

‘Second Opinion’ on Entra’s Green Bond Framework

May 16, 2018

Summary

Entra is one of Norway's leading real estate companies and an Industry leader in developing and managing energy efficient buildings. Entra's business concept is to develop, let and manage attractive and environmentally friendly premises as well as exercising active portfolio management through the purchase and sale of properties. The portfolio consists of flexible and environmentally friendly, high-quality office buildings in central locations.

Entra issued its first green bond in 2016 and has now updated its green bond framework (dated 25 April 2018). CICERO provided a Second Opinion (dated 8.9.2016) on the company's original green bond framework. This Second Opinion is an update that incorporates two changes to the original framework: 1) commercial and residential properties with a minimum BREEAM In-Use certification of "Excellent" are included among the eligible projects, and 2) commercial or residential buildings with an energy use per year on a kWh/m² basis that is at least 30 per cent lower than the Norwegian government agency Enova's most recent annual industry average. This comes in addition to the original eligible projects covering 1) new commercial and residential properties, 2) refinancing of existing commercial and residential properties, and 3) major renovation projects of commercial and residential properties, all with a certification from BREEAM-NOR with a minimum certification of "Excellent".

Overall, Entra's Green Bond Framework provides a clear and sound framework for climate-friendly investments in accordance with the Green Bond Principles. However, we note that BREEAM "Excellent" is not the top classification ("Outstanding" is best). A dark green framework requires a 'conservative' selection of projects, i.e. the portfolio should contain projects that are well above the minimum criteria in the framework. Based on past history and current strategies and policies, CICERO believes this will be the case.

Through its strategic framework and other policies, Entra is deeply committed to contribute to a green transition towards a low carbon society in the longer run. Entra has clear and ambitious targets when it comes to reducing energy consumption and CO₂ emissions. For new and totally renovated buildings, they target an energy consumption of less than 40 kWh/m². For Entra's total portfolio, the target is to achieve energy consumption below 135 kWh/m² in 2020. The long-term target is to reduce the CO₂ emissions by 70 % by 2030.

Entra has proved to be an environmental leader in the building sector in Norway and has been responsible for some dark green and very innovative building projects. Entra complies with national and international environmental requirements and takes an active responsibility for reducing negative environmental impacts beyond such requirements. Entra also takes responsibility outside its own value chain by contributing to the sector and to the customers' development.

Entra will provide an annual report to investors including 1) a list of projects financed including environmental impact reporting on energy and CO₂, water and waste, 2) a selection of project examples and 3) a summary of Entra's Green Bond development. Entra's Chief Compliance Officer will verify the internal tracking method, the allocation of funds from the Green Bond proceeds and the investor letter annually. The opinion of the Chief Compliance Officer and investor letter will be made publically available on Entra's web page. CICERO finds it very encouraging to see such a comprehensive impact reporting.

Based on an overall assessment of the project types that will be financed as well as governance, reporting and transparency considerations, Entra’s Green Bond Framework gets a Dark Green shading.



°CICERO
Dark Green

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1 Introduction and background

As an independent, not-for-profit, research institute, CICERO Center for International Climate Research provides Second Opinions on institutions' framework and guidance for assessing and selecting eligible projects for green bond investments and assesses the framework's robustness in meeting the institutions' environmental objectives. The Second Opinion is based on documentation of rules and frameworks provided by the institutions themselves (the client) and information gathered during meetings, teleconferences and e-mail correspondence with the client.

CICERO 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 has established the global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, to broaden the technical expertise and regional experience for Second Opinions. CICERO works confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for Second Opinions. In addition to CICERO, ENSO members currently include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy. A more detailed description of CICERO can be found at the end of this report. ENSO encourages the client to make this Second Opinion publically available. If any part of the Second Opinion is quoted, the full report must be made available.

CICERO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general level. CICERO does not validate or certify the climate effects of single projects, and thus, has no conflict of interest in regard to single projects. CICERO is neither responsible for how the framework or mechanisms are implemented and followed up by the institutions, nor the outcome of investments in eligible projects.

This note provides a Second Opinion of Entra's Green Bonds Framework and policies for considering the environmental impacts of their projects. The aim is to assess the Entra's Green Bonds Framework as to its ability to support Entra's stated objective of promoting the transition to low-carbon and climate resilient growth.

