

A young boy with light brown hair, wearing a blue t-shirt, is smiling and leaning against the trunk of a large tree in a forest. The background is filled with other trees and dappled sunlight.

Hemsö Sustainability Bond Framework

12 July 2018

HEMSÖ

Hemsö is a property company that owns, manages and develops buildings for community services in Sweden, Germany and Finland. Over ten years of experience managing, reconstructing and converting properties for community services.

Hemsö Fastighets AB Sustainability Bond Framework

This document (the “Sustainability Bond Framework” or “Framework”) contains information on Hemsö Fastighets AB’s (“Hemsö”) issuance of interest-bearing notes with added environmental criteria (the “Sustainability Bond Terms”).

Any such issuance by Hemsö that includes the Sustainability Bond Terms in its bond documentation, by reference or inclusion, as detailed in this document or in future versions of this document will be labelled a Sustainability Bond (“Sustainability Bond”). Depending on the language of the bond documentation the Sustainability Bond Terms in this Framework may be translated into other languages, as required in the local jurisdiction. Furthermore, all parties are advised to review the risk factors in the relevant bond documentation. Any issuance of notes will be subject to the version of the Sustainability Bond Terms in the associated bond documentation. Any new issuance of Sustainability Bonds will include a reference to, or inclusion of, the most recently published Sustainability Bond Terms, which shall be publicly available in the Framework on Hemsö’s website.

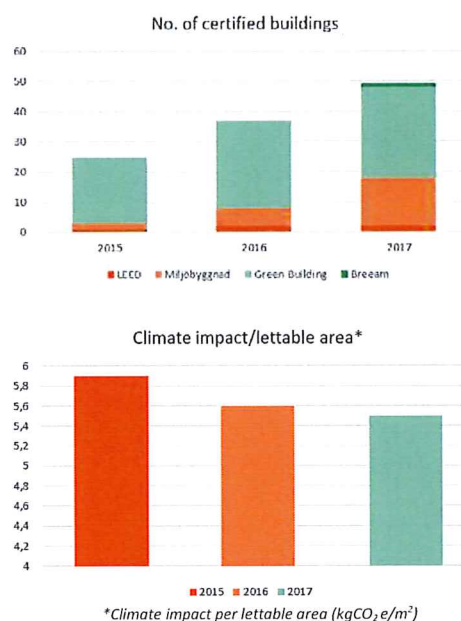
Background

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.

Sustainability is an integral part of Hemsö’s operations. When Hemsö speak about sustainability, environmental aspects such as energy consumption and choice of materials are obviously included, but the company believe that sustainability is so much more. Sustainability includes how school facilities are designed to make it easier for students to learn, or how school grounds are designed to promote physical activity and play. In a sustainable society existing properties are used in a efficient and profitable manner. For example, schools are not only open during school hours, they can also be used for activities at other times. This approach to sustainability has become an important part of our tenants’ growing demands on Hemsö as their partner.

A key component of Hemsö’s project development process is regular analysis of each municipality’s conditions and changing need for premises over time.



Hemsö is increasingly certifying its buildings under an environmental certification scheme, and also more closely monitoring the climate impact of its real estate portfolio.

Hemsö has developed extensive knowledge and insight into how the specific needs and requirements of each operation can be met in a cost-efficient manner. Hemsö’s goal is that all new construction will be environmentally certified, in line with established certification systems in our core markets, which focuses on energy performance, indoor environment and choice of materials. In 2016, the entire project development process was analysed to identify and manage sustainability aspects not covered by the SGBC system, but still of material significance.



In 2016 and 2017 Hemsö was awarded the GRESB "Green Star"

Hemsö's most important stakeholders are groups influenced by the company's operations and groups whose actions can influence Hemsö's operations. The stakeholders have a significant influence on which aspects of sustainability Hemsö focuses on. Property managers maintain close contact with tenants to identify their needs and comments. The full outcome of the stakeholder dialogue is disclosed in our Annual Report.

Hemsö's sustainability efforts are based on its Sustainability Policy, which contains overall standpoints on how Hemsö should develop its operations in relation to environmental, social and economic sustainability.

Hemsö's operations are based on the core values: accessible, progressive and reliable. These values are to permeate how Hemsö's employees act both internally and in external contacts.

