

TCFD

2020



Vasakronan

Climate Report according to TCFD

Vasakronan realised over ten years ago that the business needed to be reorganised and more consideration given to the environment and climate. Through enhancing energy efficiency in various ways, and the transition to renewable energy sources, since 2006 Vasakronan has reduced its direct greenhouse gas emissions from energy and air travel by around 90%. Work to reduce our climate impact has historically been a success factor, both driving and meeting demand from the market for climate-smart solutions. The reduction in energy consumption has also led to considerable improvements in net operating income, increased property values and an overall improvement in profitability. But in addition to reducing its impact on the climate, the company also adapts its operations to withstand a changed climate.

TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) recommendations are directed both to companies and to investors. The aim is primarily to provide investors with information about the risks and possibilities that a transition to a society with lower carbon emissions and a changing climate entails. They are also intended to provide a description of the company's governance and strategy regarding climate issues. This is the second year that the climate agenda has been described based on the TCFD recommendations. The aim is to follow them to the greatest extent possible. The goal of our reporting is to help stakeholders understand how the business will be affected by climate changes.

The TCFD's recommendations are categorised into four areas: governance, strategy and risk management as well as key metrics and targets. Our report on how work is conducted in these four areas is given below. In relevant cases there are references to other parts of the 2020 Annual Report with more detailed information.

Governance

The Board of Directors establishes a strategic plan for the company every year. It includes a description of the sustainability strategy that is expected to form the basis for the operations and the long- and short-term environmental targets. A review of the company's work to reduce the operational impact on the climate and to adapt operations to climate changes is also conducted at least once a year with the Board of Directors.

Stringent requirements from the owners (the First through Fourth Swedish national pension funds) mean that the return must be long-term stable and generated with consideration for people, the environment and society. They also expect climate issues to be an integrated part of operations. The progress report to owners is made through owner representatives on the Board of Directors as well as through ongoing dialogues with the sustainability departments at each Swedish national pension fund.

Responsibility for daily operations with climate issues such as planning, governance and monitoring follows the organisational structure, with a clear delegation of responsibilities and authorisations. Climate issues are included as part of the business plans developed for the underlying units as well as for the company as an entirety and include the targets set for both the

short and long term. The targets are monitored on a quarterly basis by management and the Board of Directors.

Strategies

Vasakronan is a long-term actor. It is therefore important that the company's strategy also monitors areas that have a significant effect in the long run, including the climate. The strategic plan the Board of Directors develops every year includes the operating environment factors and trends that have the most impact on the company in the next five years and the strategies assessed as appropriate for the new conditions. One is the sustainability strategy, which entails that the company continues to set ambitious climate targets that affect the decisions taken across the entire value chain. Climate issues are also a central part of future investments. The existing portfolio will be continuously reviewed and adapted based on assessments of future climate changes.

Vasakronan supports Sweden's national goal of becoming climate neutral by 2045. To strengthen competitiveness and remain profitable over the long term, Vasakronan decided that the company must be climate neutral across the entire value chain by 2030. To reach climate neutrality across the entire value chain, emissions related to construction and tenant use of premises need to be drastically reduced.

Business plans and long- and short-term targets are set so we know what to focus on in the coming year. In 2020, the climate issue has also been a particular focus area. The aim is for the climate to be an integral part of every decision taken. For more information about climate targets, refer to pages 15 and 173 in the 2020 Annual Report.

To ensure that efforts to reduce our climate impact are sufficient and in line with the requirements specified by the Paris Agreement's goal to limit global warming to two degrees, we have engaged the Science Based Targets initiative (SBTi) to evaluate our climate targets. The SBTi is a collaboration between the World Wide Fund for Nature, the United Nations Global Compact, the Carbon Disclosure Project and the World Resources Institute. The objective is to ensure that the climate goals set by companies have a scientific basis. In December 2018, Vasakronan's climate targets were approved by the SBTi, with the comment that they were well under those of the Paris Agreement.

