°CICERO Shades of Green now a part of S&P Global

# K2A Knaust & Andersson Fastigheter AB (publ)
## Green Finance Second Opinion

12 January 2023

### Executive Summary

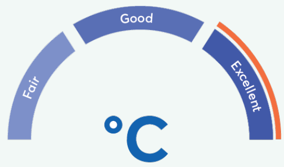
**K2A Knaust & Andersson Fastigheter AB (publ) (hereafter K2A) was founded in 2013 and is a Swedish real estate company focusing on long-term management of new-built, environmentally certified and energy efficient rental apartments, produced in the company's own factories, for all types of housing and with wood as the main material.** The company is currently operating in 26 locations in Sweden with focus on Stockholm, Mälardalen and a number of selected university cities located from Lund in the south to Kiruna in the north of Sweden.

**The current green financing framework is an update from one established in 2020, covering green buildings and energy efficiency measures, with most financing under the updated framework expected to go towards new construction.** Activities involving fossil fuel energy generation, nuclear energy generation, weapons and defence industries, potentially environmentally negative resource extraction, gambling or tobacco are excluded. The updated framework contains new criteria for eligible green buildings, now largely based on the technical screening criteria for substantial contribution to climate change mitigation in the EU Taxonomy.

**SHADES OF GREEN**

°CICERO Medium Green

**GOVERNANCE ASSESSMENT**




**GREEN BOND AND LOAN PRINCIPLES**

Based on this review, this framework is found aligned with the principles.

We rate the framework **CICERO Medium Green** and give it a governance score of **Excellent.** The highest shading level, Dark Green, is reserved for the highest building standards such as Zero-Energy buildings and passive houses. The building criteria in the framework are good, but do not represent the highest level of environmental ambition and contains some Light Green elements. On the other hand, some of the energy efficiency activities will be Dark Green. K2A has a target for its entire value chain to be climate positive according to the definition of CLIPOP[1] by 2027. The company has targets validated by the Science Based Targets initiative ("SBTi") for the most ambitious scenario of 1.5°C. In 2021, K2A updated its scenario analysis on climate related risks and opportunities according to the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD")[2].

#### *Strengths*

**The eligible categories, green buildings and energy efficiency, are well defined and represent important steps toward a low carbon future.** K2A uses wood as primary building material, performs climate calculations and seeks to choose materials with lower emissions. The framework criteria for new construction, together with

[1] https://www.clipop.org/
[2] https://www.fsb-tcfd.org

company policies, ensure that new buildings are more energy efficient than regulation while seeking to reduce embodied emissions. The issuer also works systematically to improve the energy efficiency of existing buildings. The renovations and energy efficiency measures eligible under the framework support the improvement in energy performance of K2A's existing building stock.

**The company's suppliers are required to meet requirements regarding waste management, transportation as well as the re-use and re-cycling of materials.** Life cycle analysis of buildings, resilience considerations and strong environmental requirements for sub-contractors, are other strong points relevant to the implementation of the framework.

### *Pitfalls*

**K2A has criteria for green buildings mainly going beyond applicable building regulations.** However, Miljöbyggnad iDrift lacks quantitative energy criteria, which opens up for financing buildings with poor energy performance. This is counteracted by the K2A requirement of an EPC label C, which in Sweden set a limit on energy use at or below current regulations.

**Also, the criteria for existing building being within the top 15% of similar building stock do not guarantee that buildings have energy performance that is in line or better than current regulations.** K2A will use top 15% of national or regional building stock as assessed by Fastighetägarna as an official definition is yet to be defined. How ambitious the top 15% threshold is, depends on the type of building, but generally they are less ambitious than current regulations for energy demand. For apartment buildings, which is the dominant building type in K2A's portfolio, the top 15% is defined by a primary energy demand of 81 kWh/m$^2$. Also, whether a building meets the top 15% PED threshold will depend, among other, on its energy source, where different sources are weighed differently in the calculation of its PED. The weighting favours district heating over electricity, meaning that, all else equal, it will be easier for a building connected to district heating to meet the threshold for top 15% than for a building with electric heating.

