

# EMILSHUS

A real estate company from Småland

## GREEN BOND FRAMEWORK

September

# 2021

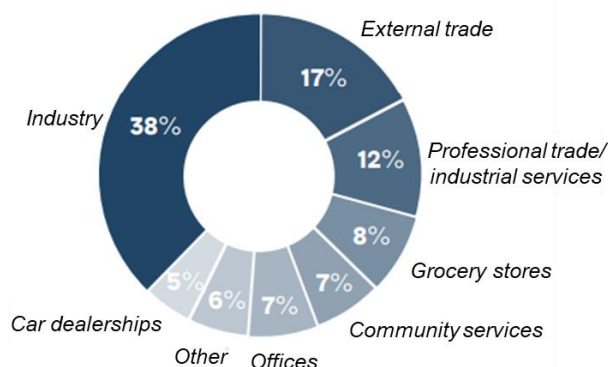
# 1. Introduction

## 1.1. About Emilshus

Fastighetsbolaget Emilshus AB ("Emilshus" or the "Company") is a real estate company that acquires, develops, and manages commercial properties in Småland. The Company focuses on achieving high direct returns in combination with long leases signed by tenants with good credit scores. As of June 2021, Emilshus' property portfolio amounted to approximately 460,000 square meters of lettable area distributed across 87 properties.

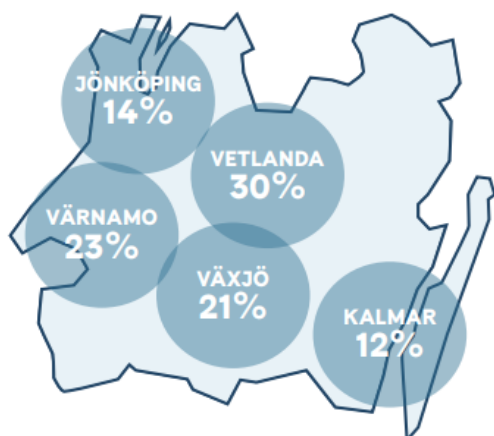
When Emilshus was established in the autumn of 2018, an aggressive growth plan was formulated with the goal of achieving a property portfolio of SEK 5 billion within five years. 3 years later, Emilshus has positioned itself as a well-established real estate company with more than 340 tenants and a property value of SEK 3.7 billion as of June 2021. Growth is set to continue, and as of June 2021 the Company reports, on a full-year basis, future rental income of more than SEK 294 million.

### Emilshus' property portfolio distributed by tenant type



Emilshus' main focus is companies within light industry, and example of such tenants are Heco, HordaGruppen and Trivselhus. Other industries that Emilshus sees as attractive are professional trade/industrial services, external trade and retail, which are considered low-risk industries. Approximately 42% of the Company's revenues stems from the 10 largest tenants. Approximately 80% of the contract values are attributable to contracts that expire four years or later from 2020.

### Emilshus' property portfolio distributed by area



Emilshus focuses on properties located in attractive growth areas in Småland, such as Jönköping, Växjö, Kalmar and Värnamo. Emilshus originates from Vetlanda, which is still the area with the largest property holdings. The management emphasizes local presence and close collaboration with tenants, and the continued expansion will primarily take place in the above mentioned

locations in Småland. Emilshus is an active participant in the local business community and its development.

## 1.2. Emilshus' sustainability contribution

Environmental, social and economic sustainability aspects are integrated in Emilshus' daily operations and business strategy. The Company seeks to facilitate sustainable development and limit negative impact through setting the bar high when it comes to sustainability requirements in own operations and for suppliers. Further, to facilitate sustainable development, Emilshus believes it is important to work close to the market and the tenants, as well as to be an attractive workplace and employer where employees feel committed and are proud of their work. To limit negative impact, the Company focuses on working together with its tenants on sustainability aspects, educate its employees and have well-functioning internal processes and routines.

### Sustainability governance

Emilshus' sustainability work is based on, among others, the Company's commitment to the UN Global Compact and the UN's Sustainable Development Goals ("SDGs"). Through the UN Global Compact, the Company is committed to comply with, at a minimum, the ten fundamental principles covering human rights, labour, environment, and anti-corruption. Emilshus works actively to contribute to the Agenda 2030 and the SDGs, and has identified six SDGs where the Company, through its operations, believes it can contribute the most:



Emilshus has developed plans and policies that outline the requirements set for the business, such as policies for purchasing, the environment, business ethics, and anti-corruption. These policies help guide employees in their daily work. Further, Emilshus is committed to following the real estate sector's standard Code of Conduct for suppliers developed by the Swedish Property Federation (Swedish: "Fastighetsägarna") in 2018. Emilshus deems it reasonable to utilize the industry-wide Code of Conduct for suppliers instead of developing its own. The reason is that this document is well anchored among suppliers and sub-contractors within the real estate sector and accordingly helps ensure that all goods and services purchased are produced under sustainable and responsible conditions.

