

## Hemsö Fastighets AB Sustainability Bond Framework


This document (the “**Sustainability Bond Framework**”) contains information on Hemsö Fastighets AB’s (“**Hemsö**”) forthcoming issuance of interest-bearing notes with added environmental and social criteria (the “**Sustainable Terms**”). Any such future issuance by Hemsö that includes a summary or full reproduction of the Sustainable Terms, as detailed in this document or in future versions of this document, in its loan documentation will be labelled a Sustainability Bond (“**Sustainability Bond**”). Depending on the language of the loan documentation the Sustainable Terms in this Framework may be translated into other languages, as required in the local jurisdiction. Any issuance of notes will be subject to the version of the Sustainable Terms referred to in the associated loan documentation. Any new issuance of Sustainability Bonds will include a copy of the most recently published Sustainable Terms, which shall be available in the Sustainability Bond Framework on Hemsö’s website.

### Background

Hemsö is Sweden’s leading private owner of properties for public use. The company’s business concept is to sustainably own, manage and develop properties for the elderly, education, care and legal sector. Hemsö has worked actively with sustainability for several years and understands it has responsibilities not only towards its customers, employees and shareholders, but also the countries and communities where it operates. The company’s sustainability strategy is to be active in social, environmental and economic sustainability, which means using material resources in a sustainable way, implementing social initiatives where Hemsö operates and at the same time creating profitability and contributing to economic growth. This Sustainability Bond Framework represents a further step in Hemsö’s sustainability work. Hemsö is considering issuing a series of Sustainability Bonds under this Sustainability Bond Framework. Additional information about Hemsö and our sustainability work is available on our website ([www.hemso.se](http://www.hemso.se)).

Hemsö will strive to monitor the development of the Sustainability Bond and green bond markets to continually advance the Sustainable Terms. Accordingly the Sustainability Bond Framework may be updated from time to time to reflect current market practices. In establishing the terms in this Sustainability Bond Framework Hemsö has sought to comply with the Green Bond Principles (March, 2015) and current best market practice.

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## Sustainability Bond Framework: Sustainable Terms

### Eligible Projects and Assets (Use of Proceeds)

- The net proceeds of the issuance of Sustainability Bonds will be used to finance real estate assets, energy efficiency and social investments in the following specific categories:

#### 1. Development and/or acquisition of new real estate assets

Hemsö develops and acquires new real estate assets on an ongoing basis. In all its operations the company strives to minimize the risk of harm to the environment from its operations by focusing on, for instance, energy use, environmental certification, sustainable rental agreements, material selection, waste management, harmful substances and internal environmental factors such as lighting. In addition to the company's normal routines for development and acquisition of new real estate assets special criteria (the Applicable Criteria) will apply according to the Sustainable Terms to allocate net proceeds to this category of assets.

#### 2. Existing real estate assets

Hemsö has a large asset base of properties for public use and continuously works to better the environmental performance of its assets. Existing real estate assets that meet the Applicable Criteria in the Sustainable Terms will be eligible for allocation of net proceeds from Sustainability Bond issuance. Existing real estate assets may include, for instance, on-going reconstruction, finalized reconstruction, recently acquired or otherwise complete and existing real estate assets, selected from Hemsö's asset base and in compliance with the Sustainable Terms.

#### 3. Energy efficiency improvements in existing real estate assets

Hemsö regularly invests in its real estate assets to decrease energy usage and reduce their environmental footprint. Such investments, for instance the installation of geoenery or energy-efficient lighting, have a positive impact on the environmental performance of a building and the associated expenditure (e.g. material, installation and/or labour) is eligible for financing.

#### 4. Social investments

Hemsö undertakes social investments that provide additionality beyond its ordinary business model of providing real estate assets for public use in the fields of schools, nursing homes and adaptation of assets to house refugees. These investments have a positive social value and will be eligible for financing provided that they are in alignment with the Sustainable Terms. Any investments undertaken in the social investment category will be financed up to an amount corresponding to the actual associated expenditure (e.g. material, installation and/or labor) and will be subject to specific reporting and transparency criteria.

The following sub-categories are eligible for financing:

- School premises:** Non-ordinary investments\* in the inside and outside environment targeting social improvements with the goal of reducing stress of teachers and students, as well as enhancing the learning capacity of students.

- ii. **Nursing homes:** Non-ordinary investments\* in the inside and outside environment targeting social improvements with the goal of increased well-being and quality of life.
- iii. **Adaptation of assets to house refugees:** Adaptation of existing assets to provide refugee housing for use by the Swedish migration office and local municipalities to assist with the refugee housing shortage.

\*Non-ordinary investments are defined as investments Hemsö undertake that go beyond the requirements of relevant laws and regulations as well as the market as a whole (in the relevant jurisdiction). The goal is to provide additionality beyond both regulations and current market practice.

A maximum of 10% of the Sustainability Bond proceeds can be allocated to social investments.

- For all Eligible Project and Asset categories, the use of proceeds must comply with (1) the Process for Project Evaluation and Selection and (2) the Applicable Criteria, as set out below.

### Process for Project Evaluation and Selection

- Eligible Projects and Assets will be selected by a committee consisting of the finance department and the sustainability department. Before allocating any net proceeds the committee will ensure that the Eligible Projects and Assets meet the Sustainable Terms. The selection will be documented by the committee and a record will be kept.
- To ensure legitimacy in this process a list of all Eligible Projects and Assets that meet the Applicable Criteria will be kept by Hemsö. The list will be used as a tool to determine the Sustainability Bond borrowing capacity, which is defined as the value of Eligible Projects and Assets less any existing debt encumbrance.
- The committee will evaluate and consider new energy efficiency investments\* and social investments\*\* on a case-by-case basis for eligibility and financing, based on compliance with the Applicable Criteria and the Sustainable Terms.
  - \* The evaluation and selection is controlled by Hemsö's Guidelines for Energy and accordingly the project must achieve a green light within the defined criteria of energy consumption, payoff, present value and yield to be classified as an energy project.
  - \*\* When deciding the eligibility status of a project in the Adaptation of assets to house refugee's category, the committee will consider the available area per resident, the distance to public transport and the social value created.

