



# Diös

## Green Financing Second Opinion

August 15, 2019

**Diös is one of Sweden's leading property companies with 330 properties and a leasable area of 1.5 million square meters in northern Sweden.** The company manages and develops both commercial and residential properties and is a major property owner in the central business district of ten growing cities in the northern part of Sweden.

**The Diös green financing framework provides a clear and sound framework for investments into projects that align with the Green Bond and Green Loan Principles.** Eligible projects include fully or partly financing or refinancing investments in clean transportation, energy efficiency, green buildings, pollution prevention and control, and renewable energy projects related to commercial and residential buildings in Sweden. Diös excludes fossil fuel-based energy generation, nuclear energy generation, and potentially environmentally negative resource extraction (e.g. rare earth elements or fossil fuels) from its use of proceeds. Diös expects to allocate the majority of net proceeds to new green commercial and residential buildings.

**Diös' governance policies and procedures meet and, in cases, exceed the recommendations laid out in the Green Bond and Green Loan Principles.** The company has integrated UN Global Compact principles and SDGs into core operations – internally and for suppliers – and has set ambitious renewable energy and green building certification targets. Diös' Green Business Council, responsible for evaluating projects nominated for inclusion the green financing portfolio, has high-level representatives from all core business functions, including sustainability expertise; the latter has a veto power. The company reports annually in compliance with the GRI G4 Core Standards, and reports to GRESB and EPRA.

**With respect to project categories, the company's baseline performance standard is high and it has good ambitions to increase this standard.** Diös is certifying all new buildings to BREEAM level very good" (commercial) or Svanen (residential) and requiring a 15% lower energy use than national building code (BBR). It will certify all of its existing buildings retroactively. The company is powered by 98% renewable energy and plans to make this 100%. It includes clean transportation and energy efficiency solutions for its properties. Diös does not currently conduct scenario stress testing or resilience planning but has indicated that it is planning to enhance climate risk analysis. To further improve, Diös could set more ambitious energy efficiency targets, develop a climate risk assessment and management strategy and require higher green building classifications. Based on the overall assessment of the project types that will be financed by the green financing, governance and transparency considerations, Diös' green financing framework receives an overall **CICERO Medium Green** shading.

### SHADES OF GREEN

Based on our review, we rate Diös' green financing framework **CICERO Medium Green**.

Included in the overall shading is an assessment of the governance structure of the green financing framework. CICERO Shades of Green finds the governance procedures in Diös' framework to be **Excellent**.



### GREEN BOND AND GREEN LOAN PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.





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# 1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated May 21, 2019. This second opinion remains relevant to all green financing 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 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.

## Expressing concerns with 'shades of green'

CICERO 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:

### CICERO Shades of Green



**Dark green** is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.



**Medium green** is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.



**Light green** is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.



**Brown** is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future.

### Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available



New infrastructure for coal

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, the governance aspects are carefully considered and reflected in the overall shading of the green financing framework. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green financing 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.



## 2 Brief description of Diös' green financing framework and related policies

Diös is one of Sweden's leading property companies with 330 properties and a leasable area of 1.5 million square meters in northern Sweden. The company manages and develops both commercial and residential properties, and is a major property owner in the central business district of ten growing cities in the northern part of Sweden. It owns and manages ten city malls, which are in central locations.

### Environmental Strategies and Policies

Diös signed the UN Global Compact in 2017 and has developed a Code of Conduct for employees and suppliers based on the Global Compact's ten principles of human rights, labor, environment, and anticorruption.

In addition to the above, Diös has adopted four Sustainable Development Goals: affordable and clean energy, sustainable cities and communities, responsible consumption and production, and climate action. The company has identified targets and initiatives under each of these SDGs, which include the following:

- Invest in and install another 20 solar cell projects in 2019.
- Add 700 charging points to promote the transition to electric vehicles.
- Replacing 100 percent of service car fleet with electric vehicles.
- Improving control of purchases of products for care and upkeep of properties that will regulate chemicals management and make it easier to specify requirements for products used and promote more sustainable consumption patterns.
- Requiring sustainability training internally
- Reducing energy use annually by three percent through optimization and new installations

One of the company's long-term ambitions is achieving zero greenhouse gas emissions and 100% renewable energy-powered buildings no later than 2045, in line with national targets. Currently, 98% of Diös' buildings are powered by renewable energy suppliers. Diös uses the Greenhouse Gas Protocol to measure and report corporate emissions.