This Second Opinion is based on the green bond framework presented to CICERO by the issuer. Any amendments or updates to the framework require that CICERO undertake a new assessment.

CICERO takes a long-term view on activities that support a low-carbon climate resilient society. In some cases, activities or technologies that reduce near-term emissions result in net emissions or prolonged use of high-emitting infrastructure in the long-run. CICERO strives to avoid locking-in of emissions through careful infrastructure investments and moving towards low- or zero-emitting infrastructure in the long run. Proceeds from green bonds may be used for financing, including refinancing, new or existing green projects as defined under the mechanisms or framework. CICERO assesses in this Second Opinion the likeliness that the issuer's categories of projects will meet expectations for a low carbon and climate resilient future.

Expressing concerns with 'shades of green'

CICERO/ENSO Second Opinions are graded dark green, medium green or light green, reflecting the climate and environmental ambitions of the bonds and the robustness of the governance structure of the Green Bond Framework. The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society. The shading methodology also aims at providing transparency to investors when comparing green bond frameworks exposure to climate risks. A dark green project is less exposed to climate risks than a lighter green investment.

This Second Opinion will allocate a 'shade of green' to the green bond framework of SFF:

- **Dark green** for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically, this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.
- **Medium green** for projects and solutions that represent steps towards the long-term vision but are not quite there yet.
- **Light green** for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil-based processes).
- **Brown** for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society. However, governance and transparency considerations are also important because they give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework. The overall shading reflects an ambition of having the majority of the project types well represented in the future portfolio, unless otherwise expressed by the issuer. Note that investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement.

Buildings sector considerations

With buildings accounting for nearly 40 percent of global energy consumption, the building sector should play a key role in effective climate policy. Energy efficiency improvements in buildings are thus important building blocks towards reaching the 2°C goal.

Several voluntary environmental certification systems provide some level of measurement of the environmental footprint of a building, including energy efficiency credits, with BREEAM and Leadership in Energy and Environmental Design (LEED) possibly the most widely used certification system. A BREEAM rating is determined by the number points (credits) earned in the project check-list. A higher number of points earns a higher rating, with some requirements for each rating level. BREEAM is an environmentally comprehensive certification system, however, energy efficiency is only one out of several concerns earning points in a scorecard. The total score determines the overall certification level.

2 Brief Description of Entra's Green Bond Framework and rules and procedures for climate-related activities

Entra ASA (Entra) is a listed Norwegian real estate company, headquartered in Oslo, Norway. The Norwegian government has a 33.4 percent ownership stake in the company. Entra is focusing on high quality, flexible office buildings with central locations close to public transportation hubs. Thus, Entra's strategic areas of concentration are Oslo and the surrounding districts, Bergen, Stavanger and Trondheim. As of Q4 2017, Entra owned and managed approximately 1.2 million square meters in 84 buildings. The real estate portfolio had a market value of NOK 40 billion and the average remaining lease period was 6.7 years. The public sector represented approximately 67 per cent of the customer portfolio.

Entra has an ambition to be an environmental leader in the sector. Based on existing technology, expertise and experience, Entra contributes to reducing energy consumption through measures in existing buildings, through refurbishment and new buildings. Environment friendly solutions are a strategic priority in Entra. Entra complies with national and international environmental requirements. Entra takes an active responsibility for reducing the negative environmental impact beyond such requirements and takes responsibility outside its own value chain by contributing to the sector and to the customers' development.

Entra has defined three strategic pillars that create a foundation for the company's priorities and action plans. One of them is Environmental Leadership. Entra continues to implement and seek new environmental initiatives to meet climate-related challenges and thus become the most environmentally friendly company in its industrial sector. Therefore, Entra decided to establish two targets aiming at reduction of absolute CO₂ emission and reduction of energy consumption per square meter. Since 2012 Entra has improved its building's energy performance by 28 percent. According to the Company, as of 2017, Entra has reduced the average energy usage in all assets to 143 kWh per square meter compared to the sector's average energy consumption of 200 kWh per square meter. Entra's sustainability work is based on the ten UN Global Compact principles. Entra has also signed up to "The roadmap towards 2050 for the property sector" compiled by the the Green Building Council and Norsk Eiendom. The roadmap's vision is to contribute to a climate neutral Norway in 2050.