### Sustainability targets

Emilshus' sustainability strategy includes action plans and targets for 2025 as well as sustainability policies. Being a relatively newly established company, Emilshus deems it most relevant to have targets for 2025 in place before evaluating what is possible by 2030. The Company has selected four focus areas that are considered to be particularly important in their sustainability work. Emilshus has formulated the following long-term vision in the focus areas:

- **Properties:** Emilshus will reduce own energy consumption and offer tenants sustainable and attractive properties
- **Employees:** Emilshus will be an attractive workplace that encourages employees to develop and thrive
- **Tenants:** Emilshus will be an attractive landlord that acts honestly with its tenants. The tenants shall be satisfied with their lease and be well informed about and actively contribute to sustainable development
- **Suppliers and other external partners:** Emilshus will set high sustainability requirements for suppliers and other external partners. The Company shall offer a safe workplace in and around its properties

In 2021, Emilshus will engage in stakeholder dialogues with employees, tenants, owners and representatives of investors in order to ensure that the Company's focus is in line with the stakeholders' expectations. The stakeholder dialogues will be followed up on an annual basis. In 2022, the Company plans to set specific targets relating to reduction of energy consumption and carbon emissions.

### System for follow-up and control

In 2021, Emilshus will implement a support system, Mestro and Position Green, which will assist the Company in energy monitoring and sustainability reporting. The support system is an important part of the Company's efforts to become more digital as well as an important tool with regards to follow-up and reporting on the objectives in the sustainability strategy. According to the Annual Accounts Act (Swedish: "Årsredovisningslagen"), Emilshus does not need to produce its first sustainability report until 2023. Nevertheless, as Emilshus wants to be as transparent as possible, the Company has decided to produce the first sustainability report in 2022.

### Sustainability risks

An important part of Emilshus' sustainability work is the identification and management of sustainability risks. In 2021, a survey will be carried out seeking to identify sustainability risks in the Company's operations. The survey will cover environmental, social and financial sustainability aspects and has a long term focus, i.e. what will Emilshus look like in 2025-2030. Based on the results, a plan for management of the risks will be established. The aim is to ensure that the Company's processes and framework for internal control and sustainability, including strategy, action plans and policies, are of high quality and help to mitigate sustainability risks. There will be continuous follow-up on the Company's work to mitigate sustainability risks. In order to have a more systematic approach to sustainability risks, Emilshus is evaluating whether the Company should report according to the Task Force for Climate-Related Disclosure ("TCFD") going forward. Reporting according to TCFD will be possible at the earliest for the financial year 2022, due to the fact that more extensive work needs to be done with regards to identification of Scope 3 emissions.

### Green and energy efficient buildings

A significant share of Emilshus' leases consist of "Triple Net Leases", which means that the tenants are responsible for the maintenance and operation of the property. Accordingly, the Company is dependent on having well-functioning cooperation with its tenants to achieve sustainability targets. The benefit of this is that Emilshus can accelerate its sustainability work through encouraging tenants to work on sustainability issues. To help with this work, Emilshus offers "Green Leases" to tenants willing to commit to spending time and resources on sustainability issues. The Green Leases are primarily aimed at improving properties' energy efficiency.

Emilshus' property portfolio largely consists of older buildings within light industry and storage. In such properties, it is difficult to separate the energy consumption that stems from the properties and the energy consumption that stems from the businesses occupying the properties. To map this out, Emilshus continuously evaluates its properties and their energy consumption. If deemed necessary, the Company establishes plans for energy retrofits. During the first half of 2021, the Company carried out five energy assessments with the help of an expert consultant.

Emilshus sees digitalization as an important tool to enable and simplify the work with energy efficiency. To monitor the energy consumption in own properties, the Company implemented a support system in 2021 that collects the data efficiently in one place. To enable cooperation on energy issues, Emilshus encourages tenants to connect to the same system. Further, Emilshus has an electricity portfolio at Bixia consisting of two wind turbines in Småland that produce electricity for the Company. Through Bixia, the Company buys renewable and locally produced electricity, and the Company offers the same to tenants at the same price.

## 1.3. Emilshus' Green Bond Framework

The establishment of this Green Bond Framework (the "Framework"), focusing on green and energy efficient buildings, will enable Emilshus' continued positive environmental impact in society.

