

Fabege's Green Terms

SUMMARY OF GREEN TERMS IN FABEGE'S MEDIUM TERM NOTE PROSPECTUS AND SECOND OPINION BY SUSTAINALYTICS

27 April 2016



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1. EXECUTIVE SUMMARY

Fabege is a Swedish property company with a strong sustainability focus, ranking as a leader in environmental and social performance that ranks within the top 2% among its peers in the real estate sector according to Sustainalytics's ESG ratings. Fabege has incorporated green terms and conditions ("Green Terms") aligned with the Green Bond Principles into its Medium Term Note (MTN) programme. As per the Green Terms, all bonds issued by Fabege will have to comply with minimum certification levels of BREEAM Very Good or Miljöbyggnad Silver, and the company will furthermore observe specific criteria regarding project evaluation and selection, management of proceeds and reporting. Sustainalytics has reviewed the Green Terms and found them to be in full alignment with the 2015 Green Bond Principles (GBP) across all four components (use of proceeds, process for project evaluation, management of proceeds, and reporting). The Green Terms incorporate the recommended best practices under the GBPs, such as a second-party review of project selection, highly transparent tracking of proceeds, impact reporting, and external assurance. Furthermore, by leveraging credible green building certification systems and committing to minimum certification levels that demonstrate advanced good practice, the eligible projects will demonstrate environmental benefits and outperform the baseline of local regulation. Based on the above considerations, Sustainalytics is of the view that Fabege's Green Terms are robust and credible, and that Fabege is a strongly environmentally focused company that is well-positioned to issue green bonds.

2. INTRODUCTION

Fabege AB (Fabege) has integrated environmental criteria ("the Green Terms") into its Medium Term Note (MTN) programme, which has been approved by the Swedish Financial Supervisory Authority and made public on 22 April 2016. By formally including the Green Terms in the MTN's prospectus, Fabege has committed to ensuring that all future bond issuances will comply with these criteria. Fabege has retained Sustainalytics, the largest independent provider of sustainability research, analysis, and services to investors and other financial institutions globally, to provide a second-party opinion on the Green Terms. Sustainalytics' opinion is intended to provide an assessment of the Green Terms' alignment with Green Bond Principles, as well as the environmental benefits of the Green Terms, and to assess Fabege's overall sustainability performance. Sustainalytics held conversations with members of Fabege's Sustainability and Finance departments to understand the use and management of proceeds envisioned under the Green Terms, and the sustainability strategy of Fabege. Sustainalytics also reviewed public and internal documents from Fabege. This document contains two sections: Framework Overview – summary of Fabege's Green Terms; and Sustainalytics' Opinion – an opinion of the Green Terms.

3. COMPANY OVERVIEW

3.1 Fabege

Fabege AB is a Swedish property company founded in 1924 and headquartered in Solna, Sweden, which focuses primarily on letting and managing office premises and property development activities. The company's property portfolio is largely retail and commercial properties, with a small percentage of residential and hotel properties. As of December 2015, its portfolio comprised 83 properties with a total lettable area of 1.1 million square meters.

3.1.2 Fabege's Environmental Profile

According to Sustainalytics research, Fabege has an adequate environmental policy and management system, clearly supporting a precautionary approach to combating climate change, using resources more efficiently, and reducing the production of waste. The company has also demonstrated a strong commitment to mitigating related risks and impacts, including a strong GHG reduction programme with targets and deadlines. GRESB (the Global Real Estate Sustainability Benchmark) has ranked Fabege as a Green Star, the highest level in their survey of 707 real estate companies' sustainability practices, since 2014. Fabege is a member of the Swedish Green Building Council (SGBC), as well as BELOK¹ and Byggvarubedömningen², playing an active leadership role in promoting sustainability in the real estate sector.

Fabege has set targets for environmental certification and the use of green leases with tenants. Overall, as of 2015, 22% of its properties, representing 44% of total lettable area, have been

¹ BELOK is a co-operative project between the Swedish Energy Agency, the Swedish Construction Clients Forum and 15 of Sweden's largest local property owners focused on energy efficiency.

