°CICERO Shades of Green

# Fabege

## Green Financing Second Opinion

11 June 2019

**Fabege is a Swedish developer, owner and manager of commercial real estate.** The company focuses on sub-markets in the Stockholm area. Fabege's 89 properties make up approximately 10 % of Stockholm's office space. The company has 181 employees and is listed on Nasdaq OMX Stockholm.

**Fabege wants to reduce emissions from management of its buildings, i.e. excluding emissions from construction and materials, to net-zero by 2030.** A 50% improvement in energy efficiency is expected to be reached during 2019. In addition to energy efficiency the issuer aims to use only renewable energy and certifying all assets under the BREEAM environmental standard.

**Proceeds can be allocated to new green developments and to improve older assets.** Eligible assets must achieve certain certification levels and remain under clearly defined thresholds for energy use. With 50 kWh/m2 these are clearly ambitious for new buildings and are adjusted for older properties.

**Fabege has in place clear and relevant policies that include transport considerations and engagement with suppliers on sustainability.** The issuer screens all new developments for connections to public transport. This influences the selection of project sites. New developments are also equipped with facilities to encourage the use of electric mobility and cycling. Fabege requires its main suppliers to undergo sustainability inspections and ceases to use suppliers if the sustainability performance does not improve as desired. Fabege uses life-cycle emission assessments to select certain materials.

**The issuer reports on emissions from energy use in buildings. Emissions from construction and some materials are tracked internally but not yet reported.** Reporting to investors on green finance activities will be provided quarterly. An annual investor letter will in addition provide impact reporting on asset level for a set of defined indicators. Impacts will not be ascribed to single instruments.

**This framework has several strong elements.** It would however gain from some more transparency on how energy efficiency targets for existing buildings relate to the current energy efficiency of buildings in the portfolio, as well as from reporting on emissions from construction and materials. Based on the overall assessment of the project types, governance and transparency considerations, we note that energy efficiency targets for existing buildings as well as the targeted certification level remain below the requirements for a Dark Green shading. Therefore, Fabege's green finance framework receives a **Medium Green shading**.

### SHADES OF GREEN

Based on our review, we rate Fabege's **green finance framework Medium Green.**

Included in the overall shading is an assessment of the governance structure of the green finance framework. CICERO Shades of Green finds the governance procedures in Fabege's framework to be **Excellent**.


### GREEN BOND / LOAN PRINCIPLES

Based on this review, this framework is found in alignment with the Green Bond and Green Loan principles.

°CICERO Medium Green

# Contents

# 1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of Fabege's green finance framework dated 10 June 2019. This second opinion remains relevant to all green financial instruments issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of Fabege's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

### Expressing concerns with 'shades of green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions of the bonds. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

| CICERO Shades of Green | Examples |
|---|---|
| **Dark green** is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated. | Wind energy projects with a strong governance structure that integrates environmental concerns |
| **Medium green** is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered. | Bridging technologies such as plug-in hybrid buses |
| **Light green** is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them. | Efficiency investments for fossil fuel technologies where clean alternatives are not available |
| **Brown** is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future. | New infrastructure for coal |

Sound governance and transparency processes facilitate delivery of an issuer's climate and environmental ambitions laid out in the framework. Hence, the governance aspects are carefully considered and reflected in the overall shading of the green finance framework. CICERO Green considers four factors in its review of an issuer's governance processes: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent.

# 2 Brief description of FABEGE's green finance framework and related policies

### About the issuer:

Fabege is a Swedish property company focusing on letting and managing commercial premises and urban development. The business is concentrated in a small number of submarkets in the Stockholm region, being the Inner City, Hammarby Sjöstad, Arenastaden, Haga Norra, Solna Business Park and Flemingsberg. Within these areas, Fabege owns 89 properties which stand for 10% of office space in Stockholm, according to the issuer. The company has 181 employees.

Fabege underlines the importance of sustainability considerations in its operations. Regarding its assets, the company has demonstrated this focus by applying geothermal and solar power technologies in some of its new developments. As an example, Fabege develops a hotel building which, according to the issuer, will cover and exceed its own energy demand with on-site renewable energy generation.

