

ASSESSMENT

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TABLE OF CONTENTS

Summary Analysis	1
Summary Opinion	1
Transaction Summary	2
Strengths and Weaknesses	2
Organization	2
Use of Proceeds	3
Disclosure on the Use of Proceeds	4
Management of Proceeds	4
Ongoing Reporting and Disclosure	5
About Fabège AB	5
Building Certification Schemes	6
Moody's Related Publications	6

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Fabège AB

Green Bond Assessment - Green Medium Term Note Programme, September 2017 Issuance

Summary Analysis



Summary Opinion

The GB1 (Excellent) grade on [Fabège AB's](#) (Fabège, Baa3 stable) SEK700 million in medium-term notes due September 2022 (Loan No. 107) considers Fabège's established green financing credentials with a history of issuing green bonds that align with the Green Bond Principles. The GB1 grade further reflects the following considerations:

- » Independently reviewed and robust green bond framework
- » Proceeds allocated in full to projects aligned with locally and internationally recognized green building certification schemes
- » Robust disclosures on proceeds and reporting, including non-compliance reporting events and independent audit on the overall green medium term note programme (green MTN programme)
- » Some limitations comparing actual to intended environmental benefits

Factor	Factor Weights	Score	Weighted Score
Organization	15%	1	0.15
Use of Proceeds	40%	1	0.40
Disclosure on the Use of Proceeds	10%	1	0.10
Management of Proceeds	15%	1	0.15
Ongoing Reporting and Disclosure	20%	2	0.40
Weighted Score			1.20

The transaction's weighted scorecard outcome is 1.20. This corresponds to an overall score of GB1, in line with the GBA assigned to Fabège.

Transaction Summary

On September 9, 2017, Fabege issued SEK700 million (approximately \$87 million) in five-year fixed to floating rate unsecured notes due September 2022. The notes were issued under Fabege's green MTN programme to finance energy efficient properties that are eligible under the Green Bond Principles (GBP).

Including this transaction, Fabege has executed six green note issuances totaling approximately SEK2.7 billion, or approximately \$340 million. Along with this issuance, Fabege increased the cap under this programme to SEK5 billion from SEK2 billion in September 2017. The notes are listed on the Nasdaq Stockholm Sustainable Bonds List.

Strengths and Weaknesses

Strengths	Weaknesses
Adoption of a green bond framework in collaboration with outside parties; framework includes a second party opinion	Some limitations related to comparing actual to intended environmental improvements given dynamic asset pool; lack of initial intended improvements for some properties
Full use of proceeds to qualifying energy efficient buildings	
Experienced issuer of green medium term notes	
Fairly robust quarterly and annual reporting	
Environmental impacts including energy consumption and carbon dioxide emissions reported annually by property	

Organization



The green MTN programme is an important component of Fabege's overall commitment to environmental sustainability. Fabege issues green bonds under its green MTN programme with the aim of facilitating the financing of climate-smart and ecologically sustainable real estate. In addition to the building-specific green certification, each tenant that leases office space also signs up for "green leases," separate agreements between tenants and landlords whereby both parties agree on a common environmental agenda for the space, including measures to reduce the environmental impact of energy, indoor environment, materials and waste.

Fabege established its green bond framework in 2016. The framework details how the company plans to use green bonds to finance green projects, specifically green buildings that conform to internationally recognized design certification schemes. Fabege relies on two primary certification schemes under its green bond framework: 1) the Building Research Establishment Environmental Assessment Methodology - Sweden (BREEAM-SE) and 2) Miljöbyggnad, a Swedish certification scheme specific to the local market. Fabege also utilizes the Green Building Council's criteria. In addition to the certifications, Fabege seeks to achieve energy consumption that is at least 25% less than the national average.

The framework also details cash management policies that include dedicated earmarked accounts for green bond proceeds. Project selection is coordinated through the head of Fabege's Corporate Sustainability with investment selection ultimately determined by a committee which includes the Chief Financial Officer and Head of Treasury.

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Factor 1: Organization (15%)	Yes	No
Environmental governance and organization structure appears to be effective	●	
Policies and procedures enable rigorous review and decision making processes	●	
Qualified and experienced personnel and/or reliance on qualified third parties	●	
Explicit and comprehensive criteria for investment selection, including measurable impact results	●	
External evaluations for decision making in line with project characteristics	●	
Factor Score	1	

Use of Proceeds



Fabege's proceeds from the notes issuance will be 100% allocated to green and sustainable buildings that adhere to the above referenced certifications. Although the proceeds are only allocated to projects that adhere to the green bond framework, we do not have a specific list of financed properties under this specific loan to which we assigned a GBA. However, the broad framework on project eligibility and use of proceeds as outlined in the green bond framework, and independently reviewed by Sustainalytics, provide comfort that the proceeds are fully committed to energy efficient properties under recognized industry design certification systems.

