



Nyfosa AB

Green Finance Second Opinion

April 14, 2021

Nyfosa AB (Nyfosa) is a transaction-based and opportunistic property company with a business concept based on active participation in the transaction market combined with an investment strategy that can be flexible to the primarily commercial property market. The headquarter is in Nacka outside Stockholm, Sweden. Nyfosa's property portfolio is divided into Office (54%), Logistics/Warehouse (22%), Retail (9%) and Other (15%). The last category consists mostly of premises for light industry, health and social care, a few hotels/conference centres and land. There are no fossil fuel companies in the tenant stock. At year end 2020, Nyfosa's property portfolio consisted of 361 properties with a total property value of SEK 29.4 billion and a rental value of SEK 2,451 million, with a lettable area of 2,380,000 m². In addition to Nyfosa's wholly owned property portfolio, the company also owns 50% of the property company Söderport corresponding to SEK 6.0 billion.

It is expected that the majority of proceeds will be allocated towards the category Green Buildings with criteria based on Miljöbyggnad, BREEAM, LEED or Green Building certification schemes. Other eligible categories are Clean transportation, Energy efficiency, Environmentally sustainable management of living natural resources, Pollution prevention and control, and Renewable energy. The proceeds raised under the framework can be applied to financing new assets, acquisitions, projects and to refinance existing projects. The share between new and existing projects will be reported on in the Green Financing Investor Report. It is expected that the majority of proceeds will be allocated towards existing projects.

Nyfosa has a high awareness of, and focus on, waste and material use and re-use. Nyfosa is in the process of establishing a monitoring and accounting system for energy and greenhouse gas emissions and has a modest target of improving the energy efficiency by 10% from 2020 to 2025. Furthermore, 50% of the properties shall be environmentally certified by the year 2025 increasing to 100% by 2030. There is no target on greenhouse gas emissions yet. Sustainability data is reported in accordance with GRI Standards, level Core. Nyfosa does not report on climate risks according to the TCFD guidelines. There will also be an annual external audit on a limited assurance level of Nyfosa's allocation process.

Based on the overall assessment of the eligibility criteria in the green finance framework, governance and transparency considerations, the framework receives an overall **CICERO Medium Green** shading. In order to achieve a Dark Green shading, the green finance framework would need stronger eligibility criteria in the Green buildings category where in particular some of the energy efficiency requirement in renovation are weak or difficult to assess.

SHADES OF GREEN

Based on our review, we rate the Nyfosa's green finance framework **CICERO 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 Nyfosa's framework to be **Good.**



GREEN BOND and GREEN LOAN PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.





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1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated March 2021. This second opinion remains relevant to all green bonds and/or loans 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 the client'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. 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



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.



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.



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.

Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green finance are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client'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. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



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

Nyfosa is a transaction-based and opportunistic property company with a business concept based on active participation in the transaction market combined with an investment strategy that can be flexible to the property market. These investments may be made in properties or property portfolios that are often on the peripheral in terms of the types of investments preferred by other operators. The emphasis is on identifying value and assessing the development potential to leverage business opportunities that may lead to a portfolio of high-yielding properties, primarily commercial. The headquarter is in Nacka just outside Stockholm, Sweden. Nyfosa's property portfolio is divided into the categories (percentage of property values in parenthesis): Office (54%), Logistics/Warehouse (22%), Retail (9%) and Other (15%). This last category consists mostly of premises for "light" industry, health and social care, a few hotels/conference centres and land. There are no fossil fuel companies in the tenant stock. At year end 2020, Nyfosa's property portfolio consisted of 361 properties with a total property value of SEK 29.4 billion and a rental value of SEK 2,451 million, with a lettable area of 2,380,000 m². The properties, all without fossil fuel heating, are distributed throughout Sweden and are mainly located in growth municipalities and transport hubs. Nyfosa can provide 100% renewable electricity to all of their properties.