Hemsö renounces corruption and unethical conduct. Corresponding values and principles are also expected from suppliers and partners. To counteract the risk of corruption, Hemsö has purchasing

procedures and authorisation rules. No incidents of corruption were reported in connection with Hemsö's operations in 2017. Work began to draw up an internal Code of Conduct to clarify our most important positions on business ethics, the Code of Conduct was finalised in 2017. During 2018, all employees will be trained in the new Code of Conduct.

In 2016, Hemsö became the first Nordic company to issue a sustainable bonds, which was updated in 2018 (this document). In conjunction with the development of the initial Framework, an in-depth dialogue around sustainability was conducted with financial institutions and investors.

Hemsö is considering issuing a series of Sustainability Bonds under this Framework. Additional information about Hemsö and our sustainability work is available on our website (www.hemso.se).

Hemsö will strive to monitor the development of the Sustainability Bond and green bond markets to continually advance the Sustainability Bond 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** (June, 2018), the **Social Bond Principles** (June, 2018), the **Sustainability Bond Guidelines** (June 2018) and current market best practice.

Hemsö has worked together with Handelsbanken to develop the Sustainability Bond Framework. Sustainalytics has provided a second opinion on the Sustainability Bond Terms, which is publicly available on Hemsö's website (www.hemso.se).

Stockholm, July 2018

Nils Styf
CEO

Rutger Källén
CFO

Andreas Widinghoff
Acting Head of Sustainability

Methodology and Scope

Investment categories

Eligible Projects and Assets are green and/or social assets identified within Hemsö's existing assets and ongoing development that support the transition to a low carbon society, positive social outcome and sustainable development. All Eligible Projects and Assets shall contribute to one or more of the following set of global criteria:

1. **Mitigation (M):** Reduce harmful emissions of greenhouse gas, either by improving and transitioning existing assets through meaningful upgrades and retrofits or by investing in new assets utilizing low carbon intensive technology and environmentally sound solutions.
2. **Adaptation (A):** Adaptation investments to better withstand the effects brought on by climate change, improving the resilience to climate change and expected changes in the micro-climate and local environment, for instance, increased rainfall, heightened risk of flooding or sea level rise.
3. **Environment and eco-systems (E):** Support environmental investments with a positive environmental impact other than the direct mitigation of climate change (maximum 15 % of net proceeds).
4. **Social and societal benefit (S):** Investments that directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for a target population(s).

Exclusions

The net proceeds will not be allocated or linked to fossil energy generation, nuclear energy generation, research and/or development within weapons and defense, potentially environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco.

Allocation of net proceeds

The net proceeds from the issuance of Sustainability Bonds will be used by Hemsö to, in whole or in part, finance a select pool of "Eligible Projects and Assets" that promote environmental and/or social matters in different areas. The net proceeds will be used exclusively on project and assets that comply with the categories and criteria's set out in this Framework. The ambition is to allocate the majority of net proceeds to new projects and assets (defined as projects and assets financed within 12 month from completion). The proportion of financing to new projects and assets will be disclosed in the annual reporting.

Alignment with the UN Sustainable Development Goals

The UN Sustainable Development Goals ("SDG") were adopted by the United Nations general assembly on September 25th 2015. There are 17 global goals with 169 defined underlying targets. The chart on the right side highlights each of the 17 goals that are incorporated and targeted by the Use of Proceeds in the Sustainability Bond Framework.



The Sustainable Development Goals



This framework mainly targets the following SDG's

The Sustainability Bond Terms

Pillar 1 - Eligible Projects and Assets (Use of Proceeds)

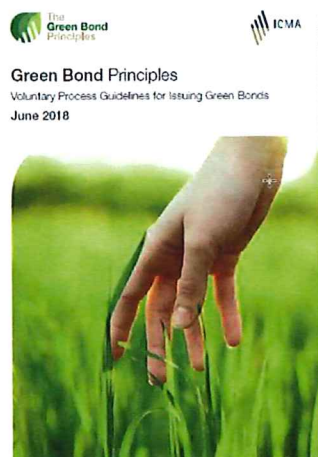
The Use of Proceeds Categories in this Framework have been highlighted as either Green, Social or both.



- Environmentally certified buildings.
- For example within law enforcement or research/academia.

- Environmentally certified buildings for public use.
- For example elderly care, healthcare and education.

- Direct social investments
- For example investments with an expected positive social outcome.



Sustainability Bond Definition (Sustainability Bond Guidelines, June 2018)

Sustainability Bonds are bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects. Sustainability Bonds are aligned with the four core components of both the GBP and SBP with the former being especially relevant to underlying Green Projects and the latter to underlying Social Projects.