² Byggvarubedömningen is a Swedish industry organization promoting the use of sustainable materials in construction.

certified or entered the certification process. Furthermore, the company is actively promoting the use of green leases, in which it collaborates with tenants to reduce the environmental impact of properties. In 2015, 74% of the space under newly signed leases were subject to a Green Lease.

Fabege's CEO has ultimate responsibility for sustainability issues, and the company's management also includes a Head of Sustainability, who is responsible for overseeing sustainability strategy. In addition, the company has formed a Sustainability Group, which includes representatives from the company's executive, purchasing, human resources, communication, business development and property management teams. Thus, in addition to the Head of Sustainability, there is strong cross-functional oversight of sustainability at Fabege, including social and environmental targets and the management of sustainable supplier and customer relations.

3.1.3 Fabege's Green Terms

The Green Terms articulated in Fabege's MTN prospectus establish criteria for the environmental performance of the buildings that will be financed via the net proceeds from the issuance of Green Bonds issued under Fabege's MTN programme. Under the Green Terms, projects financed by bond proceeds must meet green certification standards outlined in Fabege's Process for Project Evaluation and Selection. Proceeds of the bonds will be used both to finance the development of new real estate assets and to refinance existing real estate assets. The following sections summarize Fabege's Green Terms with respect to the use of proceeds, project selection, the management of proceeds, and reporting.

4. FRAMEWORK OVERVIEW

4.1 Use of Proceeds

The proceeds of the notes issued by Fabege will be used to finance projects that fall under the categories outlined below.

- Development of new real estate assets
- Refinancing of existing real estate assets

For both project categories above, the Green Bonds proceeds must comply with Fabege's Process for Project Evaluation and Selection as well as the eligibility criteria of Fabege's Green Terms outlined in the next section.

4.2 Process for Project Evaluation and Selection

To be funded through the proceeds of notes, the real estate projects must meet the following eligibility criteria:

- The development of new real estate assets will require either a) a design stage certification or b) will obtain a certification as soon as reasonably possible after completion of at least either (i) Miljöbyggnad Silver or (ii) BREEAM SE Very Good.
- Existing real estate assets will require a certification of at least either a) Miljöbyggnad Silver or b) BREEAM SE in-use Very Good.

Miljöbyggnad is a Swedish certification system used for both residential and commercial buildings in Sweden. It has four areas of assessment (energy, indoor environment, chemical substances, specific environmental demands), spanning 15 indicators overall. The Miljöbyggnad Silver standard sets minimum requirements across the four areas of assessment that go above legal compliance in Sweden. In comparison, BREEAM has 10 areas of assessment and buildings are examined on 50 indicators. For a full overview of the two standards, please see Annex I.

The process for project evaluation and the selection is overseen by a committee consisting of members from the Finance Department and the Sustainability Department. Fabeges will keep an updated list of all eligible projects and real estate assets meeting the criteria outlined above, which will be used as a tool to determine the available green borrowing capacity. The green borrowing capacity is based on the market value of eligible projects less existing debt encumbrance on the same assets. The decision to issue a green bond depends on a positive confirmed borrowing capacity as well as compliance with Fabeges Green Terms and its finance policy.

4.3 Management of Proceeds

The net proceeds from the issuance of Green Bonds shall be credited to one or more accounts in Fabeges name at a financial institute (the “Green Accounts”). The Green Accounts disallow fungibility with other funds and ensure strong monitoring and tracking of the use of proceeds. If there is a positive balance of funds on the Green Account the residual amount is allowed to be invested in short-term financial instruments in accordance with Fabeges investment criteria, which stipulate that such investments shall only be made with creditworthy counterparties rated at least A- by Standard & Poor’s or a similar credit rating institute.

4.4. Reporting

4.4.1 Allocation Reporting

Fabeges commits to publishing an annual list of all Eligible Projects and Assets that have been financed with Green Bonds, the aggregated share of net proceeds allocated to new assets and existing assets respectively and any issuance of Green Bonds that took place during the previous year (the “List”). The List will also disclose the sum of the market value of Eligible Projects and Assets, the sum of the nominal existing debt of Eligible Projects and Assets, the sum of

outstanding Green Bonds, the sum of the balance on the Green Accounts and the sum of allowed investments, in each case per the last day of December in the previous year.