In addition to Nyfosa's wholly owned property portfolio, the company also owns 50% of the property company Söderport corresponding to SEK 6.0 billion (see <https://nyfosa.se/fastigheter/soderport/>).

Environmental Strategies and Policies

The vision for Nyfosa's sustainability work is to run the business in such a way that future profits can be secured without jeopardizing present or future generations. They do this by striving to reduce their climate emissions and taking social responsibility both locally and globally. Nyfosa's work in sustainability is based on the 17 UN Sustainable Development Goals and the 10 Principles of the UN Global Compact for sustainable enterprises. The Head of Sustainability and Project Development has the overall responsibility for the sustainability agenda within the company and the ultimate responsibility falls on the CEO. The environmental work is an ongoing process in Nyfosa and the environmental policy is renewed annually by the board.

It is Nyfosa's intention to follow the best practices in relation to Green Bonds and Loans, as the market standards develop and as the EU classification of environmentally sustainable economic activities, the EU Taxonomy, enter into force. Therefore, the Framework may be amended and/or updated to reflect the changes in market practice. Nyfosa does not report on climate risks according to the TCFD guidelines.

Nyfosa has as efficiency target that by 2025, energy consumption per square meter will have fallen by 10% compared to 2020. Furthermore, 50% of the properties owned for the entire year must be environmentally certified by the year 2025 and 100% of the properties must be environmentally certified by 2030. As of March 2021, 11 properties are environmentally certified.



One of the Nyfosa’s sustainability goals for 2021 is to get adopted a code of conduct for the company’s suppliers and the suppliers’ confirmation of it¹. The code of conduct places demands on the suppliers' choice of materials, waste management and transport to and from the properties.

Sustainability data is reported in accordance with GRI Standards, level Core, and consumption data is reported in accordance with SASB (Sustainability Accounting Standards Board). Calculations of CO₂ emissions come from the energy monitoring system Mestro and are based on standard calculations. CO₂ emissions from electricity production are based on Nyfosa’s electricity trading agreement with Vattenfall, calculated on the life cycle of electricity production (8.45 gCO₂/kWh in 2020). For district cooling, the emission factor for Swedish average district cooling is used, which was 19.96 g/kWh. CO₂ emissions for district heating are based on the energy companies’ own figures compiled annually by the organization Energiföretagen and are not temperature corrected².

Partial data from properties where Nyfosa can control the use of energy shows an energy use per square meter as depicted in figure 1. We note an overall 7% decline from 2019 to 2020. Energy consumption in the like-for-like portfolio on December 31, 2020 was 101 kWh/m², down from 109 kWh/m² in 2019. The total energy consumption in the like-for-like portfolio on December 31, 2020 was 104.0 GWh, up from 99.0 GWh in 2019. The increase is explained by the fact that the total data collection within the portfolio is higher in 2020 than in 2019. The majority of the energy use is from district heating.

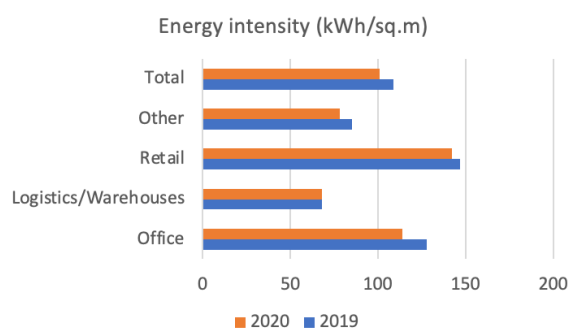


Figure 1 Energy intensities by types of property.

For CO₂ emissions, scope 2 and 3 were reported already for the year 2019, while scope 1 emissions was reported for the first time for the year 2020. The sum of total emissions were then 5.4 ktCO₂, of which 4.8 ktCO₂ was scope 2 emissions. The increase in scope 2+3 emissions from 2019 to 2020 was 32%, which is explained by the fact that the property portfolio has increased. Measured as scope 2 emission intensity, the number decreased by 17%, from 3.5 to 2.9 kgCO₂/m².