# Contents

# 1 K2A's environmental management and green finance framework

## Company description

K2A Knaust & Andersson Fastigheter AB (publ) (hereafter K2A) was founded in 2013 and is a Swedish real estate company focusing on long-term management of new-built environmentally certified and energy efficient rental apartments, produced in the company's own factories, for all types of housing with wood as the main material. As of Q3 2022, the property portfolio includes student housing (44%), rental buildings (54%) and community service buildings (2%), such as elderly care centres, schools, etc.

The company is currently operating in 26 locations from Lund in the south to Kiruna in the north of Sweden with focus on Stockholm, Mälardalen and a number of selected university cities in Sweden. K2A's main target group is smaller households, with 1-2 people, a type of household that constitutes the largest market in Sweden. As of Q3 2022, the property and project portfolio comprise 9,872 apartments, including 4,885 managed apartments, with a total property value of SEK 10,228 million.

The current framework is an update of an earlier framework from January 2020 with new eligibility criteria in the green buildings category, partly based on the technical screening criteria for substantial contribution to climate change mitigation in the EU Taxonomy. K2A has raised altogether SEK 1.5 billion under the original framework to date.

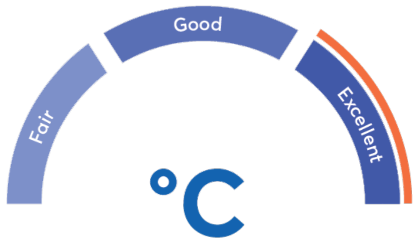
## Governance assessment

K2A's overarching climate target is for the entire value chain to be climate positive as early as 2027, defined by K2A as reducing greenhouse gases (Scope 1-3 including embodied emissions in materials) more than those generated by the company's activities. K2A has as a long-term ambition to be fully carbon neutral without purchasing climate offsets.

K2A has in place quantitative short- and long-term environmental goals. It has a sound selection process with veto power for the environmental expertise in the Green Finance Committee. The selection process and management of proceeds are good.

The reporting (on a quarterly and portfolio basis) is comprehensive and good. However, impact reporting is not independently verified. Methodologies applied in estimating the key performance indicators are made transparently available. In 2021, K2A updated its scenario analysis on climate related risks and opportunities according to the Task Force on Climate-related Financial Disclosures ("TCFD").

The overall assessment of K2A's governance structure and processes gives it a rating of **Excellent**.



### Sector risk exposure

***Physical climate risks***. For the Nordic building sector, the most severe physical impacts will likely be increased flooding, snow loads, and urban overflow, as well as increased storms and extreme weather. Developing projects with climate resilience in mind is critical for this sector. The real estate sector is also exposed to climate risks through links to the construction industry and the utilities sector.

***Transition risks***. K2A is exposed to transition risks from stricter climate policies e.g., mandatory efficiency upgrades. The company is also exposed to liability risks due to e.g., legal challenges if preventable damages from climate change increase. In addition, the real estate sector is exposed to changing consumer preferences for more climate-smart and energy-efficient buildings.

***Environmental risks***. The construction sector is at risk of polluting the local environment during the erection of the properties, e.g., from poor waste handling. There are also risks related to impacts on local biodiversity/habitats as well as the use of un-sustainably sourced material like tropical wood.

## Environmental strategies and policies

K2A's main environmental goal is for the entire value chain to be climate positive[3] as early as 2027, i.e., K2A will reduce more greenhouse gases (Scope 1-3 included embodied emissions of materials used) than the company's activities generate. K2A's ultimate goal is to be fully carbon neutral without having to take climate-offsetting actions. The greenhouse gas emissions that are not possible to avoid by 2027 due to supply-chain limitations, technological development and legislation, will primarily be offset by means of carbon-storage measures within the value chain. Examples of measures encompassed by K2A's strategy are own production of electricity with zero $CO_2$ emissions, carbon capture and storage from biomass (BECCS/Bio-CCS) and measures involving forests, land and expansion of vegetation either through own action or by buying emission credits from third parties. K2A states that it will prioritise to perform these types of measures within its own value chain. Due to K2A's Nordic Swan Ecolabel certification, every building product and supplier must meet relevant Nordic Swan criteria. All new construction and investment properties shall be environmentally certified and undergo a climate risk assessment. K2A has targets validated by the Science Based Targets initiative ("SBTi") for the most ambitious scenario of 1.5°C.