It is understood that certain Social Projects may also have environmental co-benefits, and that certain Green Projects may have social co-benefits. The classification of a use of proceeds bond as a Green Bond, Social Bond, or Sustainability Bond should be determined by the issuer based on its primary objectives for the underlying projects.

1. Green and sustainable buildings (M/S)

Context: Hemsö develops and acquires new real estate assets on an ongoing basis. In all its operations Hemsö strives to minimize the risk of harm to the environment from its operations by focusing on, for instance, energy use, environmental certification, building materials (incl. harmful substances), waste management and internal environmental factors such as thermal insulation, ventilation and lighting. Hemsö has a large portfolio of existing properties for public use and continuously work to improve the environmental performance of these assets.

Use of Proceeds: Financing of environmentally certified and energy efficient buildings that meet the Green Criteria. For certain asset types, additional social criteria might be applicable (see Table 1). If an asset meets both the Green and Social Criteria, that asset will be categorized as a Sustainable Asset. If an asset only meets the Green Criteria, such asset will be categorized as a Green Asset.

Green Criteria: Eligible assets and projects require (i) a design stage certification, (ii) an in-use certification or (iii) will obtain a certification as soon as reasonably possible after completion of at least (a) Miljöbyggnad Silver (b) LEED Gold or (c) BREEAM Very Good and in the case of ongoing or finalized reconstruction an energy saving of at least 25% or better.

Social Criteria: Financing of education, healthcare and elderly care facilities in Hemsö's core markets (currently Sweden, Finland and Germany) that also meet the Green Criteria. The investments in this category will be evaluated based on the local context and the degree of vulnerability present in each jurisdiction, which can differ significantly from a European or Global context.

- i. **Education:** Investments in buildings that are a part of the public education system, whereby free access to essential services and education is granted to all youth, including potentially disadvantaged groups such as the economically vulnerable, migrants, undereducated or disabled. Such investments include, for instance, development, rehabilitation and modernization of schools, including primary and secondary mandatory education schools, and special education schools, as well as universities and higher education, where the access to education is tax financed.
- ii. **Healthcare:** Investments in buildings that are a part of the public healthcare system, providing access to essential services for all citizens, including vulnerable population groups such as the elderly, physically or mentally dependent. Such investments include, for instance, development, rehabilitation and modernization of facilities such as hospitals and health-care centers, where the access to healthcare is tax financed.
- iii. **Elderly care:** Investments in buildings that provides services and homes to the elderly, providing access to essential services to a potentially vulnerable population group. Such investments include, for instance, development, rehabilitation and modernization of facilities for the elderly, such as nursing homes, where the access to elderly care is tax financed.

Table 1 – Criteria application

Category	Building type	Green criteria	Social criteria
Sustainable	Education	Fully applied	Fully applied
Sustainable	Elderly care	Fully applied	Fully applied
Sustainable	Healthcare	Fully applied	Fully applied
Green	Education	Fully applied	-
Green	Elderly care	Fully applied	-
Green	Healthcare	Fully applied	-
Green	Legal sector and law enforcement	Fully applied	-
Green	All other properties	Fully applied	-

2. Energy efficiency (M)

Context and use of proceeds: Hemsö regularly invests in its real estate assets to decrease energy usage and reduce their environmental footprint. Such investments, for instance the installation of heat pumps, district heating/cooling, energy-efficient lighting, IT-technology for monitoring, efficient management and remote operation, energy efficient ventilation systems or improvements in thermal insulation, 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 and these projects are classified as Green Projects.

Green Criteria: The evaluation and selection is controlled by Hemsö's Guidelines for Energy and the investment must qualify according to its defined criteria within energy consumption, payoff, present value and yield. The investment must also have a substantial impact on the energy use of the particular area of a building it is targeting and a positive impact on the environmental footprint of the property as a whole. Hemsö will ascertain the following:

- a) High estimated energy savings in the targeted area for physical installations (min. 15%).
- b) Minimize long term negative climate impact and potential rebound effects.
- c) Minimal negative climate impact from the technology used.

3. Social investments (S)

Context: Hemsö is responsible for the built environment in all its properties, while an operator (such as a municipality) is responsible for the services provided. Public use properties such as schools or nursing homes are essential services that provide clear social benefits to society, which can be further enhanced by targeted investments in the built environment. Academic studies have shown that alterations of the indoor and outdoor environment can yield many positive effects on workers, students or elderly residents regarding, for instance, reduced stress levels, increased learning capacity, heightened productivity, increased happiness and well-being as well as improved quality of life. 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 indicators.