Use of proceeds

The net proceeds from Nyfosa’s issuances of green finance instruments will finance eligible projects (as defined in table 1 below) in part or in full, that promote environmental benefits as determined by Nyfosa and in line with Nyfosa’s sustainability policy. The proceeds raised under the framework can be applied to financing new assets, acquisitions, projects and to refinance existing projects. The share between new and existing projects will be reported on in the Green Financing Investor Report (as defined below). It is expected that the majority of proceeds will be allocated towards existing projects.

The framework defines eligible projects in one of the following categories: Clean transportation, Energy efficiency, Environmentally sustainable management of living natural resources, Green buildings, Pollution prevention and control or Renewable energy. It is expected that the majority of proceeds will be allocated towards the category Green Buildings. Eligible Projects can be owned by Nyfosa directly or indirectly through subsidiaries.

¹ This implies e.g., that the supplier must have knowledge of and control over its environmental impact; continuously work to improve environmental measures in its business activities; take choice of materials into account in reconstruction and extension work; apply the principle of precaution; implement a system whereby waste is disposed of in a proper manner so as to promote reuse and recycling; work to reduce emissions to air, soil and water and streamline its use of energy and resources.

² As the report is produced in the middle of the year, the environmental values for district heating are delayed by one year.



In addition to green finance instruments issued by Nyfosa in the capital market, Nyfosa may have green loans provided by lending institutions. Nyfosa will report the aggregate amount of green loans and specify each eligible asset that has been financed by a green loan in a separate section of the Green Financing Investor Report.

Green debt net proceeds will not be allocated to projects encompassing fossil energy production, nuclear energy generation, potentially scarce 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 considerations 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.

Nyfosa has established a Green Finance Committee (GFC) to evaluate and select assets that are in line with the criteria set out in the use of proceeds section. A decision to allocate net proceeds will require a consensus decision by the GFC. Life cycle analyses are carried out for some of the larger projects. Screening for physical climate change risks is normal procedure. The committee meets at least on an annual basis or when needed. The Green Finance Committee is comprised of Head of Sustainability and Project Development, Head of Finance, Head of Property Management and Head of Financial Control.

The Green Finance Committee is responsible for evaluating the compliance of proposed assets with the eligibility criteria outlined in table 1, to ensure that the pool of eligible projects is aligned with the categories and criteria defined therein. Further, GFC will monitor on a regular basis that proceeds from the framework are allocated to eligible projects and that aggregated proceeds do not exceed the aggregated volume of the pool of eligible projects. GFC is responsible for replacing investments that no longer meet the eligibility criteria (e.g., following divestment, liquidation, concerns regarding alignment of underlying activity with eligibility criteria etc.) and for, on a best effort basis, reviewing and updating the content of the framework and managing any future updates of this document to reflect relevant changes in the Nyfosa's corporate strategy, technology and market developments (e.g., introduction of the EU Taxonomy).

Management of proceeds

CICERO Green finds the management of proceeds of Nyfosa to be in accordance with the Green Bond and Green Loan Principles.

An amount equal to the net proceeds of any green financing raised will be credited to an earmarked account that will support Nyfosa's lending to eligible projects. So long as the green financing is outstanding and the earmarked account has a positive balance, funds may be deducted from the earmarked account and added to Nyfosa's lending pool in an amount up to all allocations made from that pool made in respect of the eligible projects. The earmarked account will ensure monitoring and tracking of proceeds. The ambition is to use the proceeds within one year and no later than two years from the time of issuance of the green bonds. All green finance instruments issued by Nyfosa will be managed on a portfolio level. This means that a green finance instrument will not be linked directly to one (or more) pre-determined eligible asset(s). The Head of Finance is responsible for the allocation of proceeds from the account. If, for any reason, an eligible asset ceases to comply with the requirements set out in the framework, such asset will be removed from the earmarked pool. Proceeds yet to be allocated towards eligible projects will be placed in the liquidity reserves and managed as such. Unallocated proceeds cannot be used to invest in fossil fuel related assets.



