tied to our industry, and they represent material topics which we monitor closely. Contributing to the broader global agenda of reaching the SDGs is in our interest as they affect our business, customers, suppliers, investors and societies which we depend on.



<sup>1</sup> <https://www.imo.org/en/MediaCentre/HotTopics/Pages/Reducinggreenhouse-gas-emissions-from-ships.aspx>



# SFL AND SUSTAINABILITY-LINKED BONDS

**IN LIGHT OF OUR** materiality analysis and in line with the IMO 2050 Strategy, we believe that our emphasis on environmental performance is key to the future success of SFL. Therefore, we will use our industry know-how, financial capacity and asset base to contribute to reducing CO2 emissions. Managing material environmental, social and governance aspects in general are also essential to reach our ambition of creating stability in both charter revenues and operating costs, supporting our long-term distribution capacity.

This Sustainability-Linked Bond Framework is developed in line with the Sustainability-Linked Bond Principles, established by the International Capital Markets Association (ICMA) in June 2020.<sup>2</sup> The Sustainability-Linked Bond Principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond market. SFL's Framework is aligned with the following five core components of the Sustainability-Linked Bond Principles:

1. Selection of Key Performance Indicator (KPI)
2. Calibration of Sustainability Performance Target (SPT)
3. Bond characteristics
4. Reporting
5. Verification

We may issue multiple securities under this Framework and the defined KPI and SPT for any security issued under this Framework will remain throughout the tenor of such security, regardless of any changes to our ESG strategy and ambitions, or industry regulations. Any new or updated Sustainability-Linked Bond Framework in relation to any subsequent capital markets transactions shall not have any impact on this Framework nor on the securities issued hereunder.

## 1 SELECTION OF KEY PERFORMANCE INDICATOR (KPI)

To reduce the environmental impact of our operations, we aim to improve the environmental performance of our fleet. It is relevant to our long-term strategy, in providing vessels that are attractive in a market facing stricter environmental regulations.

Vessel emissions performance depends on many factors such as speed, design, weather-routing and, of most importance, the choice of fuel. Several of the primary factors, including speed, are solely under the control of our charterers. However, through continuous dialogue with the charterers we aim to cooperate to find optimal solutions.

SFL's primary means of improving the environmental performance of our overall fleet is the design and construction of new vessels, as well as upgrading existing ones, aimed at ensuring the lowest possible carbon footprint. We have therefore chosen the following Key Performance Indicator:

The gross financial value of binding commitments towards vessel acquisitions, newbuildings and vessel retrofits, which by being equipped with Alternative Fuel Source engines contribute to significant reductions of CO<sub>2</sub> emissions compared to vessels running on conventional fuel.

A vessel with an alternative and/or low-carbon emission fuel source ("Alternative Fuel Source") is defined as a fuel source that emits significantly less CO<sub>2</sub> than with conventional technology.<sup>3</sup> Examples include the use of LNG, bio- or electro-methane, hydrogen, bio-diesel, LPG, and ammonia.

Our fleet consists of more than 80 vessels, none of which are currently using Alternative Fuel Sources as defined above as of April 2021. Currently, LNG is the most commercially viable alternative fuel source. We regard the use of LNG propulsion as a practical approach until other alternative fuel technologies become commercially viable.<sup>4</sup>

## 2 CALIBRATION OF THE SUSTAINABILITY PERFORMANCE TARGET (SPT)

Optimizing and upgrading our existing vessels, and ensuring low-emission solutions, designs and construction of vessels to be acquired constitutes our approach to enhance the environmental performance of our fleet.

SFL's Sustainability Performance Target (SPT) is defined as:

By the Target Observation Date, SFL aims to have committed an amount at least equal to the size of the issue on upgrades of existing vessels and/or vessel acquisitions consistent with the KPI.

We intend to achieve this SPT through capital expenditures on dual-fuel vessel acquisitions and potentially through the retrofitting of existing vessels with dual-fuel capabilities. We believe this SPT is ambitious as the amount to be invested is significant relative to the size of our company's balance sheet and in the relative short period of time.

## 3 BOND CHARACTERISTICS

Our Sustainability-Linked Bond contains the characteristics of a conventional bond but with a penalty provision attached.

Should SFL fail to meet the SPT by the Target Observation Date, the principal repayment upon maturity will increase according to the specific terms and documentation for the security being issued.

For the avoidance of doubt, for the bond characteristics to remain unchanged, SFL must (i) reach the applicable SPT at the Target Observation Date, and (ii) provide and make public the relevant reporting and verification (as per the reporting section of this Framework).

## 4 REPORTING

To ensure investors and other stakeholders are updated on the progress of our emission reduction performance, we will publish a Sustainability-Linked Bond Performance Report annually on our website, which will contain all relevant information needed to assess the KPI performance for the relevant reporting period. This includes:

- Up-to-date information on the performance of the KPI versus the SPT.
- A verification assurance report (see below).
- Any relevant information enabling investors to monitor the progress of our performance relative to the SPT.
- Any update in the sustainability strategy, vision or plan related to, or impacting, the KPI and SPTs.
- Updates on new or proposed regulations from regulatory bodies (such as but not limited to IMO and EU) relevant to the KPI and the SPTs.
- An illustration of the positive sustainability impact of the performance improvements.

## 5 VERIFICATION

We will ensure an external and independent verification of our actual KPI performance relative to the SPT (the Verification Report) is published on an annual basis and in relation to the Target Observation Date. The verification shall be conducted by a reviewer with relevant expertise. The Verification Report shall be made public together with the Sustainability-Linked Finance Performance Report.

## SECOND PARTY OPINION

SFL has engaged the ESG analysis and advisory firm The Governance Group as an external reviewer to provide, based on the Voluntary Guidelines for External Reviews developed by the Green and Social Bond Principles, an independent, ex-ante Second Party Opinion on SFL's Sustainability-Linked Bond Framework. The Second Party Opinion report will be made publicly available on SFL's website.

<sup>2</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf>

<sup>3</sup> Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014 on the deployment of alternative fuels infrastructure

<sup>4</sup> <https://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetailDoc&id=34592&no=1>, P29

**SFL CORPORATION LTD.**

PO Box HM 1593,  
Par-la-Ville Place,  
14 Par-la-Ville Road,  
Hamilton HM 08  
Bermuda

Phone: +1 44 12 95 95 00

**SFL MANAGEMENT AS**

Bryggegate 3  
P.O. Box 1327 - Vik  
0112 Oslo  
Norway

Phone: +47 23 11 40 00

**SFL MANAGEMENT (UK) LIMITED**

10 Eastcheap, 4th Floor  
London EC3M 1AJ  
United Kingdom

Phone: +44 20 75 43 66 85