Diös is BREEAM certifying all of its new buildings to a minimum level of Very Good, and will certify all of its existing buildings retroactively; as of March 31, 2019, 11% of the total rentable area was certified. For new construction, Diös considers flood risk and sustainable water management practices as part of the BREEAM certification. In light of recent exposure to damage from heavy snow and rising heat levels, Diös is exploring opportunities to install geothermal and solar to power additional heating and cooling. Diös is also a member of the Swedish Green Building Council.

The company has been reporting its sustainability activities in accordance with the Global Reporting Initiative (GRI) G4 standards, using the Core option with industry-specific extensions, since 2016. In 2018, Diös reported to GRESB and achieved a Green Star rating (the highest rating). Diös also reports to the European Public Real Estate Association (EPRA) and received the Gold award in 2017 and 2018, representing the highest standard of sustainability reporting and transparency.



### Use of proceeds

Diös will allocate an amount equal to the net proceeds to fully or partly finance or refinance investments in clean transportation, energy efficiency, green buildings, pollution prevention and control, and renewable energy projects in Sweden. Assets must comply with the categories laid out in the framework, as well as the exclusion criteria. Diös' long-term ambition is to allocate the majority (approximately 80%) of net proceeds to new green buildings and related assets, defined as projects and assets financed within 12 months from completion. Diös expects 50 percent of new buildings to be commercial properties and 50 percent to be residential. Examples of eligible projects include geothermal heating and cooling facilities, energy efficient windows in existing buildings, new solar cell facilities and green buildings.

Diös excludes fossil fuel-based energy generation, nuclear energy generation, research and/or development of weapons and defense, potentially environmentally negative resource extraction (e.g. rare earth elements or fossil fuels), gambling and tobacco from its use of proceeds.

### Selection:

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO 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 Green places on the governance process.

Diös has set up a Green Business Council (GBC), which is a subcommittee of the Investment Council, and is responsible for evaluating projects and assets identified and nominated for green financing to ensure compliance with Green Terms. The projects and assets are identified by local business and energy optimization teams and referred to the GBC for evaluation. The GBC includes the CEO, the CFO, the Head of Sustainability, the Treasury Department, a green financing specialist, the head of energy optimization, and the director of business support. As part of its review, it will evaluate overall environmental impact, including lifecycle considerations, potential rebound effects, resilience and adherence to at least one of Diös' five environmental objectives. A decision to allocate proceeds will require a consensus decision, whereby the Head of Sustainability holds a veto.

The treasury department will keep an updated list of all green assets. Projects will be reviewed annually. If a project or asset ceases to meet the Green Terms, it will be removed from the list and funds will be recycled.

### Management of proceeds

CICERO Green finds the management of proceeds of Diös to be in accordance with the Green Bond and Green Loan Principles.

The net proceeds from Green Financing will be credited to a dedicated account (the "Green Account") or otherwise tracked by Diös (together, the "Green Portfolio"). Deductions will be made from the Green Portfolio by an equivalent amount corresponding to the financing, refinancing, investment or expenditure of Eligible Green Assets or at repayment of any Green Financing.

If an Eligible Green Asset no longer qualifies or if the underlying project or asset is divested or lost, an amount equal to the funds allocated towards it will be re-credited to the Green Portfolio. Funds may also be reallocated to other Green Assets during the term of any Green Financing, unless otherwise agreed in the loan documentation.



The treasury department will keep a record of the purpose of any change in the Green Portfolio and ensure that the combined funds directed towards a specific Green Asset, by one or several sources of Green Financing or other financing with specific use of proceeds, does not exceed its value.

Pending fund disbursement to Green Assets and while the Green Portfolio has a positive balance, the proceeds may be invested or used by the treasury in accordance with Diös' financial policy. Such unallocated funds may for instance be invested in short-term interest-bearing securities, such as Swedish treasure bills (and related entities) or Swedish municipal notes (including related entities).

The allocation of proceeds will be verified by Diös' external auditor.

### Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Diös will publish an annual report on its website that will detail the allocation of green funds and adherence to the Green Terms, including the proportion of net proceeds allocated to new projects and assets and asset-level performance indicators. The GBC is responsible for reporting and verifying the data in this report. The first report is expected in March 2020 and will be available in English. In addition to annual reporting, a quarterly statement will be published on the Green Website disclosing the total amount of Green Financing outstanding and the total value of Green Assets, as well as any short-term investments or funds managed within Diös' liquidity portfolio.