4.4.2 Impact Reporting

Fabege will report on estimated impact in the following areas:

- energy usage (kWh/sqm) and comparison with relevant benchmarks
- CO² emissions (tons)
- the percentage of renewable energy used for electricity
- the percentage of green leases between Fabege and the tenants

Both the allocation and impact reporting will be provided in an annual disclosure on the use of proceeds and adherence to the Green Terms on Fabege's website. The disclosure will be subject to an external review that will provide assurance regarding its accuracy and determine whether the Eligible Project and Assets have met the eligibility criteria.

Should the annual reporting or the report of the external reviewer find any discrepancies, Fabege will be required to re-allocate proceeds to assets that meet the eligibility criteria and to issue a follow-up report that addresses the areas of non-compliance. The completion of these steps will be required prior to any additional issuances of Green Bonds by Fabege. The external reviewer will also review the follow-up report.

All reporting (Fabege's allocation and impact reporting, the external reviewer's assurance report, as well as any follow-up reports and their assurance) will be made publicly available on Fabege's website.

5. SUSTAINALYTICS' OPINION

Environmental Priorities and ESG Performance: According to Sustainalytics research, Fabège is a leader among real estate companies. The company's performance across the material sustainability issues of energy use and human capital is aligned with best practice, and it demonstrates innovation and a strong commitment to product sustainability through its use of certification schemes and green leases. All new buildings and properties are to be environmentally certified, which directly aligns with the use of proceeds under the Green Terms. Furthermore, the company is also demonstrably promoting the use of Green Leases among its tenants, and has set a strong target for reducing energy use against its 2008 portfolio, thereby committing to continuous improvements in the operational performance of assets. For a full snapshot of Fabège's environmental, social, and governance performance, please see Appendix II.³

By formally integrating the Green Terms into its MTN programme, Fabège is signaling a high commitment to environmental performance, as all funding raised through the MTN programme will be directed towards assets that meet the minimum certification levels.

Use of Proceeds: Fabège's project eligibility criteria are based on third-party certification standards of BREEAM and Miljöbyggnad, both of which are used in Sweden. In using Miljöbyggnad Silver and BREEAM Very Good as minimum standards, the eligibility criteria rely on robust standards for the sustainability performance of the eligible assets.

The majority of BREEAM and Miljöbyggnad indicators are tradable and without minimum requirements, meaning that buildings can receive the same certification based on the fulfillment of different indicators. However, this weakness is overcome to a certain degree in Fabège's framework as it will report transparently on each project's energy usage, CO² emissions, and use of renewable energy. Furthermore, Fabège is already subject to Sweden's stringent energy efficiency standards (BBR) under its national building regulations.

In addition, the framework ensures that eligible buildings will sustain strong sustainability performance over the term of the bond. Under the eligibility criteria, new assets will have either design stage certification or BREEAM Very Good/ Miljöbyggnad Silver. In the event that Fabège is in the process of obtaining certification for a new asset, it will report on this transparently to investors. Existing real estate assets will need to be certified to BREEAM in-use Very Good or Miljöbyggnad Silver.

³ Sustainalytics assesses Fabège in a peer group of 301 real estate companies. Peer groups are a Sustainalytics' industry classification scheme that is aligned with GICS industry classification and also takes into account a company's main operating activities and environmental, social, and governance risk exposures.

To address concerns about continuous improvement within the portfolio of projects to which company has allocated proceeds, certification is renewed annually, and after two renewals have been completed previously, a full re-assessment is required against the asset and building management. Fabège will also report on the percentage of Green Leases across the portfolio, allowing additional assurance of the company's commitment to ensuring continuous improvement in environmental performance over the lifetime of bond issuances.

Although Fabège does not commit to a ratio or target of new vs. existing real estate projects selected under the use of proceeds, the company has set a public target for certification across all of its new builds. Thus, Fabège has sufficient assets and pipeline to allocate the use of proceeds from the bond. Furthermore, Fabège will report on the respective allocation of new vs. existing projects financed, for full transparency.

Overall, Sustainalytics is of the opinion that Fabège's project eligibility criteria are credible and robust, and Fabège is effectively targeting its green bond proceeds towards environmentally beneficial projects.