Fabege has already issued several green bonds which are listed on Nasdaq Stockholm under the ticker FABG.

### Environmental Strategies and Policies:

According to the framework, the issuer has based its sustainability work on the UN Global Compact's ten principles about environment, human rights and anticorruption as well as the UN Sustainable Development Goals. In particular, the framework aims to support goals 3,7,11, 12 and 13, while Fabege's general operations also support goals 8 and 10 in addition.[1]. The Global Compact and the SDG have been a guidance for the issuer's code of conduct.

None of Fabege's buildings have fossil fuel driven facilities for heating, cooling or power generation, according to the issuer. Fabege has adopted sustainability targets in the fields of energy, environmental certification and green leases. Regarding energy, the issuer follows a strategy that encompasses reducing energy demand, selecting certain sources of energy (e.g. geothermal, seasonal storage), efficient energy use, recuperation and renewable generation.

The issuer strives for the management of its properties to be climate neutral by 2030. In order to reach this goal, the issuer aims to improve the energy efficiency of its assets by 60 %, compared to 2005 levels, by 2023. Efforts to improve energy efficiency were started in the early 2000s and the issuer expects to achieve a 50 % improvement over 2005 during 2019. The current average energy-use of the total lettable area excluding tenants is 98 kWh/m$^2$. For buildings that received planning permission after 2012, Fabege has adopted a target for energy-use of 50 kWh/m$^2$ for each building. The overall target for the entire portfolio of older properties, which received planning permission in or before 2012, is an average of 90 kWh/ m$^2$, to be achieved in 2023. This does not apply to each asset. The qualification threshold criteria for older buildings defined in this framework (see table 1) are supposed to contribute to this target and they define which buildings are eligible to receive proceeds from instruments issued under this framework.

[1] (3) Good Health and Well-being, (7) Affordable and Clean Energy, (8) Decent Work and Economic Growth, (10) Reduce inequalities, (11) Sustainable Cities and Communities, (12) Responsible Consumption and Production (13) Climate Action.

In addition to energy efficiency targets the issuer also plans to source all electricity consumed in its assets from renewable sources. In order to achieve this goal, Fabege aims to add 320 MWh of solar power generation annually, generated by solar cells on all new buildings and in part also on existing ones. In addition, electricity generated from wind- and hydropower plants will be purchased.

Fabege plans to certify all its assets under the BREEAM environmental certification standard. Currently, 82 % of total space in the portfolio are certified, excluding projects under development.

The issuer also offers its clients green leases. These are agreements between Fabege and the tenant of an office building on a joint environmental agenda for the efficient use of resources and sustainable property management. Such a lease agreement may include commitments regarding materials selection, renewable electricity, flexible building design, energy efficiency enhancements or sorting of waste. Fabege aims to increase the number of green leases, which are also taken into consideration during environmental certification processes. In 2018, 90% of new leases were such green leases, and the overall goal for the entire portfolio is to achieve a share of 75 % (currently 71%).

Regarding policies towards suppliers, the issuer already conducts sustainability inspections of its main procurements and has a target of reaching all its strategic suppliers by 2020, covering 75% of all procurements, according to the framework. Fabege supports improvement programs and confirms that it will cease to use contractors that fail to improve their sustainability performance.

The issuer also aims to cover all its financing needs with green or sustainable financing instruments by 2020. Fabege reports indirect emissions of greenhouse gases through purchased energy. This refers to the total energy used in a building excluding tenants and energy produced onsite, e.g. by solar panels. The issuer prefers this metric over energy labels ("Energiklasserna"). In this context the issuer refers to Swedish regulation (Boverket), which states that energy labels issued before and after 1. January 2019 are not necessarily comparable. Reporting is done for the years 2017 and 2018 under the GRESB benchmark, which is aligned with frameworks such as the Global Reporting Initiative. Emissions are also reported according to the Greenhouse Gas Protocol. Fabege has started to track emissions from construction and some materials but does currently not report on them. Climate risk reporting according to the recommendations by the Task Force on Climate Related Financial Disclosure (TCFD) is currently at an early stage with only limited reporting so far.

According to the issuer's environmental policy, the environmental work is regularly followed up, evaluated and improved. This has resulted in more frequent internal reporting to the group management.