This Framework has been developed in alignment with the Green Bond Principles of 2021 ("GBP")<sup>1</sup>. The Framework is applicable for issuance of green bonds and other types of debt instruments (referred to as "Green Bonds" hereafter).

The Framework is aligned with the four recommended components of the GBP; use of proceeds (Section 2), process for project/asset evaluation and selection (Section 3), management of proceeds (Section 4) and reporting and transparency (Section 5).

Furthermore, the Framework is reviewed by an external impartial firm, which has provided a second opinion to confirm its alignment with the GBP.

The Framework and second opinion from CICERO Shades of Green are available on Emilshus' website.

## 2. Use of proceeds

An amount equivalent to the net proceeds from Emilshus' Green Bonds shall be used to finance or re-finance eligible assets providing distinct environmental benefits ("Green Eligible Assets"). The Company will continuously exercise its professional judgement, discretion and sustainability expertise when identifying the Green Eligible Assets.

The value of Green Eligible Assets under "Green and Energy Efficient Buildings" is based on the market value of such assets reported in the balance sheet. Green Eligible Assets under "Energy Efficiency" correspond to the relevant invested amount. More details are available in the table on the following page.

### The real estate sector and carbon emissions






The real estate sector is the single largest energy consuming sector in the EU, responsible for about 40% of total energy usage and 36% of total carbon emissions<sup>2</sup>. Investing in green and energy efficient buildings thus play a key role in the energy transition.

### EU Taxonomy alignment

Emilshus has started to explore what the EU Taxonomy would mean for the Company's activities. At this stage Emilshus is missing some data and methodologies to perform a complete EU Taxonomy assessment. Hence, the Company has focused on evaluating its activities substantial contribution to environmental objectives and compliance with technical screening criteria, where the information is available. The Company's preliminary assessment suggest that its activities contribute to the environmental objective Climate Change Mitigation.

<sup>1</sup> Green Bond Principles published in June 2021 are voluntary process guidelines for issuing Green Bonds established by International Capital Markets Association (ICMA), <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> EU Taxonomy Report: technical Annex March 2020, [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf)

Green Assets Main categories	Sub-category	Core SDG	Relevant EU Taxonomy environmental objective and activity										
Green and Energy Efficient Buildings	<p><b>Category 1 – New buildings constructed after January 1, 2021 that either have or with the objective to receive:</b></p> <p>1.1. Miljöbyggnad Silver, Green Building or another certification of equivalent or better energy consumption; or</p> <p>1.2. an energy performance certificate (“EPC”) of class A or B; or</p> <p>1.3. an energy consumption at least 30% below the applicable national building regulation</p> <p><b>Category 2 – Existing buildings including acquired buildings:</b></p> <p>2.1. Buildings that fulfil at least one of the three requirements for Category 1 stated above; or</p> <p>2.2. Miljöbyggnad iDrift Silver, Green Building or another certification combined with fulfilled criteria according to bullet-point 2.3. below; or</p> <p>2.3. Buildings with energy consumption below the targets set out below:</p> <table><tr><td><u>Building year</u></td><td><u>Energy consumption/sqm</u></td></tr><tr><td>Before 1971</td><td>130 kWh</td></tr><tr><td>1971-1999</td><td>120 kWh</td></tr><tr><td>2000-2006</td><td>100 kWh</td></tr><tr><td>After 2006</td><td>20% below the applicable national building regulation</td></tr></table> <p>As explained under Section 1.2, Emilshus’ property portfolio largely consists of older buildings within light industry and storage where it is difficult to break out the energy consumption that stems from the properties in itself. To account for this, the Company has developed a model with ambitious thresholds for energy consumption based on the most energy efficient properties in the portfolio. Emilshus works systematically with energy retrofits and maintenance, and targets the entire property portfolio to, in the long term, at a minimum meet the requirements stated above</p> <p><b>Category 3 – Major renovations:</b></p> <p>✓ Existing buildings subject for major renovations leading to 30% lower energy consumption within the coming two to four years. The progress on ongoing renovations is reported annually and includes the current status as well as details of the plan going forward. The reduction in energy consumption is applicable per building and will be verified by an expert consultant upon completion of the renovation</p>	<u>Building year</u>	<u>Energy consumption/sqm</u>	Before 1971	130 kWh	1971-1999	120 kWh	2000-2006	100 kWh	After 2006	20% below the applicable national building regulation	<div></div> <div></div>	<p><b>Climate change mitigation:</b></p> <ul style="list-style-type: none"><li>• 7.1. Construction of new buildings</li><li>• 7.2. Renovation of existing buildings</li><li>• 7.7. Acquisition and ownership of buildings</li></ul>
	<u>Building year</u>	<u>Energy consumption/sqm</u>											
Before 1971	130 kWh												
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2000-2006	100 kWh												
After 2006	20% below the applicable national building regulation												
Energy Efficiency	<p><b>Energy retrofits:</b></p> <p>✓ Initiatives aimed at reducing the properties energy consumption, such as installation of onsite solar panels, geothermal energy installations, converting to LED lighting, energy efficient ventilation units, extension of district heating and cooling systems, improvements and implementation of control systems, as well as infrastructure for electric vehicles</p>	<div></div> <div></div> <div></div>	<p><b>Climate change mitigation:</b></p> <ul style="list-style-type: none"><li>• 7.3. Installation, maintenance and repair of energy efficiency equipment</li><li>• 7.4. Installation, maintenance and repair of charging stations for electric vehicles in buildings</li><li>• 7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings</li><li>• 7.6. Installation, maintenance and repair of renewable energy technologies</li></ul>										