The annual report will include information about assets financed with Green Financing, a summary of Diös' activities in the past year with regards to Green Financing, and information about Green Assets' adherence to relevant criteria. Diös will strive to provide estimates of future performance levels for assets that are not yet operational. Diös will emphasize energy savings and greenhouse gas reductions as the most relevant performance metrics for most projects. Diös has indicated that they will monitor greenhouse gas emissions in accordance with the Greenhouse Gas Protocol, and disclose the grid factor used to calculate emissions. The report will be audited by a third party.



### 3 Assessment of Diös' green financing framework and policies

The framework and procedures for Diös' green financing 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; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Diös should be aware of potential macro-level impacts of investment projects.

#### Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Diös' green financing framework, we rate the framework **CICERO Medium Green**. Four out of five project categories receive a dark green rating, with Green Buildings receiving medium green. Governance is considered excellent. The framework receives a Medium Green rating overall because of its long-term ambition is to invest approximately 80% of proceeds in construction of new buildings, a category that receives a Medium Green rating.

#### Eligible projects under the Diös' green financing 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 financing aims to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Clean transportation	Supportive infrastructure such as charging stations for all types of electric vehicles, bicycle garages, pedestrian walkways, bicycle lanes or other investments that support and emphasize the use of clean transportation solutions.	<b>Dark Green</b> <ul style="list-style-type: none"><li>✓ Although electric modes of transportation are clearly preferable to fossil fuel-powered modes, we should nevertheless be aware of the indirect GHG emissions stemming from the production and use, and strive to keep increasing their efficiency. Consider grid factors in life cycle emissions for electric vehicles.</li><li>✓ For projects that require construction, consider emissions intensity and</li></ul>





resilience of materials and equipment used.

Energy efficiency



Investments in the existing portfolio of buildings that target a lower overall energy use and an improved environmental footprint. This could include installation of geothermal heat/cooling, energy efficient lighting, IT technology (monitoring, efficiency management and remote operation), energy efficient windows or an upgraded ventilation system. Only directly associated expenditure (e.g. material, installation, and labor) is eligible for financing. Diös will ascertain the following:

- High estimated energy savings in the targeted area (minimum 20%)
- Minimize long-term negative climate impact and potential rebound effects
- Minimal negative climate impact from the technology used

**Dark Green**

- ✓ Diös has confirmed that no buildings in its portfolio have fossil fuel-based heating or electricity, minimizing the risk of rebound or locked-in effects from efficiency improvements.
- ✓ District heating is powered by biofuel, waste and industrial waste heat in cities of operation. However, Diös has indicated that investments in energy efficiency for district heating is not included in this category.
- ✓ IEA recommends that efficiency of building envelopes improve by 30% by 2025 to keep pace with increased building size and energy demand, which remains above this framework’s current minimum threshold of 20%.
- ✓ Diös notes that energy efficiency investments may far exceed the 20% minimum threshold set in this framework.
- ✓ Diös has confirmed that energy savings are measured from baseline performance before the investment. Current baseline performance is already high because of the low emissions grid factor and prior investments in energy efficiency.
- ✓ Diös has confirmed that geothermal heating and cooling installations and drill holes are made in cities, not in greenfields.

Green buildings



**New commercial properties**

Development, acquisition or otherwise completed properties that have, or will, receive i) a design stage certification or ii) a post-construction certification, or iii) an in-use certification in any of the following building certification schemes at the defined threshold or better: Miljöbyggnad “Silver” or BREEAM-SE “Very Good” as well as a 15 % lower energy use than required by the applicable national building code (BBR).

**Medium Green**

- ✓ Voluntary environmental certifications such as BREEAM or equivalents can measure or estimate the environmental footprint of buildings and raise awareness of environmental issues, but they fall short of guaranteeing an environmentally-friendly or climate resilient building.





**Existing commercial properties**

Major renovation or otherwise completed properties that have, or will receive i) a design stage certification, ii) a post-construction certification or iii) an in-use certification of at least Miljöbyggnad "Silver" or BREEAM In-Use "Very Good" and achieve an energy target, as specified below.

- Existing properties requires a 15% lower energy use than required by the applicable national building code (BBR).

**Residential buildings**

New or existing accommodation that i) have or will receive a certification of Svanen or ii) achieve at least 15 % lower energy use per square meter than required by the applicable national building code (BBR).