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 is contributing towards a sustainable and climate-friendly future, both among investors and in society.

To enable investors to follow the development and to provide insight into prioritised areas, Nyfosa will provide a Green Financing Investor Report on an annual basis. The Green Finance Committee will be responsible for the reporting which will be made available at the web site www.nyfosa.se, and will be externally audited on a limited assurance level. Nyfosa intends to report on quantitative impact indicators where feasible and relevant data information is available.

Allocation reporting will include a description of the portfolio of eligible projects; type of financing instruments utilized and respective outstanding amounts; share of unallocated proceeds (if any); information on the split between new financing and re-financing; and a list of eligible projects including the amounts allocated per category and geography.

The investor reporting aims to disclose the environmental impact of the eligible projects financed under the framework, based on Nyfosa's financing share of each project. As Nyfosa can finance large and small eligible projects in the same category, the reporting will, to some extent, be aggregated. The impact assessment is provided with the reservation that not all related data can be covered and that calculations therefore will be on a best effort basis. E.g., if an energy optimization project is launched but yet fully implemented, Nyfosa will provide best estimates of future energy performance levels. The impact assessment will, if applicable, be based on the Key Performance Indicators (KPIs) related to the eligible project categories (cf. table 1) as follows:

- Clean Transportation: The number of installed charging stations for electric vehicles; the number of bicycles that a bicycle garage can accommodate.
- Energy Efficiency: Percentage of energy use reduced/avoided; energy efficiency increase (%); annual CO₂ emissions reduced/avoided in tCO₂.
- Environmentally Sustainable Management of Living Natural Resources: Each yearly report will include at least one example of an investment that has been financed with green net proceeds (if such a project has been financed). Nyfosa will describe the investment and the area of the installation (if applicable), as relevant information metrics.
- Green Buildings: Environmental certification; energy consumption disclosed by absolute consumption (kWh) and intensity (kWh/m²) per year; calculated carbon footprint disclosed by absolute emissions (tons CO₂) and intensity (kgCO₂/m²) per year.
- Pollution prevention & control: Each yearly report will include at least one example (if applicable) of an investment in Pollution prevention & control investment that have been financed with green net proceeds. Nyfosa will emphasize on carbon savings, where applicable, as relevant performance metrics. Other KPI's will not be disclosed beforehand in this framework.
- Renewable Energy: Each yearly report will include at least one example (if applicable) of a Renewable energy investment that have been financed with green net proceeds. Nyfosa will emphasize on carbon savings, where applicable, as relevant performance metrics. Other KPI's will not be disclosed beforehand in this framework.

Green loans taken by Nyfosa may be provided by lending institutions that finance these by issuing green bonds. Nyfosa will report the aggregate amount of green loans taken and specify each eligible asset that has been financed by a green loan in a separate section of the Green Financing Investor Report.



3 Assessment of Nyfosa’s green finance framework and policies

The framework and procedures for Nyfosa’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 Nyfosa 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 Nyfosa’s green finance framework, we rate the framework **CICERO Medium Green**.

Eligible projects under the Nyfosa’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 finances 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”.

The issuer’s expectation is that most of net proceeds will initially be allocated to the category Green buildings with the rest allocated to the remaining categories.