Because Fabege actively purchases and sells properties as one of three main pillars of its business operations, no static pool of assets exists. However, a listing of recent properties and their precise certification schemes and levels is outlined below (see Exhibit 1). The nature of the dynamic pool also limits the company's ability to provide some reporting, which is covered in the discussion below on Ongoing Reporting and Disclosure.

Exhibit 1

Sample list of Fabege's current green-certified properties and environmental benefits

City / Location	Property	Size (Square Meters)	Green Building Certification	Certification Level	Energy Consumption (2016)	CO ₂ Emissions (2016)	% of Tenants with Green Leases
Stockholm	Barnhusväder-kvarnen 36	25,970	Breeam-in-Use	Very good	154 kWh / m ²	1 kg / m ²	47%
Hammarby Sjöstad	Båtturen 2	13,267	Miljöbyggnad	Gold	115 kWh / m ²	0.61 kg / m ²	81%
Solna Business Park	Fråsaren 11	39,305	Breeam-in-Use	Very good	81 kWh / m ²	0.93 kg / m ²	90%
Solna Business Park	Fråsaren 12	36,605	Breeam-in-Use	Very good	101 kWh / m ²	1.16 kg / m ²	67%*
Malmarna	Getingen 13	16,914	GreenBuilding / Breeam-in-Use	Very good	69 kWh / m ²	0.9 kg / m ²	53%
Stockholm	Stockholm Hägern Mindre 7	13,422	BREEAM In-Use Very Good	Very good	113 kWh / m ²	0.4 kg / m ²	60%
Solna	Nationalarenan 8	45,774	Breeam-SE	Excellent	47 kWh / m ²	0.5 kg / m ²	100%
Solna	Nöten 4	60,995	Miljöbyggnad	Silver	59 kWh / m ²	0.7 kg / m ²	N/A
Solna	Pyramiden 4	72,200	Breeam-SE	Excellent	37 kWh / m ²	0.4 kg / m ²	100%

*2015 data only.

Not an exhaustive list of properties.

Sources: Fabege AB, Moody's Investors Service

This exhibit also highlights some of the reporting elements Fabege and its owners plan to provide, such as energy use and carbon-dioxide emissions per square meter. The "Gold" standard is the highest classification for Miljöbyggnad, and the "Very Good" standard is the third highest classification for BREEAM-SE. Miljöbyggnad is a Swedish building certification system specific to that market. Under the adopted green bond framework, properties in Sweden must achieve the equivalent of "Silver" under the Miljöbyggnad system.

Factor 2: Use of Proceeds	Yes	No
>95% - 100% of proceeds allocated to eligible project categories that are determined based on the issuer's adopted policies and the categories established under the Green Bond Principles that will be further informed by one or more robust and widely recognized green bond frameworks or taxonomies that qualify eligible projects, including any applicable regulatory guidelines.	●	
Factor Score	1	

Disclosure on the Use of Proceeds



The properties and their respective green building certifications encompass a range of environmentally friendly building initiatives. Fabège's commitment to reporting on each of the respective buildings' energy consumption and carbon dioxide emissions is favorable. Where there are deviations in disclosures and reporting, Fabège has committed to highlighting these deviations. This reflects Fabège's transparency in disclosures on the use of and management of proceeds. Reports are available on each of the properties, and detail on each building and location is provided.

Factor 3: Disclosure on the Use of Proceeds	Yes	No
Description of green projects, including portfolio level descriptions, actual and/or intended	●	
Adequacy of funding and/or strategies to complete projects	●	
Quantitative and/or qualitative descriptions for targeted environmental results	●	
Methods and criteria, both qualitative and quantitative, for calculating performance against targeted environmental results	●	
Issuer relies on external assurances: Second Party reviews, audits and/or third party certifications	●	
Factor Score	1	

Management of Proceeds



We understand that Fabège typically funds investments with equity and then takes out the initial financing with green debt proceeds, making ongoing monitoring of proceeds fairly minimal. Fabège has distinct "Green Accounts" and clear rules indicating that funds are not fungible. Therefore proceeds from notes issuances or property sales stay within the green program or Green Account. Where excess proceeds remain uninvested, they are typically deposited in short-term, highly liquid accounts rated "A3/A-" or higher.

Fabège's auditor (Deloitte) provides an annual audit that is specific to the green MTN programme, in addition to the standard corporate level audit across all Fabège's business activities, a strength for this transaction.