Risks and opportunities

Efforts to identify, analyse, manage and follow up risks are prioritised at Vasakronan. Climate-related risks are also addressed. Risk efforts involve all units in the company and follow a structured process that starts with an inventory of existing and new risks. This includes conducting workshops and interviews with representatives from various parts of the organisation. The Management Team assesses the risks included in the inventory based on likelihood and impact. Material risks are then presented to the Audit Committee and the Board.

According to the TCFD's recommendations, climate-related financial risks can be divided in two primary categories: transition risks and physical risks. Transition risks refers to the political, regulatory and technological risks that a transition to a society with lower carbon emissions can entail. The physical risks can be acute or chronic and include direct damage to assets or indirect damage to operations, for example interrup-

tions to the supply chain. For information about Vasakronan's risk management and climate-related risks, see pages 62–67 in the 2020 Annual Report as well as the "Transition risks" and "Physical risks" on this page and the table on pages 4–5 in this document.

Scenario analysis

Climate scenarios help us understand what our climate will look like in the future, depending on several global issues like politics, technology, the economic and changes in society. Transition risks and physical risks can be identified by analysing the possible effects different climate scenarios would have on operations. They are used to develop future strategies. This means preparing for financial, legislative and social development with low carbon emissions and to adapt to the physical effect of the changed climate on properties as well as on tenants' and suppliers' operations.

A scenario analysis carried out in 2019 investigated how Vasakronan would be affected up until 2100 using different climate scenarios. These were based on an RCP¹⁾ of 2.6, 4.5 and 8.5. An RCP of 2.6 is based on a strong climate policy to promote reduced emissions, negative emissions by 2100 and a global temperature increase of 0.5–1.5 degrees Celsius. An RCP of 8.5 is based instead on a weak climate policy with continued high emissions as a result and a global temperature increase of 3.5–5.0 degrees Celsius. The analysis identified the following risks and opportunities.

Transition risks

Vasakronan identified climate change as an important operating environment factor as early as ten years ago, thus compre-

hensive efforts have already been made to reduce several transition risks, primarily in management activities. The company has already significantly reduced its energy consumption and carbon emissions from property management. Efforts to reduce emissions from construction project operations began a few years ago, and include greater use of wood and reused materials as construction materials. For more information about identified transition risks, refer to page 4 in this document..

Physical risks

The physical risks identified for Vasakronan's portfolio are primarily flooding, rising sea levels and a damper climate with more heat waves. When the climate becomes warmer and damper, properties must still provide a comfortable indoor environment as well as avoiding flooding during extreme precipitation. Properties are therefore continuously evaluated in terms of technical performance and improvements are planned in conjunction with regular maintenance and renovations. Development projects ensure that the design and planning of properties takes into account the needs of today and of the coming decades.

In the lower temperature scenarios, the operations are not assessed as being impacted by any immediate risks that cannot be managed. However, we are convinced that our long-standing focus on implementing adaptation measures means that the operations will continue to develop positively despite climate changes.

1) RCP = representative concentration pathway for radiative forcing expressed in W/sq. m. High levels of greenhouse gasses lead to high levels of radiative forcing.

In the scenario with the higher temperature intervals, however, there are risks that would have significant financial affects, primarily risks connected to permanent and drastic changes in sea levels. That is why in 2020, Vasakronan investigated the potential physical risks for the property portfolio, primarily in Malmö and Gothenburg. Flooding risks due to extreme precipitation and proximity to watercourses were also analysed. Results of the study are now being integrated property by property into the different processes of operations, maintenance, property management, projects and portfolio planning.

The higher temperature intervals also entail indirect potentially significant effects on Vasakronan's operations, such as more global conflicts, increased migration and shortages of food and raw material that would negatively affect us, our customers and our suppliers. These risks need to be recognised, but they are not the kind that Vasakronan can reduce on its own and they are therefore not presented in more detail in this report.