Category	Eligible project types	Green Shading and some concerns
Clean transportation 	<ul style="list-style-type: none"> Financing of clean transportation solutions such as electric vehicles, charging stations, bicycle garages, pedestrian walkways, bicycle lanes and other investments that support and emphasize the use of clean transportation. 	Dark Green <ul style="list-style-type: none"> ✓ Only fully electric vehicles will be eligible. ✓ Charging stations may also serve hybrid vehicles with a fossil fuel component.
Energy efficiency  	<ul style="list-style-type: none"> Financing of investments include energy retrofits such as the installation of more efficient ventilation or heating system and adjusting light controls and light fittings. The Green Finance Committee will only include investments where a minimum on 30% energy saving is targeted and a minimum negative 	Medium to Dark Green <ul style="list-style-type: none"> ✓ Efficiency measures in existing buildings is a good way to lower the climate footprint of buildings, unless it involves fossil fuel elements which then can be locked in. The issuer informs us that no fossil-based systems will be involved, and no upgrading of fossil fuel technologies will be allowed.



climate impact and potential rebound effect is achieved.

District heating system may be involved, and that may contain some fossil elements through the use of waste for heat.

- ✓ According to IEA, efficiency of building envelopes needs to improve by 30% by 2025 to be aligned with the Paris target. The issuer is aligned with this goal.
- ✓ Be aware of potential rebound effects following energy efficiency improvements.

Environmentally sustainable management of living natural resources



- Financing in green environments that promote, restore and preserve biological diversity such as green roofs, green walls, urban biotopes, flowerbeds and trees.

Dark Green

- ✓ It is good with elements of climate adaptation. Construction of green areas, local dams or creeks in city development projects are very useful to absorb excess water from flooding of natural creeks/ponds or stormwater from heavy rainfalls.

Green buildings



- Financing of development, newly constructed properties and acquired properties that either have or will receive a design stage certification of Miljöbyggnad Silver, BREEAM Very Good, LEED Gold, Green Building or an equivalent level from a certification scheme *and* that has an energy usage which is at least 20% below the applicable national legislation.
- Financing of existing or acquired properties that either have or will receive a certification of Miljöbyggnad Silver, Miljöbyggnad iDrift, BREEAM In use Very Good, Green Building or an equivalent level from a certification scheme and that achieve at least a 25% increase in energy efficiency or
- Financing of properties where refurbishments of existing or acquired buildings are made that lead to a 30% increase in energy efficiency, or
- Financing of properties with an Energy Performance Certificate (EPC) with energy class A or B.

Medium Green

- ✓ The issuer informs us that initially most of the net proceeds is expected to be allocated to the Green buildings category.
- The building criteria are good, but do not represent the highest standard levels. According to IEA, efficiency of building envelopes needs to improve by 30% by 2025 to be aligned with the Paris target.
- The issuer informs us that in the selection process for the category certification of existing properties with 25% energy efficiency, investment in environmentally friendly transport must be evaluated and prioritized. We note that 25% improvement in renovation is a quite weak requirement, although it comes on top of environmental certification..
- ✓ In addition to climate issues, Miljöbyggnad, LEED and BREEAM cover a broader set of issues, which is important to overall sustainable





		<p>development. Miljöbyggnad also has specific energy efficiency requirements for each certification level. That is not the case for LEED and BREEAM.</p> <ul style="list-style-type: none"> ✓ Some In-use certification schemes are relatively weak when it comes to specific energy use (e.g., Miljöbyggnad iDrift), material use and other concerns. ✓ In Sweden, EPC A is at least 50% better than current regulations, while EPC B is between 50% and 75% of current regulation for new buildings. Older buildings can have labels that are up to 10 years old, and therefore considerably weaker energy wise. ✓ Refurbishment of existing buildings are often better than new constructions from a climate point of view, but should ideally come with greater improvements in energy efficiency.
<p>Pollution prevention & control</p> 	<ul style="list-style-type: none"> • Financing of the establishment, expansion or upgrades of solutions contributing to the management, reduction and reuse of waste such as systems and technologies contributing to an efficient management of waste, for the purpose of reducing and recycling all types of waste in the management and construction of buildings. 	<p>Dark Green</p> <ul style="list-style-type: none"> ✓ Waste for heat or cooling will involve fossil elements (plastic). ✓ Management of waste will also include demolition projects.
<p>Renewable energy</p> 	<ul style="list-style-type: none"> • Financing of generation of renewable energy such as wind power, solar panels, heat pumps, heat exchangers and/or emission-free geothermal heating and cooling installations, as well as related infrastructure investments such as grid connections and electric substations, either on an existing building or as a stand-alone investment. 	<p>Dark Green</p> <ul style="list-style-type: none"> ✓ Facilities will have to operate at lifecycle emissions lower than 100 gCO₂e/kW to be aligned with the EU Taxonomy. ✓ The screening for controversial projects (e.g., wind power) is handled by municipal/state permit processes. ✓ Establishing geothermal bore holes is associated with risk for heavy mineral pollution.

