

‘Second Opinion’
on
Entra’s Green Bond Framework

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Summary

Overall, Entra's Green Bond Framework provides a clear and sound framework for climate-friendly investments. The framework lists eligible categories of assets, basically certified as BREEAM-NOR "Excellent" as a minimum, that are supportive of the objective of promoting a transition to low-carbon and climate-resilient growth and is supported by a strong reporting and governance structure.

We note that BREEAM "Excellent" is not the top classification ("Outstanding" is best). Also in comparison with for instance some building companies in Sweden, Entra has further room for improvements when it comes to energy use measured per square meter for the whole portfolio and more ambitious long term environmental targets. On the other hand, Entra has an ambition to be an environmental leader in the building sector in Norway and has been responsible for some very green and innovative building projects. Based on existing technology, expertise and experience, Entra contributes to reducing energy consumption through measures in existing buildings, through refurbishment and new buildings. Entra complies with national and international environmental requirements and takes an active responsibility for reducing negative environmental impacts beyond such requirements. Entra also takes responsibility outside its own value chain by contributing to the sector and to the customers' development. Entra will provide an annual report to investors including 1) a list of projects financed including environmental impact reporting on energy and CO₂, water and waste, 2) a selection of project examples and 3) a summary of Entra's Green Bond development. The internal tracking method, the allocation of funds from the Green Bond proceeds and the investor letter will be verified by Entra's internal auditor annually. The opinion of the internal auditor and investor letter will be made publically available on Entra's web page. We find it very encouraging to see such a comprehensive impact reporting.

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

1. Introduction and Background

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

CICERO is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure.

CICERO has established the global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, to broaden the technical expertise and regional experience for Second Opinions. CICERO works

confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for Second Opinions. In addition to CICERO, ENSO members currently include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy. A more detailed description of CICERO can be found at the end of this report.

The CICERO-led ENSO provides second opinions on institutions' framework and guidance for assessing and selecting eligible projects for green bond investments, and assesses the framework's robustness in meeting the institutions' environmental objectives. The second opinion is based on documentation of rules and frameworks provided by the institution themselves (the client) and information gathered during meetings, teleconferences and email correspondence with the client. ENSO encourages the client to make this Second Opinion publically available. If any part of the Second Opinion is quoted, the full report must be made available.

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

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

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

Expressing concerns with 'shades of green'

CICERO Second Opinions are graded dark green, medium green, light green and brown, reflecting the climate and environmental ambitions of the bonds and the robustness of the governance structure of the Green Bond Framework. The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society.

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

- Dark green for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.

- Medium green for projects and solutions that represent steps towards the long-term vision, but are not quite there yet.
- Light green for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil based processes).
- Brown for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The project types that will be financed by the green bond primarily define the overall grading. However, governance and transparency considerations also factor in, as they can give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework.

2. Brief Description of Entra's Green Bond Framework and Rules and Procedures for Climate-Related Activities

Entra Eiendom ASA (Entra) is a Norwegian real estate company, headquartered in Oslo, Norway and is from October 2014 49.6% state owned. Entra is focusing on high quality, flexible office buildings with central locations close to public transportation hubs. Thus, Entra's strategic areas of concentration are Oslo and the surrounding districts, Bergen, Stavanger and Trondheim.

As of Q2 2016, Entra owned and managed approximately 1.2 million square metres in 96 buildings. The real estate portfolio had a market value of NOK 32.1 billion and the average remaining lease period was 7.1 years. The public sector represented approximately 73 per cent of the customer portfolio. Entra has approximately 63 per cent of the property value located in Oslo.

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

Entra has defined three strategic pillars that create a foundation for the company's priorities and action plans. One of them is Environmental Leadership. Entra continues to implement and seek new environmental initiatives to meet climate-related challenges and thus become the most environmentally friendly company in its industrial sector. Therefore, Entra decided to establish two targets aiming at reduction of absolute CO₂ emission and reduction of energy consumption per square meter. Since 2012 Entra has improved its building's energy performance by more than 20 percent. According to the Company, as of 2015, Entra has reduced the average energy usage in all assets to 155 kWh per square meter. Over the same period CO₂ emissions per square meter have been reduced from 52 to 46 kgCO₂ per square meter. Entra's sustainability work is based on the ten UN Global Compact principles.