The issuer has entered into a project partnership with Stockholm Environmental Institute (SEI)[2] in order to explore how the company and the industry as a whole can contribute to achieving the goals of the Paris Climate agreement.

### Use of proceeds:

Proceeds from green financing instruments can be used by the issuer to finance or refinance, in whole or in part, new and existing projects within the category green buildings.

The eligibility of projects is tied to energy efficiency targets, environmental certification and effective public transportation and cycling facilities. According to the framework, the largest share of proceeds will be allocated to existing projects. These are buildings that are older than 12 months. According to the issuer, proceeds can be used to finance concrete measures, e.g. to increase the energy efficiency in an asset, or to refinance entire buildings.

[2] SEI is a member of the CICERO-led Expert Network on Second Opinions (ENSO). SEI is not involved in this second opinion.

At least 85 % of proceeds will be allocated to the environmental objectives of climate change mitigation and adaptation (see "Selection" for more on environmental objectives). All investments will be within Sweden.

The framework states that net-proceeds will not be allocated or linked to fossil-based energy generation, nuclear energy generation, research and/or development within weapons and defense, potentially environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco.

### Selection:

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental issues are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Eligible projects are added to the "Pool of Green Assets". In order to be added to this pool projects must comply with laws and regulations as well as the policies and guidelines that Fabege applies, including the eligibility criteria defined in this framework.

The process for selecting projects from the "Pool of Green Assets" that are to be financed or refinanced with green finance proceeds is based on an environmental assessments and environmental certifications that the issuer undertakes for all projects. The Green Business Council (GBC) regularly reviews this information for all planned, ongoing and existing projects in order to select those that will receive green finance proceeds. In this process the GBC evaluates the overall environmental impact of the reviewed projects. This evaluation takes into consideration factors such as life-cycle-considerations, potential rebound effects, resilience considerations, all of which are included in the BREEAM framework, and the adherence to at least one of the environmental objectives as defined by the issuer. These objectives follow the Green Bond Principles and are defined as climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation and pollution prevention and control. Screenings for transport solutions, such as access to public transport within walking distance and potentially battery charging as well as bicycle facilities, are part of each project assessment.

The GBC consists of the Chief Financial Officer, the Head of Sustainability, and the green financing specialist from the Treasury Department. Decisions by the GBC to allocate green finance proceeds require consensus among the members, which lends all members a veto. All decisions by the GBC will be documented. If a project or asset for whatever reason ceases to fulfill the eligibility criteria it will be removed from the list of green assets receiving green finance proceeds. The funds will be recycled to other eligible projects.

### Management of proceeds:

Proceeds from green financing instruments will be credited to a Green Account. Funds can also be alternatively tracked by the issuer through the Green Portfolio. Funds will be withdrawn from the Green Account corresponding to expenditures on eligible projects or repayment of green financing instruments.

If projects cease to fulfill eligibility criteria or are divested from or otherwise lost, funds previously allocated to these projects will be re-credited to the Green Account or reallocated to other eligible projects if the instrument in question allows for this. Any such reallocations will be documented by the Treasury Department. The combined allocation of funds to a project, both from green and conventional financing instruments, cannot exceed the value of the asset.

Temporarily unallocated funds may be invested in short-term interest-bearing securities, such as Swedish treasury bills (and related entities) or Swedish municipal notes (including related entities). According to the framework, the liquidity management policies do not allow investments in fossil-based energy generation, nuclear energy generation, research and/or development within weapons and defense, potentially environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco. According to the issuer, instances of excess liquidity are rare and tend to be of short duration.

The management of proceeds will be reviewed by an external auditor. The auditor's report will be published on Fabege's website together with the annual report to investors.

## Reporting:

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance instruments are contributing towards a sustainable and climate-friendly future, both among investors and in society.

The issuer will provide annual reporting on proceeds from bonds, commercial papers and other loans (total), the allocation of proceeds from green finance instruments and the achieved impacts on its website. The issuer will report on allocated amounts including examples of concrete projects. The issuer will also report on the sum of outstanding green bonds and the balance of the Green Account, including information on investments and management of unallocated funds. Fabege will also disclose the share of proceeds allocated to new projects.