Factor 4: Management of Proceeds	Yes	No
Bond proceeds are segregated and separately tracked on an accounting basis or via a method by which proceeds are earmarked	●	
Application of proceeds is tracked by environmental category and project type	●	
Robust process for reconciling planned investments against actual allocations	●	
Clear eligibility rules for investment of cash balances	●	
Audit by external organization or independent internal audit unit	●	
Factor Score	1	

Ongoing Reporting and Disclosure



Fabege's reporting is fairly robust with quarterly and annual reports available publicly on Fabege's website that cover all its investments, with exclusive dedication to the company's green financing initiatives. Fabege has also committed to reporting non-compliance events with the aim to further educate the company and assist in improving their internal processes.

The frequency and thoroughness of the reports are favorable as granular detail on the environmental benefits is provided. In early 2017, Fabege produced its first annual report including the green financings, and will continue to do so on an annual basis. The company also publishes shareholder presentations. All of these documents are available in English and Swedish on Fabege's website.

One limitation for Fabege is that environmental benefits such as electricity consumption per square meter (kWh/m²) or carbon-dioxide emissions per square meter (CO₂/m²) are not always known at the start of construction. Furthermore, the pool of assets financed under the green MTN programme is dynamic. As Fabege acquires or divests assets it is not always possible to compare actual to intended environmental results. Given this limitation, sub-factor five is scored as "No" resulting in a score of 2 for Ongoing Reporting and Disclosure.

Factor 5: Ongoing Reporting and Disclosure	Yes	No
Reporting and disclosure post issuance provides/to be provided detailed and timely status updates on projects	•	
Ongoing annual reporting is expected over the life of the bond	•	
Disclosures provide granular detail on the nature of the investments and their expected environmental impacts	•	
Reporting provides/to be provided a quantitative and/or qualitative assessment of the environmental impacts actually realized to-date	•	
Reporting includes/to include quantitative and/or qualitative explanation of how the realized environmental impacts compare to projections at the time the bonds were sold		•
Factor Score	2	

About Fabege AB

Fabege AB is a Stockholm-headquartered commercial real estate company that was established in 2005. It is one of the largest property companies in Sweden, with its real estate holdings valued at SEK57.9 billion. Around half of its property portfolio is located in the inner city and central business district of Stockholm, with the remainder in the fastest growing areas outside the city, including Arenastaden, Solna Business Park and Hammarby Sjöstad, which have good transport links and are within a five-kilometre radius from central Stockholm. The company's 90 properties span more than 1.1 million square metres and generated SEK2.3 billion in rental revenue in 2017, with offices accounting for 83% of the total rental value. While the company focuses on the development and management of office properties, its portfolio also includes retail properties, some industrial and warehouse properties, as well as hotels. Fabege is listed on Nasdaq Stockholm and had a market capitalisation of SEK28.1 billion as of 19 February 2018.

Building Certification Schemes

[Building Research Establishment Environmental Assessment Methodology \(BREEAM\)](#)

The BREEAM assessment process evaluates the procurement, design, construction and operation of a development against targets that are based on performance benchmarks. Assessments are carried out by independent, licensed assessors, and developments are rated and certified on a scale of Pass, Good, Very Good, Excellent and Outstanding. BREEAM In-Use International is an assessment method which assists property investors, owners, managers and occupiers to drive sustainable improvements through operational efficiency, including how to continually manage the operation of their building effectively. BREEAM has been in use since 1990.

[Miljöbyggnad](#)

Miljöbyggnad is a Swedish system for certifying buildings in relation to energy, indoor climate and materials. The system offers certification in the different grades, Gold, Silver and Bronze, and is used for both residential and commercial buildings, new builds as well as existing buildings. The building is examined in relation to 15 or so different indicators with respect to energy, indoor environment and materials. The first buildings using this certification in Sweden commenced in 2010.

Source: Faberge AB

Moody's Related Publications

Methodology

- » [Green Bonds Assessment \(GBA\)](#), March 30, 2016

Credit Opinion

- » [Faberge AB: New Issuer](#), February 20, 2018

Issuer In-Depth

- » [City of Gothenburg Green Bond Assessment - Euro Medium Term Note Programme, June 2017 issuance](#), November 27, 2017
- » [Svensk FastighetsFinansiering](#), November 14, 2017

Issuer Comment

- » [City of Gothenburg - Update to Green Bond Assessment - Euro Medium Term Note Programme, June 2016 issuance](#), January 18, 2018

Sector In-Depth

- » [Green Bonds - Global: Global green bond issuance set to eclipse \\$250 billion in 2018](#), January 31, 2018
- » [Green Bonds - Global FAQ: The green bond market and Moody's Green Bonds Assessment](#), November 29, 2017
- » [Green Bond Assessments - Global Issuers exhibit strong organizational frameworks but differ on disclosure](#), September 19, 2017

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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