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

Table 1 below lists the documents that formed the basis for this Second Opinion:

Table 1: Documents Reviewed

Doc. No.	Document Name	Description
1	Entra Green Bond Framework	A description of the Green Bond Framework
2	Environmental Strategy	Power point presentation of Entra's environmental strategy
3	CSR Reporting	Described in the Annual Report 2015 pages 22-24
4	Social responsibility	Described in the Annual Report 2015 pages 22-29
5	Procurement	Guidelines for responsible procurements
6	Annual Report 2015	
7	Corporate Governance Guidelines	Described in the Annual Report 2015 pages 30-37
8	Presentation of Entra	Power point presentation of Entra
9	BREEAM-NOR	See Link to BREEAM-NOR
10	BREEAM Certificate Powerhouse Kjørbo	BREEAM NOR Outstanding certificate
11	BREEAM Certificate Schweigaardsgate	BREEAM NOR Excellent certificate
12	Entra Awards	A selection of awards for Entra projects
13	CDP Climate Change 2016 Information request response	Response to CDP Climate Change Request
14	Qualitative questionnaire on water, waste and energy to the Ministry of Trade, Industry and Fisheries	Response to inquiry from the Ministry of Trade, Industry and Fisheries

3. Assessment of Entra's Green Bond framework and environmental policies

Overall, Entra's green bond framework provides a detailed and sound framework for climate-friendly investments. The framework and procedures for Entra's green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects, whereas the weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

Eligible projects under the Green Bond Framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide certainty to investors that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP, see: <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/>) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Eligible projects include projects that target mitigation of climate change, including investments in low-carbon and clean technologies, such as energy efficiency and renewable energy programs. Entra's Green Bonds will *not* finance fossil projects.

Entra's Green Bonds can be used to finance Eligible Projects in accordance with the Green Bonds Framework. The Green Bond proceeds will finance existing properties, major renovation projects, and new projects with certification from BREEAM with a minimum certification of "Excellent", see Table 2.

We note that BREEAM "Excellent" is not the top classification ("Outstanding" is best). Also in comparison with for instance some building companies in Sweden, Entra has further room for improvements when it comes to energy use measured per square meter for the whole portfolio and more ambitious long term targets. On the other hand, Entra at the forefront in Norway and has been responsible for some very green and innovative building projects.

Table 2 Eligible assets categories

Category	Eligible project types	Green Shading and some concerns
1. New construction or major renovation of commercial and residential properties	<ul style="list-style-type: none"> BREEAM-NOR minimum certification "Excellent" 	<p>Dark to Medium Green</p> <ul style="list-style-type: none"> ✓ Building criteria are considered adequate but may not reflect best available technology nor the highest level of standards possible. ✓ In addition to climate issues, BREEAM cover a broader set of issues, which is important to overall sustainable development.
2. Refinancing of existing commercial and residential properties	<ul style="list-style-type: none"> BREEAM-NOR minimum certification "Excellent" 	Dark to Medium Green
3. Major renovation projects of commercial and residential properties	<ul style="list-style-type: none"> BREEAM-NOR minimum certification "Excellent" 	Dark to Medium Green

Strengths

Use and Management of Proceeds

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

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

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

Process for Project evaluation and Selection

Eligible Projects are selected by the Treasury department and the Project & Technology department which possesses the environmental competence. Proceeds from the Green Bonds will be used exclusively to projects that meet the certification criteria under Eligible Projects.

Weaknesses

We find no obvious weaknesses in Entra's Green Bond framework.

Pitfalls

Energy efficiency improvements in buildings are important building blocks for reaching the 2 degree climate change goal. Voluntary environmental certifications such as BREEAM or equivalent are required by issuer to qualify for green bond financing. These certifications provide some level of measurement of the environmental footprint of a building, including energy efficiency measures. The Green Bond framework would however benefit from a clearer requirement that best environmental technology is used in eligible green bond building projects. In a low carbon 2050 perspective the energy performance of buildings is expected to be improved with passive house technology becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments.

Impacts beyond the project boundary

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

Rebound effects

Efficiency improvements may lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. From the project categories in Table 2 an example is improved energy efficiency, which in part may lead to more energy use. Entra should be aware of such effects and possibly avoid Green Bond funding of projects where the risk of rebound effects is particularly high.

Transparency, monitoring, reporting and verification

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

Impact reporting is an important tool to enhance transparency in regard to the projects economic risk from climate change and the environmental effectiveness of the projects. Thus, it is important to verify that projects perform as intended with respect to mitigation of greenhouse gas emissions and enhancing climate change resilience, as well as avoiding significant unwanted external effects.

The reports will be reviewed and verified by the company's internal auditors.

Appendix: About CICERO

CICERO (Center for International Climate and Environmental Research – Oslo) is Norway’s foremost institute for interdisciplinary climate Research. We deliver new insight that help solve the climate challenge and strengthen international climate cooperation.

We help to solve the climate problem and strengthen international climate cooperation by predicting and responding to society’s climate challenges through research and dissemination of a high international standard. Our researchers collaborate with top researchers from around the world, and publish their work in recognized international journals, reports, books and periodicals.

CICERO has garnered particular attention for its research on the effects of manmade emissions on the climate, society’s response to climate change, and the formulation of international agreements. We have played an active role in the IPCC since 1995. In recent years we have also developed considerable expertise in climate financing and is currently a lead provider of Second Opinions on Green Bonds.

CICERO has a national role in promoting knowledge about climate change and is internationally recognised as a driving force for innovative climate communication. We are in constant dialogue about the responses to climate change with public and private decision makers, government administration and civil society.

See: <http://www.cicero.uio.no/en/posts/news/cicero-grades-climate-friendly-bonds-with-shades-of-green>