Table 1. Eligible project categories

Background

The construction and real estate sector have a major impact on our common environment. According to the National Board of Housing, Building and Planning’s environmental indicators, it accounts for 32% of Sweden’s



energy use, 31% of waste and 19% of domestic greenhouse gas emissions. Calculations from Sveriges Byggindustrier indicate that the climate impact of new production of a house is as great as the operation of the house for 50 years.

As member of the EU, Sweden is subject to the EU's climate targets of reducing collective EU greenhouse gas emissions by 40% by 2030 compared to 1990 levels, increasing the share of renewable energy to 32% and improving energy efficiency by at least 32.5%.³ The European Green Deal aims for carbon neutrality in 2050.⁴ Sweden has developed a National Energy and Climate Plan (NECP) in which it outlines the targets and strategies in all sectors.⁵ These strategies include measures such as increasing renewable energy capacity, increasing energy efficiency, facilitating the large scale implementation of clean transportation alternatives, and increasing carbon sinks through reforestation and the LULUCF sector. Non-ETS emissions, of which public buildings and households are a part, must decrease by 63% by 2030.

The real estate sector accounts for a large share of primary energy consumption in most countries, and the IEA reports that the efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand – in addition to improvements in lighting and appliances and increased renewable heat sources.⁶ The energy efficiency of buildings is dependent on multiple factors including increasing affluence and expectations of larger living areas, growth in population and unpredictability of weather, and greater appliance ownership and use. Additionally, approximately half of life-cycle emissions from buildings stem from materials/construction. The other half stems from energy use, which becomes less important over time with the increasing adoption of off-grid solutions such as geothermal and solar. All of these factors should therefore be considered in the project selection process. In addition, voluntary environmental certifications such as LEED and BREEAM or equivalents measure or estimate the environmental footprint of buildings and raise awareness of environmental issues. These points-based certifications, however, fall short of guaranteeing a low-climate impact building, as they may not ensure compliance with all relevant factors e.g., energy efficiency, access to public transport, climate resilience, sustainable building materials. Many of these factors are covered under the World Green Building Council's recommendations for best practices for developing green buildings.⁷ CICERO Shades of Green assesses all of these factors when evaluating the climate impact of buildings.

The Exponential Roadmap⁸ lays out a trajectory for reducing emissions by 50% by 2030 and requires that emissions reductions strategies within the buildings sector be rapidly scaled up. The roadmap advocates for standardised strategies that are globally scalable within areas such as new procurement practices for construction and renovation that require dramatically improved energy and carbon emission standards, developing new low-carbon business models for sharing space and smart buildings to achieve economies of scale, and allocating green bond funding for sustainable retrofitting and construction.