The results of Entra's sustainability work are reported annually and are available on the company's web page. Energy performance and quantity of certified properties are reported quarterly.

Definition

The proceeds of Entra's Green Bonds are used to finance development of commercial and residential projects certified in accordance with the BREEAM building certification schemes with a minimum certification of "Excellent". In addition commercial or residential buildings should have an energy use per year on a kWh/m² basis that, at the time of approval by Entra, is at least 30 per cent lower than the Norwegian government agency Enova's¹ most recent annual industry average. Entra's Green Bonds will not finance fossil fuel projects.

¹ <https://www.enova.no> - Enova's database includes buildings for which property owners previously have received financial support from Enova or have reported on voluntarily. The Enova average represents a selection of buildings for which property owners have a clear focus on environmental impacts and is the only relevant average currently available for the industry in Norway

Selection

The Treasury department and the Project Development department that possesses the environmental competence select eligible Projects. Proceeds from the Green Bonds will be used exclusively to projects that meet the certification criteria under Eligible Projects.

Management of proceeds

An amount equal to the net proceeds of the issue of the Notes will be credited to a special account that will support Entra's lending for Eligible Projects. As long as the Notes are outstanding and the special account has a positive balance, at the end of every fiscal quarter, funds will be deducted from the special account and added to Entra's lending pool in an amount equal to all disbursements from that pool made during such quarter in respect of Eligible Projects. Until disbursement to Eligible Projects, the special account balance will be placed in liquidity reserves.

If for any reason, a property would not reach the anticipated certification level, that asset will be removed from the lending Pool and replaced by an asset that qualifies in accordance with the Green Bond framework. If Entra sells an existing building, that asset will be removed from the lending Pool and replaced by an asset that qualifies in accordance with the Green Bond framework.

Entra will document the transfers to and from the Special Account, to ensure tracking and simplify review. The use of proceeds from the Special Account is being reviewed by the company's Chief Compliance Officer annually.

Transparency and Accountability

The Green Bond framework outlines a procedure for providing a detailed investor report. To enable investors to follow the development and provide insight to prioritized areas, Entra will provide an annual investor letter to investors including 1) a list of projects financed including environmental impact reporting on energy and CO₂, water and waste, 2) a selection of project examples and 3) a summary of Entra's Green Bond development. The internal tracking method, the allocation of funds from the Green Bond proceeds and the investor letter will be verified by Entra's Chief Compliance Officer annually. The opinion of the Chief Compliance Officer and investor letter will be made publically available on Entra's web page.

Documents reviewed

The table below lists the documents that formed the basis for this Second Opinion:

#	Document Name	Description
1	Entra's Green Bond framework dated April 25 th , 2018	
2	Environmental Strategy	Described in the Annual Report 2017 pages 26 -32 + pages 37-41

3	CSR Reporting	Described in the Annual Report 2017 pages 24-42
4	Social Responsibility	Described in the Annual Report 2017 pages 24-42
5	Procurement	Guidelines for responsible procurements
6	Annual Report 2017	
7	Corporate Governance Guidelines	Described in the Annual Report 2017 pages 44-53
8	Presentation of Entra	Power point presentation of Entra
9	BREEAM-NOR	See Link to BREEAM-NOR
10	BREEAM Certificate Powerhouse Kjørbo	BREEAM NOR Outstanding certificate
11	BREEAM Certificate Schweigaardsgate	BREEAM NOR Excellent certificate
12	Entra Awards	A selection of awards for Entra projects
13	CDP Climate Change 2017 Information request response	Response to CDP Climate Change Request
14	Qualitative questionnaire on water, waste and energy to the Ministry of Trade, Industry and Fisheries	Response to inquiry from the Ministry of Trade, Industry and Fisheries

Table 1 Documents reviewed

3 Assessment of Entra’s Green Bond framework and environmental policies

Overall, Entra’s green bond framework provides a detailed and sound framework for climate-friendly investments.