K2A's pathway towards climate positive value chain in 2027 includes the following activities:

- Continue to use wood as primary building material
- Continued efforts with a climate-optimised process for developing new apartments. Optimise the energy efficiency in existing buildings
- Further investments in renewable energy
- Fossil-free transportation solutions throughout the value chain
- Work strategically with circularity in K2A's buildings

[3] Being climate neutral means that an organization, through its own operations and/or by creating carbon sinks, has net GHG emissions of zero. Climate positive entails creating additional carbon sinks and/or carbon storage so that the activity makes a positive contribution to carbon storage. CLIPOP is an international network that has developed a standard practice for defining climate positivity, which is based on ISO 14021 – the standard for climate neutrality. For an activity to be climate positive and thereby qualify for the network, the company must fulfil the ISO 14021 standard and the activity must climate offset its emissions by creating carbon sinks for at least 10 per cent above and beyond the amount that was offset down to zero. Source: https://www.clipop.org/

- Collaborate with key players to accelerate the pace of change in the industry

K2A has stated that it is in the process of setting quantitative targets for the years leading up to 2027. Decisions are expected by early 2023.

K2A focuses on reducing embodied emissions in new construction by performing climate calculations on its projects, which includes all materials in the buildings. As of now, it is looking at different types of low carbon insulation in outer walls and other types of materials for the building foundations (instead of concrete). During next year, it will continue to look at alternative materials, such as recycled plaster, facade materials, etc.

According to the issuer, the use of timber frames and smart mounting methods makes it easier to replace, maintain and re-use the materials. The apartments will be assembled in a manner that makes it easy to dismantle them in the future, and even to re-use the building materials.

K2A's efforts to limit and reduce the environmental impact of its business are based, among other things, on the principles of the UN Global Compact and are manifested in a guiding sustainability policy and a code of conduct that includes both employees and suppliers. Suppliers should e.g., assist in reduction of supply chain impacts on the environment and be open and transparent in reporting on product or service utilization and any environmental impacts. K2A also seeks to reduce the impact on the environment by considering the carbon footprint in all dealings by e.g., reducing travel, source locally and choosing green energy options. K2A expects its suppliers to also find solutions to achieve this.

K2A uses green electricity and, if available, green district heating[4] for properties under management. In new production, K2A invests in renewable energy solutions such as solar cells and geothermal heat. For example, K2A has installed solar panels on all new own-produced buildings and is adding solar panels on existing buildings, where applicable. Examples of other smart sustainable solutions initiated by K2A is the electric carpool ("BoBil"), which is exclusive to the company's customers in relevant places. During 2022, K2A also launched the electric cargo bike-pool, "BoBike".

In 2021, the energy intensity in K2A'a properties was close to 100 kWh/m$^2$ heated area ($A_{temp}$). 80% was due to district heating, the rest from electricity. The energy intensity in 2021 was down 33% from 2019 and 8% from 2020.

Since 2020, K2A has surveyed and calculated the company's GHG emissions in accordance with the GHG protocol's Scopes 1–3. The overall (Scope 1-3) emission was 26,015 $tCO_2e$ in 2021 with 97% coming from Scope 3 – mainly embodied emission in materials. Scope 3 emissions doubled from 2020 primarily due to a greater share of ongoing construction projects. The total emission intensity increased by 22% from 2020 to 2021 to reach 144 $kgCO_2/m^2$. The increase was due to high construction activity, an activity with relatively high climate footprint. Although the total emission intensity increased, the $kgCO_2e/m^2$ per new building area did not increase, and the emission intensity from buildings in use decreased slightly due to more renewable electricity contracts.