### Applicable Criteria

- **Development and/or acquisition of new real estate assets and existing real estate assets respectively** will require either (i) a design stage certification\*, (ii) an in-use certification or (iii) will obtain a in-use certification as soon as reasonably possible after completion\*\* of at least either (a) Miljöbyggnad Silver (b) LEED Gold, (c) BREEAM Very Good or (d), in the case of ongoing or finalized reconstruction, Green Building.
  - \* In terms of existing real estate assets the design stage certification will only be applicable for reconstruction projects.

\*\* Typically, both new development and reconstruction projects are certified on the design stage, which is later confirmed via the final in-use certification once the asset is finished. On certain occasions an entrepreneur might be contracted to develop or reconstruct an asset according to the requirements of a specific grade in an environmental certification scheme, where the asset will receive an in-use certification once completed.

- **Energy efficiency improvements in existing real estate assets** will need to qualify according to Hemsö's Process for Project Evaluation and Selection. To be eligible for financing a new energy efficiency improvement the performance of the improvement must be at least 15 %. The improvement must have a substantial impact on the particular area of a building it is enhancing and in terms of the entire real estate asset a positive impact on the total environmental footprint.
- **Social investments** will need to qualify according to Hemsö's sustainability policy and the committee will take the social value created into account when electing to allocate net proceeds to investments in this category. The following specific criteria will apply to each investment category:
  - **Schools premises and nursing homes:** The targeted social benefits made possible by the investments must be supported by a scientific study.
  - **Adaptation of assets to house refugees:** The lease contract must state that the adapted asset shall be used to house refugees.

### Management of Proceeds

- The net proceeds of any issue under the Sustainability Bond Framework will be credited to a separate account (the "**Green Account**").
- A transfer from the Green Account into Hemsö's transaction accounts or a direct payment from the Green Account will be allowed in an amount corresponding to expenditure, monetary transfers and refinancing of Eligible Projects and Assets that have met the Sustainable Terms, or to repay a Sustainability Bond.
- The Green Account disallows fungibility with other funds and ensures strong monitoring and tracking of the Use of Proceeds. Hemsö will keep a record of the purpose of the transfers on the Green Account.
- If the Green Account has a positive balance any unallocated funds may be invested in short term interest bearing securities pending investment in Eligible Projects and Assets. Such allowed investments are Swedish treasury bills and highly rated short term bank notes (A+ rating from Standard & Poor's or an equivalent rating from Moody's or Fitch).

### Reporting and Transparency

- Hemsö will publish an annual disclosure on the Use of Proceeds and adherence to the Sustainability Bond Terms (the "**Reporting**") as a part of its annual financial and sustainability reporting. The first such Reporting is expected to take place in April 2017 and will be available in Swedish and English.
- The Reporting will contain a list of all Eligible Projects and Assets that have been financed with Sustainability Bonds, a description of Hemsö's activities in the past year as pertains to Sustainability Bonds as well as information regarding each projects adherence to the Applicable Criteria. In addition, the total allocation of net

proceeds to each of the four defined categories under Eligible Projects and Assets will be disclosed together with descriptive examples of selected projects that have been financed in the most recent year from each category. Furthermore, the total proportion of net proceeds allocated to new projects and assets as well as refinancing will be disclosed.

- The Reporting will also contain a disclosure of a set of asset level indicators and measurements for real estate assets (Eligible Projects and Assets category 1 and 2). The data will be provided in a table format, containing all such Eligible Projects and Assets that have had net proceeds allocated to them as well as the selected indicators and measurements. The following indicators and measurements, where available, will be reported on:
  - i. Environmental certification (adherence to Applicable Criteria).
  - ii. Energy consumption disclosed by absolute consumption (kWh) per year and intensity (kWh per square metre per year).
  - iii. Calculated carbon footprint disclosed by absolute emissions (tonnes) per year and intensity (tonnes per square metre per year).
- For energy efficiency (category 3 in Eligible Projects and Assets) the Reporting will disclose the project name (the real estate asset where the investment has taken place), the allocated amount and the estimated energy reduction.
- For social investments (category 4 in Eligible Projects and Assets) the Reporting will disclose the project name (the real estate asset where the investment has taken place, or otherwise, if not tied to a specific asset, the name of the project), the allocated amount, the defined scope / goal of the project and the adherence to the defined and relevant Applicable Criteria.
  - i. In the case of school premises and nursing homes the relevant scientific study/studies will be disclosed.
  - ii. For adaptation of assets to house refugees the housing capacity in the lease contract will be disclosed, as well as the available square metre area per resident at full capacity and the distance to public transport.
- The auditor of the annual report, or a similar third party appointed by Hemsö with the relevant expertise and experience, will investigate and report whether the Sustainability Bond proceeds have been allocated to the projects and assets that Hemsö has communicated in the Reporting. The party will also investigate compliance with the Applicable Criteria. Their conclusions will be provided in a signed statement, which will be published on Hemsö's website in conjunction with the publication of the Reporting.
- Hemsö will provide a dedicated webpage where investors can find information regarding Hemsö's Sustainability Bonds.