## 3. Process for Asset Evaluation and Selection

### 3.1. Selection of Green Eligible Assets

The evaluation and selection process for Green Eligible Assets is a key process in ensuring that the amount equivalent to the net proceeds from Green Bonds is allocated to assets and expenditures which meet the criteria in the Framework.

The selection of Green Eligible Assets is managed by a dedicated group, the Green Bond Committee ("GBC"). Members of the GBC consist of the Finance Department and the Sustainability Team. Emilshus will assure that the sustainability expertise always relies within the GBC. All decisions are made in consensus, and this applies to the selection process of Green Eligible Assets as well.

A list of Green Eligible Assets is kept by the Sustainability Team who is also responsible for keeping it up to date.

### 3.2. Further responsibilities of the GBC

Emilshus will follow the development of the green financing market and manage any future updates of the Framework to reflect current and future market practices (e.g. the upcoming EU Taxonomy) and potential updates to the GBP.

The list of Green Eligible Assets is monitored on a regular basis during the term of the Green Bonds to ensure that the proceeds are sufficiently allocated to Green Eligible Assets. This is also a responsibility of the GBC.

### 3.3. Exclusion criteria

The proceeds of Emilshus' Green Bonds will not be used to finance either fossil fuel energy generation, nuclear energy generation, weapons and defence industries nor potentially environmentally negative resource extraction, gambling or tobacco.

## 4. Management of proceeds

Equivalent to the net proceeds from Emilshus' Green Bonds will be tracked by using a spreadsheet where all issued amounts of Green Bonds will be inserted. The spreadsheet will contain the list of Green Eligible Assets mentioned in Section 3. Information available in the spreadsheet will in turn serve as basis for regular reporting described in Section 5.

All Green Bonds issued by Emilshus will be managed on a bond level. This means that a Green Bond will be linked directly to one (or more) pre-determined Green Eligible Assets. The Company will keep track and ensure there are satisfactory Green Eligible Assets for each Green Bond issued. Assets can, whenever needed, be removed or added to/from the Green Eligible Assets' portfolio.

Any unallocated proceeds will be temporary held by Emilshus and placed on the Company's ordinary bank account.

## 5. Reporting and transparency

To be fully transparent towards investors and other stakeholders, Emilshus commits to regular reporting until no Green Bonds are outstanding. The report will be published on the Company's website on an annual basis and will cover the following areas:

### Allocation of proceeds reporting

- Total amount of Green Bonds issued
- Share of unallocated proceeds (if any)
- Reporting on bond level including a list of the projects to which Green Bond proceeds have been allocated, a brief description of the projects, amounts allocated and their expected impact as described in the following paragraph

### Impact reporting

Emilshus intends to report on quantitative impact indicators where reasonable and where relevant data is available for the below two main categories:

#### Green and Energy Efficient Buildings:

- Information on the energy consumption (kWh/sq.m./year)
- Energy performance certificate class, if any
- Type of certification including level, if any (e.g. Miljöbyggnad iDrift Silver, etc.)
- Progress report on buildings subject for major renovations
- Estimated annual greenhouse gas emissions reduced or avoided (tCO<sub>2</sub>e)

#### Energy Efficiency:

- Amount of energy saved per sq. m.
- Estimated annual greenhouse gas emissions reduced or avoided (tCO<sub>2</sub>e)

## 6. External review

### Second opinion

To confirm the transparency and robustness of the Framework, it is verified and approved by an external second opinion provider. The second opinion by CICERO Shades of Green is available on the Emilshus' website, together with this Framework.

### External verification

Allocation of proceeds and impact reporting will be subject to an annual review by an external part/verifier. The verification report provided by the external part will be published on Emilshus' website.