The production method has made K2A the first manufacturer of prefabricated wooden apartment units that have been licensed to build Nordic Swan Ecolabelled ("Svanenmärkt") properties. A Nordic Swan Ecolabel means that the buildings have been assessed from a life-cycle perspective and based on a holistic approach, including the building process, the building by itself and how it is used and managed. All new construction of buildings from 2018 and onwards have been certified according to the Nordic Swan Ecolabel or equivalent. As mentioned, due to

[4] Currently, only available in a few central places in Sweden.

K2A's Nordic Swan Ecolabel certification, every building product and supplier must meet relevant Nordic Swan criteria.

In 2021, K2A updated its scenario analysis on climate related risks and opportunities according to the Task Force on Climate-related Financial Disclosures ("TCFD"). K2A also reports according to the Global Reporting Initiative ("GRI") standards, Greenhouse Gas Protocol ("GHG protocol") and the EU Taxonomy.

## Green finance framework

Based on this review, this framework is found to be aligned with the Green Bond Principles[5] and Green Loan Principles[6]. For details on the issuer's framework, please refer to the green finance framework dated January 2023.

### *Use of proceeds*

For a description of the framework's use of proceeds criteria, and an assessment of the categories' environmental impacts and risks, please refer to section 2.

### *Selection*

The selection of green eligible assets is managed by a dedicated group, the Green Finance Committee ("GFC"). Members of the GFC consist of CEO, CFO and Chief Sustainability Officer. All decisions are made in consensus, and that applies to the selection process of green eligible assets as well. A list of green eligible assets is kept by the finance department and the Chief Sustainability Officer is responsible for keeping this list up to date.

We note that K2A has in place additional selection criteria that take into account climate resilience issues, transport solutions, as well as characteristics of the local area of the project. Screening for potentially controversial projects is less relevant for K2A as Swedish regulation ensures a robust process when it comes to this.

The framework will be updated from time to time to reflect current market practices and potential updates to the Green Bond Principles, if and when the GFC deems it necessary. The list of eligible green assets is monitored by GFC on a regular basis during the term of the green financing instruments to ensure that the proceeds are sufficiently allocated to eligible green assets.

### *Management of proceeds*

Net proceeds from K2A's green financing instruments will be tracked by using a spreadsheet where all issued amounts of green financing instruments will be inserted. The spreadsheet will also contain the list of green eligible assets. Information available in the spreadsheet will in turn serve as basis for regular reporting and will be verified by an external part.

All green financing instruments issued by K2A will be managed on a portfolio level. This means that a green financing instrument will not be linked directly to any pre-determined green eligible asset. The company will keep track and ensure there are sufficient green eligible assets in the portfolio. Assets can, whenever needed, be removed or added to/from the green eligible assets portfolio.

Any unallocated proceeds temporary held by K2A will be placed on the company's ordinary bank account. Should there be any unallocated proceeds, K2A strives to allocate them within one year.

[5] Green Bond Principles published in June 2021 (with June 2022 Appendix I) are Voluntary Process Guidelines for Issuing Green Bonds established by International Capital Markets Association (ICMA). https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/

[6] Green Loan Principles published in February 2021 are voluntary process guidelines for issuing green loans established by Loan Markets association ("LMA"). https://www.lsta.org/content/green-loan-principles/

*Reporting*

K2A has a very good track record in green finance reporting based on the previous (2020) framework. Thus, K2A won an award for the best sustainability report following a review of all companies listed on Nasdaq OMX Stockholm's Mid Cap list in 2021. The Chief Sustainability Officer and the Chief Finance Officer are responsible for the reporting.

Also, for the updated framework, K2A will publish a green finance report and make it available on the company's website. The green finance report will include an allocation report and an impact report and will be published quarterly and annually as long as there are green financing instruments outstanding. The reporting will be on a portfolio level.