- ✓ According to Swedish building regulations<sup>1</sup>, residential buildings in northern Sweden (climate zone 1 and 2) heated by other means than electricity are allowed a maximum energy use of 130 kWh/m<sup>2</sup> (110 kWh/m<sup>2</sup> in climate zone 2) and commercial buildings are allowed 110 kWh/m<sup>2</sup> (75 kWh/m<sup>2</sup> in climate zone 2)
- ✓ For projects that require construction, consider emissions intensity and resilience of materials and equipment used.
- ✓ Flooding risk, in combination with extreme weather and sea level rise, has been observed in almost all regions in the world.<sup>2</sup> Flood risk for properties, is of particular concerns in vulnerable geographic regions, including Europe.
- ✓ Heat stress has implications for energy use (i.e. increased air conditioning). Consider potential implications of heat stress on energy performance of buildings and Diös' environmental targets.

Pollution prevention and control

Investments in waste management, such as prevention, reduction or recycling of waste as well as enabling infrastructure and facilities.

**Dark Green**

- ✓ Diös has confirmed fossil fuel-powered vehicles associated with waste management or other will not be financed with proceeds.



Renewable energy

Renewable energy production, such as on-site solar power installations or stand-alone solar farms, as well as related infrastructure investments for example grid connections, electric substations, networks or foundations.

**Dark Green**

- ✓ Solar power is part of a low-carbon 2050 solution. It may still, however, have implications for biodiversity that should be considered and the issuer is encouraged to consider the full life cycle of solar panels, i.e. responsibly sourced materials, production and disposal.



<sup>1</sup> <https://www.iea.org/beep/Sweden/>

<sup>2</sup> <https://www.cicero.oslo.no/no/publications/internal/2871>



- ✓ Diös has confirmed that this category only includes solar at this time.

Table 1. Eligible project categories

### Background

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. The buildings and building construction sectors combined are currently responsible for 36% of global final energy consumption and nearly 40% of total direct and indirect CO<sub>2</sub> emissions. Appliances (excluding heating, cooking and cooling appliances) are responsible for around 17% of final electricity use by buildings. Efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand – in addition to improvements in lighting and appliances and increased renewable heat sources.<sup>3</sup> Energy efficiency improvements in buildings are thus important building blocks towards reaching the 2°C goal.

In Sweden, Building Regulations BBR10 (2012) for new residential buildings<sup>4</sup> and for new non-residential buildings (2010)<sup>5</sup> establish three climate zones with associated requirements for building energy performance. The majority of Diös’ properties are in climate zone 1 and use “other than electrical heating.” As of March 2019, Diös has 135 properties located in climate zone 2 (Gavle, Dalarna and Sundsvall), the majority of which are non-residential.

	Residential		Non-residential	
kWh/m2/year	Electrically heated	Other than electrical heating	Electrically heated	Other than electrical heating
Climate zone 1	95	130	95	110
Climate zone 2	75	110	90	75
Climate zone 3	55	90	70	55

Global electricity demand increased 4% in 2018, with low-carbon generation expanding 6% to meet a considerable share of this growth. Nevertheless, power sector CO<sub>2</sub> emissions rose by 2.5%, with coal responsible for 80% of this increase. In 2018, 42% of all energy-related CO<sub>2</sub> emissions came from the power sector, causing it to remain the largest source of energy-related CO<sub>2</sub> emissions.<sup>6</sup> Investments in the rapid transition to renewable energy powered economies are therefore increasingly critical.

<sup>3</sup> <http://www.iea.org/tcep>

<sup>6</sup> <https://www.iea.org/tcep/power/>



Transportation is responsible for 24% of direct CO<sub>2</sub> emissions from fuel combustion. Road vehicles – cars, trucks, buses and two- and three-wheelers – account for nearly three-quarters of transport CO<sub>2</sub> emissions. Road transport emissions have increased despite progress in electrification, largely due to rising global GDP and consumer preference for larger, heavier vehicles. The global share of electric car sales rose to more than 2.5% in 2018, and fleets of electric buses and trucks are being procured in more and more cities around the world.<sup>7</sup>

The waste sector contributes almost 5% of global GHG emissions mainly from landfill and wastewater methane and nitrous oxide as well as CO<sub>2</sub> from waste incineration.<sup>8</sup>

Physical climate change such as extreme events, heat stress, and flooding are affecting all sectors and regions already. Due to historical emissions, we are locked in for approximately 1.5°C global warming.<sup>9</sup> Given today's policy ambition, the world is most likely heading toward 3°C warming in 2100 which implies accelerated physical climate impacts, including more extreme storms, accelerated sea level rise, heat stress, droughts, and flooding.<sup>10</sup> For near-term physical risk to real estate assets, investors and companies must consider the probabilities of these physical climate impacts, as well as resiliency measures to plan for and protect against the worst. Investments in energy efficiency measures, particularly in regions vulnerable to heat waves, are important climate resiliency measures. Investments in flood and water damage management measures<sup>11</sup> are critical for properties in flood zones and coastal areas.