Use of proceeds: Investments that directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for a target population(s). The investments in this category will be evaluated based on the local context and the degree of vulnerability present in each jurisdiction where Hemsö operates (at present: Sweden, Finland and Germany), which can differ significantly from a European or Global context. The following sub-categories are eligible for financing:

- i. **School premises:** Investments in the inside and outside environment targeting positive social outcomes, such as reducing stress of teachers and students and enhancing the learning capacity of students.
- ii. **Nursing homes:** Investments in the inside and outside environment targeting positive social outcomes, such as increased well-being and quality of life.
- iii. **Adaptation of assets to house refugees:** Adaptation investments in existing properties to provide refugee housing for use by the Swedish migration office and local municipalities to assist with the refugee housing shortage.

Social Criteria: Investments will need to qualify according to Hemsö's sustainability policy and the committee will take the social value created into account when deciding 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 and potential social benefits and positive social outcomes made possible by the investments must be supported by a scientific study.
- **Adaptation of assets to house refugee:** The lease contract must state that the adapted asset shall be used to house refugees. Hemsö will also evaluate and consider the available area per resident (min. 20 sqm), the distance to public transport (max 1 km) and the social value created.

4. Renewable energy (M)

Context: Hemsö has a target to increase the share of renewable energy. Several of the on-going energy projects thus include renewable energy (foremost solar and geothermal heating/cooling).

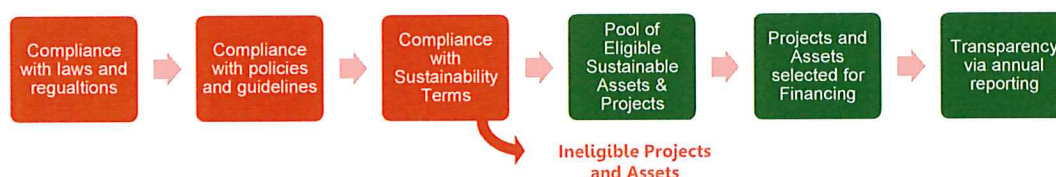
Use of proceeds: Investments in solar power, wind power or geothermal heating/cooling, either on an existing building or as a stand-alone investment.

Pillar 2 - Process for Project Evaluation and Selection

Hemsö's organization will nominate projects and assets within the eligible categories to a committee consisting of members from the finance department and the sustainability department. A decision to allocate net proceeds will require a consensus decision by the committee, whereby the sustainability department will effectively hold a veto. The projects and assets must also be compliant with the Sustainability Bond Terms, applicable national laws and regulations, and policies and guidelines at Hemsö. The decision 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 Sustainability Bond Terms will be kept by Hemsö. The list will be used as a tool to determine whether there is a current or expected headroom to issue a Sustainability Bond, which is defined as the value of Eligible Projects and Assets less any existing debt encumbrance.

The committee is also responsible for the classification of projects and assets as either Green, Social or Sustainable, and to apply the Green and Social criteria accordingly.



Process overview

Pillar 3 - Management of Proceeds

The net proceeds of any issue under the Sustainability Bond Framework will be credited to separate accounts (the "Sustainability Bond Accounts"). Funds may be deducted from the Sustainability Bond Accounts in an amount corresponding to the financing or refinancing of Eligible Projects and Assets that have met the Sustainability Bond Terms, or to repay a Sustainability Bond. If a Project or Asset no longer qualifies according to the Sustainability Bond Terms the funds will be either reallocated to projects and assets that meet the Green Terms or returned to the Sustainability Bond Accounts.

The Sustainability Bond Accounts 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 any transfers on the Sustainability Bond Accounts. The allocation of net proceeds may not exceed the market value or investment expenditure, as applicable, of an eligible project or asset less any other external debt financing such projects or assets.

If the Sustainability Bond Accounts has a positive balance the unallocated funds may be invested in short term interest bearing securities according to Hemsö's Financial Policy, while pending investment in Eligible Projects and Assets. Such allowed investments are government bills, commercial paper, short term bonds (with at least investment grade rating) or short term bank notes.

Pillar 4 - 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 took place in March 2017 and subsequent reporting is expected to take place in March on a yearly basis. The report will be available in both Swedish and English.