Allocation reporting will include total amount of green financing instruments issued; share of proceeds used for financing/re-financing as well as share of proceeds used for categories described in Section 2; share of unallocated proceeds (if any); and examples of the relevant green eligible assets. The green bond share of financing of the categories green buildings and energy efficiency will be reported.

The impact report aims to disclose the environmental impact of the green eligible assets financed under the framework. The impact report will, to some extent, be aggregated and depending on data availability, calculations will be made on a best effort basis. The impact report may include some of the below listed metrics.

Green buildings:

- Type of certification including level, if any (e.g., Miljöbyggnad Silver etc.)
- Information on the energy use in kWh/$m^2$/year and/or
- Estimated annual greenhouse gas emissions reduced or avoided ($tCO_2e$)

Energy efficiency

- Amount of energy saved per $m^2$, and/or
- Estimated annual greenhouse gas emissions reduced or avoided ($tCO_2e$)

We note that the reporting will not be independently verified. K2A states to consider this for the future.

# 2 Assessment of K2A's green finance framework

The eligible projects under K2A's green finance framework are shaded based on their environmental impacts and risks, based on the "Shades of Green" methodology.

### Shading of eligible projects under K2A's green finance framework

- An amount equivalent to the net proceeds from K2A's green financing instruments shall be used to finance or re-finance, eligible projects providing distinct environmental benefits ("green eligible assets") and comply with criteria detailed in the table below. K2A states that the majority will be financing of new construction projects in the green buildings category. This is the same as has been the case historically.
- The value of assets under "Green buildings" is based on the following criteria: new buildings under construction correspond to the relevant amount invested up to date; existing buildings correspond to fair value reported in the balance sheet at the cut-off date for annual reporting; major renovations correspond to the relevant invested amount. The value of assets under the category "Energy efficiency" correspond to the relevant invested amount.
- The proceeds of K2A's green financing instruments issuances will not be used to finance fossil fuel energy generation, nuclear energy generation, the weapons and defence industries, potentially environmentally negative resource extraction, gambling or tobacco. Properties with fossil fuel infrastructure are also excluded.

| Category | Eligible project types | Green Shading and considerations |
|---|---|---|
| **Green buildings** | New buildings (buildings built after 31 Dec 2020)[7]<br>i. Buildings that either have or will receive minimum certification of Nordic Swan Ecolabel or Miljöbyggnad Silver or Passive house, or<br>ii. Wooden buildings with Primary Energy Demand (PED) at least 10% lower than the threshold set for Nearly Zero-Energy Building (NZEB) according to national building regulations, or<br>iii. Buildings that either have or will receive EPC of class A or B. | **Light to Medium Green**<br>✓ The highest shading level, Dark Green, is reserved for the highest building standards such as Zero-Energy buildings and passive houses. The building criteria in the framework are good, but do not represent the highest environmental ambitions. That said, we note that a large number of LCA studies show that wood-frame building results in lower primary energy demand and GHG emission compared to non-wood alternatives including concrete and steel. Wooden materials also store carbon during their lifetime. Quantitative estimates are uncertain, but some studies indicate energy savings of the order |

[7] New buildings are defined as building built after 31 Dec 2020, in line with the current definition in the EU. "Built" refers to the date for the building permit application.

Existing buildings (buildings built before 31 Dec 2020)[8]

i. Buildings that either have or will receive minimum certification of Nordic Swan Ecolabel, Miljöbyggnad Silver, Miljöbyggnad iDrift Silver in combination with EPC C or better or Passive house, or
ii. EPC A or within top 15% of the national or regional building stock[9] expressed as operational PED and demonstrated by adequate evidence.

Major renovations

i. Major renovations and re-construction leading to primary energy savings of at least 30%.

of one third in the construction phase of wood buildings compared to buildings using mainly other materials[10].