The issuer will disclose impacts on asset level and proportional to the share of green financing an asset has received. An asset may receive proceeds from various green financing instruments with varying maturities. The issuer will report the total achieved impacts of an asset. However, reporting will not be able to ascribe concrete impacts to single instruments.

Impacts will be estimated for those projects that have not yet entered their operational phase. In its impact reporting the issuer will focus on energy savings and related reductions in greenhouse gasses. Fabege will disclose on a yearly basis:

- Environmental certification and level
- Energy performance of an asset in kWh per square meter and the relative improvement over the applicable national building code
- Energy savings per year (MWh) based on an asset's performance relative to the applicable national building code for ongoing developments or recently completed properties
- Carbon intensity of assets (grams of $CO_2$ per square meter) and the annual carbon savings based on the market-based method, which reflects the emissions from the electricity that Fabege is purchasing and which is in accordance with the GHG Protocol
- An asset's share of renewable energy in its total energy demand
- The share of green leases signed with tenants out of the total let area

In addition, the issuer will provide quarterly statements on total outstanding green financing amounts and the total value of green assets. These quarterly reports will give a better indication of instruments with a maturity of 1 to 12 months than the annual reports.

A qualified independent auditor will review whether the reported amount of allocated proceeds matches the actual allocated amount. The auditor's report will be published on Fabege's website, along with the green financing framework, this second opinion, the regular reports and other information.

# 3 Assessment of Fabege's green finance framework and policies

The framework and procedures for Fabege's green finance investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Fabege should be aware of potential macro-level impacts of investment projects.

## Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Fabege's green finance framework, we rate the framework **CICERO Medium Green.**

## Eligible projects under the Fabege's green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds and related instruments aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

| Category | Eligible project types | Green Shading and some concerns |
|---|---|---|
| **Green Buildings** | • For ongoing development or recently completed properties:<br>o Have received or will receive an environmental certification of at least BREEAM-SE "Very Good"<br>o Achieve an energy use of max. 50 kWh per square meter (as defined by the applicable national building code, BBR).<br>• For existing properties:<br>o Have received or will receive an environmental certification of at least Miljöbyggnad "Silver", BREEAM-SE "Very Good" or BREEAM in-Use "Very Good"<br>o Achieve an energy use per square meter not exceeding the thresholds set out below: | **Medium Green**<br>• Dark Green shading is in particular difficult to achieve in the building sector because buildings have a long lifetime. The highest shading level is reserved for the highest building standards such Zero-Energy buildings and passive houses. This framework's strict requirements on energy efficiency, in particular for new buildings is, however, a clear strength.<br>• The issuer tracks emissions during construction and uses |

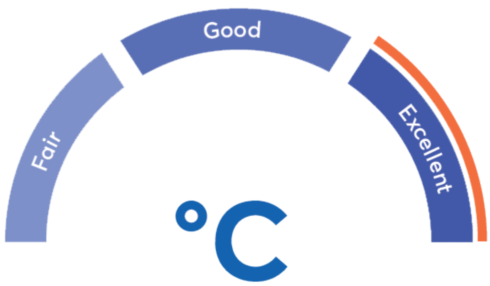
| | | |
|---|---|---|
| | **Construction year** / **Energy use per square meter**<br>Before 1971: 135 kWh / sqm<br>1971-1999: 125 kWh / sqm<br>2000-2006: 115 kWh / sqm<br>After 2006: According to Applicable BBR (BBR), but Must be lower than 100 kWh / sqm | life-cycle emissions assessments for selecting some materials and suppliers<br>• The energy-use levels listed here are criteria that qualify a building to receive proceeds from instruments issued under this framework. These projects will contribute to the overall goal of reaching 90 kWh / $m^2$ on average for the entire portfolio of older buildings. |

Table 1. Eligible project categories

## Governance Assessment

Four aspects are studied when assessing the Fabege's governance procedures: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent.