### Governance Assessment

Four aspects are studied when assessing the Diös' governance procedures: 1) the policies and goals of relevance for the green financing framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Diös has integrated UN Global Compact principles and SDGs into core operations – internally and for suppliers - and has set ambitious renewable energy and green building certification targets. The company's Green Business Council, responsible for evaluating projects nominated for inclusion in the green financing portfolio, has high-level representatives from all core business functions, including sustainability expertise; the latter has effective veto power. Finally, the company reports annually in compliance with the GRI G4 Core Standards, and reports to GRESB and EPRA. Based on these and other factors, CICERO Green's overall assessment of Diös' governance structure and processes gives it a rating of **Excellent**.



### Strengths

Diös' governance processes meet and, in cases, exceed recommendations laid out by the Green Bond Principles. The company is a signatory to the UN Global Compact and has integrated relevant UN Global Compact principles and SDGs into its overall operational objectives, processes and supply chains through detailed Codes of Conduct that are made publicly available (see Appendix 1 for a full list and access). The latter requires that suppliers consider environmental risk to operations, reduce waste and emissions. Diös has set ambitious targets for powering

<sup>7</sup> <https://www.iea.org/tcep/transport/>

<sup>8</sup> <https://www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-chapter10.pdf>

<sup>9</sup> <https://www.cicero.oslo.no/en/posts/news/scientists-demystify-climate-scenarios-for-investors>

<sup>10</sup> [https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR\\_AR5\\_FINAL\\_full\\_wcover.pdf](https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR_AR5_FINAL_full_wcover.pdf)

<sup>11</sup> [https://www.intactcentreclimateadaptation.ca/programs/home\\_flood\\_protect/resources/](https://www.intactcentreclimateadaptation.ca/programs/home_flood_protect/resources/)



all properties with renewable energy by 2040 and certifying all commercial properties to the BREEAM level “very good” and all residential buildings by the Nordic Svanen system<sup>12</sup>. These organizational policies and targets demonstrate the company’s commitment to minimizing its environmental impact.

The company’s Green Business Council (responsible for evaluating nominated projects and investments) has a mandate to consider resilience, rebound effects, and life cycle analyses before approving projects. In an interview with the company, Diös confirmed that recent exposure to damage from snow and higher costs from heat waves have prompted the company to study climate resilience and, as a result, the company expects to enhance climate risk analysis, in line with the TCFD recommendations.

The GBC has high-level representation from across the company, including a dedicated sustainability expert and green financing specialist that effectively have veto power over project evaluation. The treasury department, also represented on the GBC, is tasked with monitoring compliance of projects with the selection criteria and has documented a process for dropping projects from the green financing portfolio if the project fails to meet standards.

The company’s demonstrated record on reporting exceeds best practices. Diös has been publishing an annual sustainability report in compliance with the GRI G4 Core standards with industry-specific extensions since 2016, and has been reporting to GRESB and EPRA with the highest awards. The company reports on stakeholder engagement initiatives and conducts a full materiality analysis to identify relevant performance indicators. The resulting environmental indicators include energy use, water use, emissions, and waste.

With respect to project categories, the company’s baseline performance standard is high and ambitions outlined in this framework promise to increase that standard. The framework includes clean transportation, energy efficiency, renewable energy, green building certification, and waste management, which are all key elements for a holistic approach to low carbon, climate resilient buildings. CICERO commends inclusion of clean transportation, energy efficiency, and renewable energy solutions for green building management, and notes that Diös emphasizes climate resilience and life cycle analysis as part of its screening process for projects and suppliers.