Project Selection Process: The decision-making process for the project evaluation and selection will involve Fabège's Sustainability and Finance Departments. The projects and assets eligible under the Green Terms must adhere to clearly defined and transparent criteria. Given that Fabège has appointed a qualified committee to maintain an ongoing list of eligible projects and assets, Sustainalytics is of the opinion that the selection process for projects and assets is robust and that the selected projects will meet the eligibility criteria.

Management of Proceeds: The net proceeds of the Green Bond issues will be credited to a separate account. If the account has a positive balance and unallocated funds are invested in short-term interest bearing securities, these will be reported and their intended use will be explained. Thus, the Green Bond proceeds will be segregated in a systematic manner, and Fabège's reporting will enable verification that proceeds have only been allocated towards projects that meet the eligibility criteria, as well as track temporary investments.

The internal tracking process will also ensure that the sale of any asset to which proceeds have been allocated will immediately result in the balance of unallocated funds rising by an equivalent amount as that asset's book value. As a result, in an event of a sale, proceeds will be re-allocated towards new eligible assets. This will also be made visible through the reporting process, as described below.

In sum, Fabège has defined a rigorous process for the management of proceeds that ensures that funds will only be used towards projects that meet the eligibility criteria.

Reporting: Faberge will publish a yearly report describing the use of funds and their adherence to the eligibility criteria on its website. The report will contain a list of all eligible projects financed and information regarding each project's adherence to the eligibility criteria will be provided. For financed projects, the report will disclose the aggregate market value and the sum of existing external debt for such assets. It will also disclose the sum of unallocated proceeds, including any short-term investments. This level of transparency ensures full transparency if any asset originally included under the use of proceeds is sold or otherwise impaired over the term of the bond, and the proceeds will be reallocated towards new eligible assets. In addition, the reporting framework ensures that Faberge will be fully transparent about the certification status of all projects to which proceeds have been allocated.

Faberge has additionally committed to impact reporting on the eligible projects, including energy usage, CO² emissions (tons), the percentage of renewable energy used for electricity, and the percentage of green leases between Faberge and the tenants. In addition, as per the Green Terms, Faberge will also make publicly available a third-party compliance review to assess the alignment of funds to eligible projects. Faberge has furthermore disclosed a highly transparent process for making amendments in case of non-compliance with the intended allocation of proceeds under the Green Terms. Therefore, in Sustainalytics opinion, Faberge has committed to disclosures that exceed current best practices in the green bond market.

Appendix I

Miljöbyggnad Standards and BREEAM Standards Comparison

	Miljöbyggnad	BREEAM SE
Background	Swedish Certification System Used for residential and commercial buildings Used for new and existing buildings, first buildings certified in 2010	British Certification System Adapted to Swedish regulations (BREEAM SE) used in Sweden since 2013 Used for new, refurbished and extension of existing buildings
Levels/Grades	Gold Silver (required by Faberge) Bronze	Outstanding Excellent Very Good (required by Faberge) Good Passed
Areas of Assessment	Energy Indoor Environment Chemical Substances Specific Environmental Demands	Management Health and Wellbeing Energy Transport Water Materials Waste Land Use and Ecology Pollution Innovation
Procedure	Buildings are examined on 15 indicators Application sent to Swedish Green Building Council	Buildings are examined on 50 indicators Application sent to Swedish Green Building Council (licensed by BRE Global)
Indicators (see detailed list)	<u>Energy:</u> Bought Energy Heating Power requirement Solar Heat Load Fraction of Energy Carriers <u>Indoor Environment:</u> Noise Protection Radon Content Ventilation Rates N2O to Indoor Air (from traffic) Moisture Prevention Thermal Climate Winter	<u>Management:</u> Commissioning Construction Site Impacts Building User Guide Moisture Control <u>Health and Wellbeing:</u> Daylight Occupants thermal comfort Acoustics Indoor Air and Water Quality Lighting