- ✓ K2A states that the majority of buildings financed under the framework are wooden buildings as K2A strives to use wood to a large extent as possible. However, non-wooden buildings are a possibility, for example in connection with acquisitions.
- ✓ Beyond favouring wood as construction material, K2A aims to reduce embodied emissions by having circularity in focus to enable longevity, use reused materials and use of materials made up of recycled components, and use of alternative materials with lower carbon emissions than currently used (e.g., replacing concrete or insulation with low carbon materials).
- ✓ Setting demands that the PED will be at least 10% lower than NZEB for new construction is moderately ambitious. K2A's resiliency and on-site renewable energy strategies are ambitious for the real estate sector in Sweden. The use of current regulations (BBR) as a proxy for NZEB is done in the absence of an officially determined NZEB. However, the use of BBR as a proxy for NZEB for the Swedish market should be clarified by the Swedish authorities.
- ✓ Green building certification standards cover a broad set of issues that are important to sustainable development. At the same time, they differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, related transportation emissions, and consideration of resilience. In general, "in-use" certifications offer fewer environmental considerations than certifications for new developments.
- ✓ Miljöbyggnad Silver require an energy use less than 80% of current regulations. The Nordic Swan ecolabel requires energy performance for apartment buildings and single-family houses to be 15% better than current

[8] Existing buildings are defined as buildings built before 31 Dec 2020, in line with the current definition in the EU. "Built" refers to the date for the building permit application.
[9] Thresholds are defined in the report "Topp 15 och 30 procent av de bästa byggnaderna Primärenergital för lokaler och bostäder" (Fastighetsägarna, CIT Energy Management): https://www.fastighetsagarna.se/tjanster/dokument/
[10] R&D Fund for public real estate, The Swedish Association of Local Authorities and Regions (2016): Climate impacts of wood vs. non-wood buildings. https://webbutik.skl.se/bilder/artiklar/epub/7585-377-2.epub

regulation (BBR), preschools and schools to be 20% better than BBR, and office buildings to be 15% better than BBR. The EPC label A require energy intensities ≤ 50% of the requirement for a new building, while EPC B requires energy intensities between 50 and 75% below the requirement for a new building. Older buildings can have labels that are up to 10 years old.

- ✓ Hence, K2A has criteria for green buildings mainly going beyond applicable building regulations. However, Miljöbyggnad iDrift lacks quantitative energy criteria, which opens up for financing buildings with poor energy performance. This is counteracted by the K2A requirement of an EPC label C, which in Sweden set a limit on energy use at or below current regulations.
- ✓ Also, the criteria for existing building being within the top 15% of similar building stock do not guarantee that buildings have energy performance that is in line or better than current regulations.
- ✓ K2A will use top 15% of national or regional building stock as assessed by Fastighetägarna[11], as an official definition is yet to be defined. How ambitious the top 15% threshold is, depends on the type of building, but generally they are less ambitious than current regulations for energy demand. For apartment buildings, which is the dominant building type in K2A's portfolio, the top 15% is defined by a primary energy demand of 81 kWh/m$^2$. Whether a building meets the top 15% PED threshold will depend, among other, on its energy source, where different sources are weighed differently in the calculation of its PED. The weighting favours district heating over electricity, meaning that, all else equal, it will be easier for a building connected to district heating to meet the threshold for top 15% than for a building with electric heating.
- ✓ Refurbishment of existing buildings are often better than new constructions from a climate point of view but should ideally come with greater improvements in energy efficiency. IPCC recommends 50% energy efficiency improvements.