Fabege has in place relevant policies and clear energy efficiency targets for both new and existing buildings. Targets especially for new buildings are ambitious. The issuer performs environmental screenings of its strategic contractors and suppliers. Fabege screens all projects for public and green transportation solutions, and access to public transportation is a prerequisite for selecting a project location. Climate resilience screening and efforts are included in the BREEAM certification framework, which the issuer aims to achieve for all assets. Outstanding green finance amounts are reported quarterly, and impacts are reported based on a list of performance indicators annually on a per asset basis. The overall assessment of Fabege's governance structure and processes gives it a rating of **Excellent**.




## Strengths

The target for energy use of 50 kWh/m2 for buildings that received planning permission after 2012 is ambitious. We welcome the focus on existing buildings. The issuer informs us that the targeted certification level of BREEAM–SE Very Good and BREEAM in-Use Very Good for all new and existing buildings is to be seen as a minimum ambition. The issuer attempts to achieve BREEAM – Excellent in all projects, but project specific conditions may make it unfeasible to reach this level in all projects.

It is a strength that Fabege takes public and clean transport considerations into account. According to the issuer, access to public transportation is a necessary condition for selecting a project site. This contributes to reducing emissions, congestion and air pollution in the Stockholm area by giving people whose place of work is housed in

Fabege's buildings an alternative to using private cars. As an example, the issuer mentions the decision to enter Flemingsberg (south Stockholm), which is located next to the main railway connecting the south of Sweden with Stockholm. In addition to public transport the issuer provides facilities which encourage building users to travel using low-carbon modes of transport and to minimize individual journeys. As a standard for all new buildings, and where feasible also for refurbishments of existing buildings, the issuer installs cyclist facilities, electric recharging stations, lockers for clothes and drying space for wet clothes. The issuer informs us that there are thresholds for distance to public transportation and for the maximum number of parking places without charging for electric vehicles.

Fabege uses its leverage to engage with its suppliers and contractors on sustainability matters. The issuer performs annual sustainability inspections with its main suppliers and contractors, which stand for ca. 75% of annual procurements. These inspections review aspects such as materials, work environment and anti-corruption. Especially with smaller contractors the issuer encourages initiatives to improve the sustainability performance. Should these fail to deliver results Fabege will terminate the business relation. For selecting some types of materials and suppliers, Fabege uses life-cycle emissions assessments, as stipulated in the BREEAM standard.

### Weaknesses

There are no apparent weaknesses in the framework.

### Pitfalls

The framework does not provide asset level details on the relationship between the current energy use and the targeted energy use. The framework refers to the current average of 98 kWh/ $m^2$, which is to be reduced to 90 kWh/ $m^2$ in 2023. Since Fabege's building portfolio includes buildings from different construction periods with varying energy efficiency, the current and targeted averages provide only limited information on the improvement per building, or per construction period. However, this is balanced to a degree by the ambitious overall target.

Viewed in isolation the criteria thresholds defined under table 1, which span the range from 100 – 135 kWh / $m^2$, only qualify for medium green. Given the issuer's information that proceeds will to a large extent be allocated to existing projects, this weighs in the overall shading.

The issuer will use the market-based method to calculate saved emissions. Consistency in reporting methods is important and we encourage the issuer to apply the same grid emissions factor in the reporting of emissions from its own operations (scope 1) as in the reporting of emissions from managing the portfolio buildings (scope 2).

# Appendix 1:
## Referenced Documents List

| Document Number | Document Name | Description |
|---|---|---|
| 1 | Fabege Grönt ramverk | Fabege’s green finance framework |
| 2 | Miljöpolicy | Fabege’s environmental policy |
| 3 | Annual report 2018 | Annual report including sustainability report for 2018 |
| 4 | Fabege’s code of conduct | Overarching requirements covering society, the natural environment, work environment and employees and business partners |
| 5 | “For suppliers” | Part of Fabege’s website outlining requirements for suppliers to regard the code of conduct and take part in sustainability inspections |
| 6 | Green MTN program | Information on the Medium-Term Note with environmental criteria placed by Fabege |
| 7 | Whistleblower Function | Part of Fabege’s website with guidance for “whistle-blowing” |
| 8 | Strategi teknik fastighet och stadsdelar | Outlining different types of energy related measures |

# Appendix 2:
# About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green finance investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds and other instruments, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).