EU Taxonomy

In March 2020, a technical expert group (TEG) proposed an EU taxonomy for sustainable finance that included a number of principles including a “Do-No-Significant-Harm” (DNSH) clause and safety thresholds for various

³ https://ec.europa.eu/clima/policies/strategies/2030_en

⁴ https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

⁵ https://ec.europa.eu/energy/topics/energy-strategy/national-energy-climate-plans_en

⁶ <https://www.iea.org/reports/building-envelopes>

⁷ <https://www.worldgbc.org/how-can-we-make-our-buildings-green>

⁸ https://exponentialroadmap.org/wp-content/uploads/2020/03/ExponentialRoadmap_1.5.1_216x279_08_AW_Download_Singles_Small.pdf



types of activities.⁹ In November 2020, EU published its draft delegated act to outline its proposed technical screening criteria for climate adaptation and mitigation objectives, respectively, which it was tasked to develop in order to take the Taxonomy after it entered into law in July¹⁰. The Do-No-Significant-Harm criteria include among other things measures such as ensuring resistance and resilience to extreme weather events, preventing excessive water consumption from inefficient water appliances, ensuring recycling and reuse of construction and demolition waste and limiting pollution and chemical contamination of the local environment. Among the stricter draft DNSH criteria are restriction on type of land that can be used for buildings (no forest, fertile soil or land with high biodiversity). In addition, the buildings should not be dedicated to extraction, storage, transport or manufacture of fossil fuels.

CICERO Green will not here verify Nyfosa's framework against the full EU taxonomy, but notes that the updated taxonomy includes specific thresholds for the real estate sector, some of which can briefly be summarized as follows:

1. The design and construction of new buildings needs to ensure a net primary energy demand that is at least 20% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national regulation.
2. Ownership or acquisition of buildings built before 2021 should have an Energy Performance Certificate label A.
3. Renovations should deliver 30% primary energy savings.
4. Large non-residential buildings should have dedicated energy management system.

It is currently unclear what will be in the final taxonomy and how this will apply to Sweden, but it is reasonable to expect that new buildings with energy use 20% below present regulation would be aligned with the taxonomy. The screening criteria for ownership and acquisition of buildings built before 2021 seems very strict (EPC A) and may be changed after the public hearing.

It is anticipated that activities related to energy efficiency, including installation of solar panels, heat pumps, extension of district heating and cooling, are to be classified as sustainable according to the EU Taxonomy.

Governance Assessment

Four aspects are studied when assessing the Nyfosa'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. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Prior to acquisitions, both technical and environmental due diligence are performed, where climate risks are included as part of the analysis. Here, among other things, topography and location in relation to communications and means of transport are considered. The analysis is carried out both with external experts and by the transaction team in Nyfosa. Identified risks and measures are, where applicable, entered in the property's business plan to be remedied / monitored during the holding period by the management. Environmental certifications are performed

⁹ Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020.

https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en

¹⁰ https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC_WORKFLOW

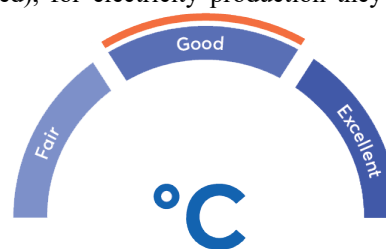


according to established international systems BREEAM, Miljöbyggnad, Green Building etc., with external expertise. Nyfosa does not follow the TCFD guidelines on climate risks reporting.

All of Nyfosa's properties are valued by external valuers every quarter. External valuation reports, from the time of acquisition for the property, as well as relevant decision material previously compiled and presented regarding the property, will be reviewed by the GFC in connection with allocation decisions. Life cycle analyses, and the need for analysis of possible lock-in effects, will be done if necessary, depending on the type of project in question.

The reporting of impacts will be based on grid factors as follows: For district heating, Nyfosa will use the energy companies' stated values (different values and not degree day corrected), for electricity production they use Vattenfall's reported emission factor (8.45 gCO₂/kWh). The reporting is on a portfolio basis and is good.

The overall assessment of Nyfosa's governance structure and processes gives it a rating of Good.