[11] We consider the report from Fastighetsägarna to provide adequate evidence for the energy efficiency of the top 15% of the national building stock.

| | | |
|---|---|---|
| **Energy efficiency** | Energy retrofits such as installation of solar panels, heat pumps, converting to LED lighting, improvements in ventilation systems, extension of district heating and cooling systems. | **Medium to Dark Green**<br>✓ Focusing on improving the energy performance of existing buildings, instead of demolishing the existing building to build new, is essential to decrease the climate footprint of buildings. Especially in the Nordic context, where embodied emissions in building materials typically make up for 50% of total lifecycle emissions.<br>✓ One should note that energy efficiency measures might be tied to mandatory improvements of technical systems that would take place regardless of the linked energy savings. However, the measures that are mentioned in the framework, such as solar panels and geothermal heating/cooling, go beyond standard upgrades and are encouraged.<br>✓ 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. K2A should be aware of such effects and possibly avoid green funding of projects where the risk of rebound effects is particularly high. |

Table 1. Eligible project categories

# 3 Terms and methodology

This note provides CICERO Shades of Green's second opinion of the client's framework dated January 2023**.** This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Shades of Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

## 'Shades of Green' methodology

CICERO Shades of Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

| | Shading | Examples |
|---|---|---|
| °C | **Dark Green** is allocated to projects and solutions that correspond to the long-term vision of a low-carbon and climate resilient future. | Solar power plants |
| °C | **Medium Green** is allocated to projects and solutions that represent significant steps towards the long-term vision but are not quite there yet. | Energy efficient buildings |
| °C | **Light Green** is allocated to transition activities that do not lock in emissions. These projects reduce emissions or have other environmental benefits in the near term rather than representing low carbon and climate resilient long-term solutions. | Hybrid road vehicles |

The "Shades of Green" methodology considers the strengths, weaknesses and pitfalls of the project categories and their criteria. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised, including potential macro-level impacts of investment projects.

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green finance are carefully considered and reflected in the overall shading. CICERO Shades of Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

### *Assessment of alignment with Green Bond Principles*

CICERO Shades of Green assesses alignment with the International Capital Markets' Association's (ICMA) Green Bond Principles. We review whether the framework is in line with the four core components of the GBP (use of proceeds, selection, management of proceeds and reporting). We assess whether project categories have clear environmental benefits with defined eligibility criteria. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed. The selection process is a key governance factor to consider in CICERO Shads of Green's assessment. CICERO Shades of Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Shades of Green places on the selection process. CICERO Shades of Green assesses whether net proceeds or an equivalent amount are tracked by the issuer in an appropriate manner and provides transparency on the intended types of temporary placement for unallocated proceeds. Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs.

# Appendix 1:
# Referenced Documents List

| Document Number | Document Name | Description |
|---|---|---|
| 1 | K2A_Green Finance Framework_draft_230109_track changes | K2A’s Green finance framework, dated January 2023 |
| 2 | AR_ENG_2022 | K2A’a Annual report 2021 (in English) |
| 3 | 202104012791-1 | K2A’a Annual report 2020 (in Swedish) |

# Appendix 2:
# About CICERO Shades of Green

CICERO Shades of Green, now a part of S&P Global, provides independent, research-based second party opinions (SPOs) of green financing frameworks as well as climate risk and impact reporting reviews of companies. At the heart of all our SPOs is the multi-award-winning Shades of Green methodology, which assigns shadings to investments and activities to reflect the extent to which they contribute to the transition to a low carbon and climate resilient future.

CICERO Shades of Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Shades of Green 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 Shades of Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

Environmental Finance
Bond Awards
2022
Winner
External assessment provider of the year

- **2021 Largest External Reviewer,** Climate Bonds Initiative Awards
- **2020 External Assessment Provider Of The Year,** Environmental Finance Green Bond Awards
- **2020 Largest External Review Provider In Number Of Deals,** Climate Bonds Initiative Awards
- **2019 External Assessment Provider Of The Year,** Environmental Finance Green Bond Awards
- **2019 Largest Green Bond SPO Provider,** Climate Bonds Initiative Awards
- **2018 External Assessment Provider Of The Year,** Environmental Finance Green Bond Awards
- **2018 Largest External Reviewer,** Climate Bonds Initiative Awards
- **2017 Best External Assessment Provider,** Environmental Finance Green Bond Awards
- **2016 Most Second Opinions,** Climate Bonds Initiative Awards