The Reporting will contain information on Eligible Projects and Assets that have been financed with Sustainability Bonds, a summary of Hemsö’s activities in the past year as pertains to Sustainability Bonds as well as information regarding Eligible Projects and Assets adherence to the Sustainability Bond Terms.

Allocation disclosure

- For the categories **Green and Sustainable Buildings** and **Social Investments** the Reporting will disclose the sum of allocated net proceeds to each project or asset.
- For the categories **Energy Efficiency** and **Renewable Energy** the total allocation of net proceeds to each category will be disclosed.
- The sum of outstanding Sustainability Bonds and the balance of the Sustainability Bond Accounts (including any short term investments).
- The proportion of net proceeds allocated to new and existing projects and/or assets respectively (defined as projects and assets financed within 12 months from completion).
- The proportion of net proceeds allocated to projects and assets classified as either Green, Social or Sustainable.
- All data shall be from the last of December in the previous year.

The Reporting will also contain a disclosure of a set of asset level indicators and measurements for real estate assets. The data will be provided in a table format and disclosing, where and when available, the following indicators and measurements:

Green and Sustainable Buildings

- i. Environmental certification.
- 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 (kilograms per square metre per year). The greenhouse gas emissions are monitored annually by Hemsö in accordance with the Greenhouse Gas Protocol.
- iv. Classification (Green or Sustainable).
- v. Building type (Education, Elderly care, Healthcare, Legal sector and law enforcement or Other).
- vi. For buildings classified as Sustainable the buildings estimated capacity to provide services to the general public will be disclosed, for instance the number of students it can receive, the number of patients it can receive or the yearly treatment capacity is has.

Energy Efficiency

Each yearly report will include an example of an energy efficiency investment that has been financed with green net proceeds (if such a project has been financed). Hemsö will however emphasize energy and carbon savings, where applicable, as relevant performance metrics, such as:

- i. Carbon savings (aggregated, tonnes / year)
- ii. Energy savings (aggregated, MWh / year)

Social Investments

- i. Defined scope and goal of the investment.
- ii. The identified target group (main beneficiary) of the investment.
- iii. **School premises and nursing homes:** Relevant supportive scientific study/studies.
- iv. **Adaptation of assets to house refugees:** (a) The housing capacity in the lease contract, (b) the available square meter area per resident at full capacity and (c) the distance to public transport.

Renewable Energy

- i. For an installation of a renewable energy on a real estate asset the percent of the property's total energy use supplied by the installation, the yearly production (MWh) and the estimated yearly greenhouse gas savings (tonnes per year) will be disclosed.
- ii. For an investment in a stand-alone renewable energy project the yearly production (MWh) and the estimated yearly greenhouse gas savings (tonnes per year) will be disclosed.

Third party annual review

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 Sustainability Bond Terms. 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.

Dedicated website

Hemsö will provide a dedicated webpage for Sustainability Bonds at its corporate website (www.hemso.se) where investors can find information regarding Hemsö's Sustainability Bonds.

Definitions

"Miljöbyggnad Silver" means the rating Silver within the Miljöbyggnad building certification scheme administered by the Sweden Green Building Council (SGBC), pursuant to its definition at the time of receipt of the relevant certification.

BREEAM Very Good means the rating Very Good within BREEAM, a grading scheme for the real estate sector developed by BRE Global, as well as local adaptations such as BREEAM-SE developed by the Swedish Green Building Councils respectively, pursuant to its/their definition at the time of receipt of the relevant certification.

"BREEAM in-use Very Good" means the rating Very Good within BREEAM, a grading scheme for the real estate sector developed by BRE Global, pursuant to its definition at the time of receipt of the relevant certification.

"LEED Gold" means the rating Gold within LEED, a grading scheme for the real estate sector developed by the U.S. Green Building Council and administered in Sweden by the Sweden Green Building Council, pursuant to its definition at the time of receipt of the relevant certification.

Policy documents that govern Hemsö's Environmental and Sustainability work and relevant information to investors

#	Name	Status	Information
1	Annual Report (incl. Sustainability report) 2017	Public	Link
2	Corporate Governance Website	Public	Link
3	Corporate Governance Report 2016 (Swedish)	Public	Link
4	Sustainability Bond Website	Public	Link
5	Sustainability Policy (Swedish)	Public	Link
6	List of Environmentally Certified Buildings (Swedish)	Public	Link
7	Society and Social Responsibility (Swedish)	Public	Link
8	Restorative work places (external website, Swedish)	Public	Link

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