	Thermal Climate Summer Daylight Legionella <u>Materials and Chemicals:</u> Documentation of materials Absence of hazardous substances	<u>Energy:</u> CO2 emissions Low or zero carbon technologies Energy sub metering Energy efficient buildings system <u>Transport:</u> Public transport network connectivity Pedestrian and cyclist facilities Access to amenities Travel plans and information <u>Water:</u> Water consumption Leak detection Water re-usage and recycling <u>Waste:</u> Construction waste Recycled aggregates Recycling facilities <u>Pollution:</u> Refrigerant use and leakage Flood risk NOX emissions Watercourse pollution External light and noise pollution <u>Land Use and Ecology:</u> Site selection Protection of ecological features Mitigation/enhancement of ecological value <u>Materials:</u> Embodied life cycle impact of materials Material re-use Responsible sourcing Robustness Avoidance of hazardous substances <u>Innovation:</u> Exemplary performance levels Use of BREEAM Accredited Professionals
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Use in Sweden	In The UK, BREEAM Very good represents top 25% of the market, as a comparison	Proportion of certified assessments under BREEAM and the Code for Sustainable Homes in Sweden 2012: 0,09% Proportion of certified assets under BREEAM New construction non-domestic by country 2012: 0,2%
Rating		Majority of BREEAM issues are tradable, meaning that the client can pick and choose which to comply with in order to build their BREEAM performance score. BREEAM issues do have minimum standards, so to achieve a particular BREEAM rating a defined number of credits for that issue must be achieved. BREEAM has two stages, Interim Design Stage and Post Construction Stage, with different assessment criteria. Rating benchmarks, Environmental Weightings and Minimum BREEAM standards determine final BREEAM rating. The areas are weighted with respect to each other. The sum of the points obtained in each area are converted to the % obtained of the total possible within each area, with the share then being weighted according to the total weighting of each area. (see table 6) For BREEAM very good a score of 55% or above must be reached. For Very Good a Minimum Number 1 must be reached for the issues “
Comparable Issues to reach M. Silver or BREEAM Very Good	<u>Daylight:</u> Daylight factor of more than 1,2% <u>Thermal Climate Summer and Thermal Climate Winter:</u> PPD smaller or equal to 15%. <u>Moisture Prevention:</u> Moisture Proof design according to Bygga F	<u>Daylight:</u> is not a minimum requirement, at least 80% of the floor area is adequately daylight with an average daylight illuminance of 200 lux for 2650 hours per year. (they also have a daylight factor 2,1 and 2,2) <u>Occupants Thermal Comfort:</u> is not a minimum requirement, to receive 1 credit PPD has to be assessed and cannot fall within levels defined as local dissatisfaction.

	<u>Noise Protection:</u> equal to or 50% above the Parameters Class B <u>Absence of hazardous substances:</u> Some POS above content limits occur and are listed	<u>Moisture Control:</u> is not a minimum requirement, Moisture safety planning according to Bygga F or equivalent. <u>Acoustics:</u> no minimum requirement, for one credit all acoustic parameters for sound class C. For 2 credits, all acoustic parameters for Sound Class B. <u>Avoidance of hazardous substances:</u> no minimum requirement, Construction Material Assessment System has been used and substances are documented
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Appendix II

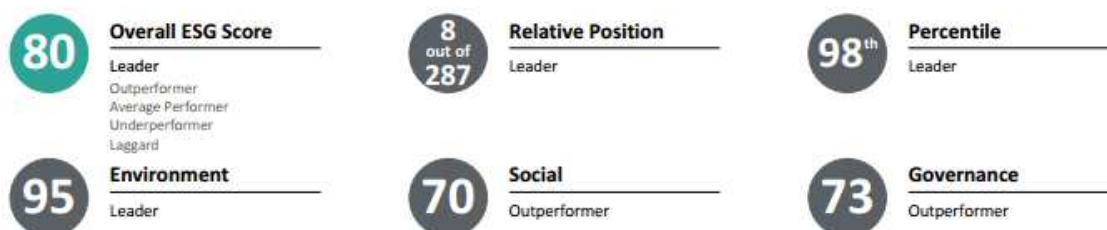
ESG ANALYSIS

Industry Leader in ESG Performance:

According to Sustainalytics' ESG research, as of April 2016, Fabège is a leader in the real estate industry, and ranks in the top 2% among its peers.

ESG Summary

Overall Performance



Environment