The company is already powered by 98% renewable energy which minimizes the potential for lock-in effect with energy efficiency and green building investments. Diös is certifying all new buildings to BREEAM level “very good,” and will BREEAM certify all of its existing buildings retroactively. As of March 31, 2019, 11% of the total rentable area was BREEAM certified. Diös is also requiring a 15% lower energy use than required by the applicable national building code (BBR) for both new and existing residential and commercial buildings. Diös’ current average energy use per square meter for heating, cooling and electricity is 157 kWh / sqm in 2017 in commercial and residential buildings. The projects outlined in this framework will improve its performance. These requirements for investments in green buildings and performance target are commended. CICERO Green encourages Diös to continue exploring and incorporating industry best practices – such as ambitious environmental standards for suppliers and low carbon construction materials – in its operations.

For energy efficiency, Diös requires a minimum of 20% energy savings for investments under this framework, and expects some investments to far exceed this minimum threshold. The IEA recommends that efficiency of building envelopes improve by 30% by 2025 to keep pace with increased building size and energy demand. The low emissions grid and Diös’ high level of renewable energy targets helps to reduce the potential of locked in emissions normally introduced by energy efficiency projects. However, CICERO Green encourages Diös to continue increasing its ambition and setting a global example on this front by aligning with IEA recommendations.

Diös owns and manages ten centrally located city malls. A pilot project in one of the malls aims to optimize transportation of goods and services to and from the mall by converting parts in the mall into “warehouse as a service” and “pickup points” for waste collection and e-commerce. If the pilot is successful, Diös plans to expand

<sup>12</sup> <https://www.svanemarket.no/english/>



the services and locations. By combining delivery services for tenants' goods in stage one (adding on services for laundry, pharmaceuticals, food, and other types of deliveries in future stages) and pickup of waste, dirty laundry and recycling materials, the pickup points will help minimize the number of vehicles going into and out of the city center. This is an innovative, progressive solution that has the potential to significantly decrease emissions from Diös' direct and indirect operations. CICERO commends the initiative and encourages Diös to continue developing it as part of their broad and inclusive sustainability strategy.

### **Weaknesses**

No significant weaknesses perceived at this time.

### **Pitfalls**

Diös does not currently conduct scenario stress testing or climate resilience planning. The building sector is particularly vulnerable to the physical impacts of climate change, such as rising sea levels, extreme storms and flooding. Stronger hurricanes in combination with sea level rise in coastal areas, in addition to increases in heavy precipitation and flooding in urban areas, have already been observed and are expected to increase in Europe by mid-century across the range of climate scenarios explored in the IPCC 4th Assessment Report. Rising heat stress results in increased dependence on air conditioning and energy use. These physical impacts of climate change can cause property damage, discount property value, increase operational costs, and increase insurance premiums or change insurance coverage for residential and commercial properties in Europe. The company has indicated that it is planning to enhance climate risk analysis to respond to recent increases in damage from snow and higher energy costs from heat waves. CICERO Green encourages Diös to assess and anticipate these risks to better identify and protect its customers, assets, and investors and respond to the TCFD recommendations.

Impact reporting for green financial instruments other than green bonds is a relatively new field. We encourage the Diös to be as transparent and clear as feasible regarding the attribution of achieved impacts to single instruments, such as green loans.



# Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Diös Green Financing Framework, June 2019	Framework outlining use of proceeds, selection criteria, management of proceeds, and reporting procedures for Diös
2	<a href="#">Annual report 2018</a>	Complete review of the business, strategy, policies, its properties, financial information and performance.
3	<a href="#">Sustainability appendix</a>	GRI G4 Core compliant sustainability report with industry-specific extensions for construction and the property sector.
4	<a href="#">EPRA spreadsheet</a>	Data on energy, GHG emissions, water, waste and certified assets for Diös' assets by geography and property type.
5	<a href="#">Anti-corruption Policy</a>	Outlines Diös' intolerance for anticorruption in the workplace
6	<a href="#">Employee Code of Conduct</a>	Outlines Diös stance on human rights, working conditions, environmental responsibility, business ethics, and communication.
7	<a href="#">Environmental Policy</a>	Includes language on suppliers and subcontractors, prioritizing energy efficiency and improving recycling rates.
8	<a href="#">Equal Opportunity and Anti-Discrimination Policy</a>	Aims and objectives, responsibility and governance, and interpretation of policy on equal opportunity and non-discrimination



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9	<a href="#">Health and Safety Policy</a>	Aims and objectives, responsibility and governance, and interpretation of policy on health and safety within Dios
10	<a href="#">Supplier Code of Conduct</a>	Reviews Dios' policy requirements on human rights, working conditions, environment, business ethics and communication.

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## Appendix 2: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO 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 Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).