Strengths

The framework has many categories that are shaded Dark Green. However, the main category, Green buildings, is given a shading of Medium green, as it allows for buildings not aligned with passive houses or zero-energy buildings and some of the energy efficiency criteria for renovation are weaker. A commitment to substantial reporting of impacts increases transparency to investors and is a clear strength of the framework.

Nyfosa has a high awareness of, and focus on, waste and material use and re-use. Nyfosa is in the process of establishing a monitoring and accounting system for energy and greenhouse gas emissions. Nyfosa's target of improving the energy efficiency by 10% from 2020 to 2025 is modest (an annual improvement of 2.1%), and there are no targets on greenhouse gas emissions yet. Energy data and screening of energy potential is produced in collaboration with the technology consulting company Bengt Dahlgren (<https://bengtdahlgren.se/>) and is based on energy data from the energy monitoring system Mestro (<https://mestro.com/sv/>). This means that the Green Finance Committee's selection is based on Bengt Dahlgren's work. There will also be an annual limited assurance from an external auditor on Nyfosa's allocation process.

Weaknesses

We find no material weaknesses in Nyfosa's Green finance framework.

Pitfalls

The CICERO Dark Green shading is difficult to achieve in particular in the real estate sector because buildings have a long lifetime. CICERO Dark Green shading in this sector should therefore conform to strict measures and is reserved for the highest building standards such as LEED Platinum, Zero-Energy buildings and passive houses. Nyfosa has as yet no quantitative targets for GHG emissions. The issuer is encouraged to consider construction phase emissions and systematically work on reducing emissions related to transportation to and from the properties. Shopping malls in particular have the potential to indirectly generate considerable amount of traffic. The green buildings eligible under Nyfosa's framework are falling short of the long-term vision of zero-energy buildings or passive houses.

For the Green building criteria of Energy Performance Certificate A or B, we note that for older buildings these labels can be up to 10 years old and hence considerably weaker than current labels for new buildings.



We note that district heating is the predominant heating method in Sweden and represents a major part of Nyfosa's energy use. Also, most of the district heating companies seek to minimize the use of oil or other fossil fuels. However, when waste-to-energy is utilized, it is sometimes difficult to know the fossil fraction of the waste stream, e.g., the amount of plastics. Again, many Swedish district heating companies have strong policies to minimize these types of fractions, but without specific information of suppliers of district heating, it is difficult to guarantee totally against the use of some fossil fractions.

The bulk of the projects in the framework is not considered to be controversial, as they mainly concern certifications. Exceptions can be larger geothermal and photovoltaic systems as well as wind turbines that can affect local urban and landscape image and fauna. This type of project is handled by municipal/state permit processes.

Nyfosa has a large amounts of existing paved areas/parking spaces on their properties. They work to improve the environments, mainly regarding stormwater management and ecological connections in their development projects as well as the development of charging stations at these properties.

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. From the project categories in table 1, an example is energy efficiency investments in buildings which in part may lead to more energy use or a failing to reach the potential reductions. Nyfosa's work with its property users can actively mitigate the risk of rebound effects related to energy efficiency.

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. Nyfosa's green finance framework is not quite there yet, but is taking valuable steps towards this long-term vision. More stringent criteria would have been required for a darker shading.



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Nyfosa Green Finance Framework ver4 sent to Cicero	Nyfosa's Green Finance Framework dated March 25, 2021
2	1390974.pdf	Nyfosa's Annual Report 2020
3	Nyfosa_Hallbarhetsrapport_2020	Nyfosa's Sustainability Report 2020 (part of the Annual Report)
4	Globala hållbarhetsmål — Nyfosa	Global Sustainability goals of relevance to Nyfosa
5	Strategiskt grönt ramverk — Nyfosa	Nyfosa's Strategic Green Framework
6	Styrning och policyer — Nyfosa	Nyfosa's Governance and Policies
7	Fastighetsbranschens-uppforandekod-for-leverantorer_code-of-conduct	The real estate industry's code-of-conduct



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 bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, 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).