The framework and procedures for Entra’s green bond 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, whereas the weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

Eligible projects under the Green Bond 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 aim to provide certainty to investors 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 Building	<ol style="list-style-type: none"> 1. New construction or major renovation of commercial and residential properties <ul style="list-style-type: none"> ✓ BREEAM-NOR minimum certification “Excellent” 2. Refinancing of existing commercial and residential properties <ul style="list-style-type: none"> ✓ BREEAM-NOR minimum certification “Excellent” 3. Major renovation projects of commercial and residential properties <ul style="list-style-type: none"> ✓ BREEAM-NOR minimum certification “Excellent” 4. Commercial and residential properties with <ul style="list-style-type: none"> ✓ BREEAM In-Use minimum certification of “Excellent”. <p>In addition, commercial or residential buildings should have an energy use per year on a kWh/m² basis that, at the time of approval by Entra of that project, is at least 30 per cent lower than the</p>	<p>Medium to Dark Green</p> <ul style="list-style-type: none"> ✓ Building criteria are considered adequate but do not reflect best available technology nor the highest level of standards possible. In a low carbon 2050 perspective the energy performance of buildings is expected to be improved, with passive and plus house technologies becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments ✓ In addition to climate issues, BREEAM cover a broader set of issues, which is

Norwegian government agency Enova's most recent annual industry average.	important to overall sustainable development.
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Table 2. Eligible project categories

Strengths

Through its strategic framework and other policies, Entra is deeply committed to contribute to a green transition towards a low carbon society in the longer run. Entra have clear and ambitious targets when it comes to reducing energy consumption and CO₂ emissions. For new and totally renovated buildings, they target an energy consumption of less than 40 kWh/m². For Entra's total portfolio the target is to achieve energy consumption below 135 kWh/m² in 2020 (the result was 143 kWh/m² in 2017). The long-term target is to reduce the CO₂ emissions by 70 % by 2030.

The building criteria used to define eligible projects are good but do not represent the best available technologies since the highest certification levels are not required. A dark green framework requires a 'conservative' selection of projects, i.e. the portfolio should contain projects that are well above the minimum criteria in the framework.

Entra has proved to be an environmental leader in the building sector in Norway and has been responsible for some dark green and very innovative building projects. Based on existing technology, expertise and experience, Entra contributes to reducing energy consumption through measures in existing buildings, through refurbishment and new buildings. Entra complies with national and international environmental requirements and takes an active responsibility for reducing negative environmental impacts beyond such requirements. Entra also takes responsibility outside its own value chain by contributing to the sector and to the customers' development.

The reporting and validation procedures are described in the Green Bond framework. The Green Bond framework supports regular and transparent updates to investors and the public. It is a strength that the issuer will report on (estimated) impacts and list all projects.

Weaknesses

No significant weaknesses perceived.

Pitfalls

In a low carbon 2050 perspective the energy performance of buildings is expected to be improved, with passive and plus house technologies becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments. The Entra framework is not quite there yet, but is taking valuable steps towards this long-term vision. Green building certifications include many important environmental aspects. However, these certifications alone do not necessarily ensure improved energy performance or that resilience aspects are taken into considerations.

Impacts beyond the project boundary

Due to the complexity of how socio-economic activities impact the climate, a specific project is likely to have interactions with the broader community beyond the project borders. These interactions may or may not be climate-friendly, and thus need to be considered with regards to the net impact of climate-related investments.

Rebound effects

Efficiency improvements may lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. Entra should be aware of such effects and possibly avoid Green Bond funding of projects where the risk of rebound effects is particularly high.

Appendix: About CICERO

CICERO Center for International Climate Research is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international climate cooperation. We collaborate with top researchers from around the world and publish in recognized international journals, reports, books and periodicals. CICERO has garnered particular attention for its work on the effects of manmade emissions on the climate and the formulation of international agreements and has played an active role in the UN's IPCC since 1995.

CICERO is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO received a Green Bond Award from Climate Bonds Initiative for being the biggest second opinion provider in 2016 and from Environmental Finance for being the best external review provider (2017).

CICERO Second Opinions are graded dark green, medium green and light green to offer investors better insight in the environmental quality of green bonds. The shading, introduced in spring 2015, reflects the climate and environmental ambitions of the bonds in the light of the transition to a low-carbon society.

CICERO works with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions. Led by CICERO, ENSO is comprised of trusted 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). ENSO operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

cicero.oslo.no/greenbonds