Opportunities

The transition to a low carbon dioxide society can also entail opportunities for operations. Using exclusively renewable energy, increasing the share of on-site produced electricity and improving energy efficiency reduces greenhouse gas emissions and operating expenses.

Project development entails an increased focus on material use and on increasing material recycling as well as reduced material costs. An increased focus on waste management will also have positive financial effects.

The measures that have been carried out so far to reduce climate impact have also had a clear contribution to profitability. The work has led to decreased energy costs and higher revenue due to increased demand in the rental market.

This has also entailed higher property values due to lower requirements for yields for buildings with low climate impact and lower financing costs. For the long term, the assessment is that demand for resilient buildings with a low carbon footprint will continue to increase and that Vasakronan's portfolio can meet these expectations.

Goals and measurements

A summary of Vasakronan's greenhouse gas emissions from 2016 to 2020 is in the sustainability disclosures 305-1 to 305-3 on pages 145-149 in the 2020 Annual Report. A description of the environmental targets set for 2020 can be found on page 173 in the 2020 Annual Report.

The table on pages 4-6 in this document shows the financial impact the identified risks and opportunities could have on the income statement and balance sheet. We followed the TCFD's recommendations for table 5 as far as possible. We are aware that there are several aspects of the financial impact of the risks and opportunities presented in the table. Work to further quantify these aspects is under way. For more information about how we measure, steer and monitor environmental data, see pages 140-154 in the 2020 Annual Report.



Climate targets 2020

DEVELOPMENT/ACQUISITION

- Waste generated from project development activities must decrease
- Recycled material used in all projects

OPERATION

- Decrease purchased energy by 5%
- 65% of the buildings should have an energy intensity of less than 100 kWh/sq. m. and year
- At least 75 solar photovoltaic systems in operation
- We have completed at least three projects that have led to reduced power requirements

TENANTS

- Food waste collection offered at all properties

The image above shows the environmental targets for 2020. Read more about targets and target fulfilment on page 173 in the 2020 Annual Report.

TCFD table of climate risks and opportunities and their financial impact

Risk/opportunity	Financial category	Unit of measure	Financial impact	Reference
TRANSITION RISKS				
Higher energy costs due to raised taxes or other regulation	Costs	Total energy consumption in the form of heating, cooling and property electricity, GWh and SEK m/year.	Total energy consumption in the property portfolio for the year amounted to 214 GWh (249), equivalent to a cost of approximately SEK 265 million (277).	GRI 302-1, pages 142-143 in the 2020 Annual Report
	Costs	The effect on energy costs and operating surplus if energy prices increase SEK 1/kWh. Calculated based on consumption in 2020. Expressed in SEK m and percentage of operating surplus.	A price increase of SEK 1/kWh would entail an increased energy cost of SEK 214 million, the equivalent of 4% of the operating surplus for 2020.	GRI 302-1, pages 142-143 in the 2020 Annual Report
	Assets/liabilities	Investment in low-carbon alternatives. Expressed in SEK m/year.	In 2020, approximately SEK 69 million (60) was invested in low-carbon alternatives to reduce energy consumption in the portfolio.	-
Higher operating costs due to raised taxes or other emissions regulations	Costs	The effect on operating costs of a SEK 500/ton price increase for scope 1 and 2 emissions. Estimate is based on the assumption that the entire cost of emissions for the purchased energy will be charged to the buyer. Expressed in SEK m and percentage of operating surplus.	A SEK 500/ton price increase for scope 1 and 2 emissions would increase costs SEK 2.1 million, the equivalent of 0.04% of the operating surplus for 2020.	GRI 305, pages 145-149 in the 2020 Annual Report
	Costs	The effect of a price increase of SEK 500/ton on emissions from construction material. Estimate is based on the assumption that the entire cost of emissions for the material will be charged to the buyer. Expressed in SEK m and percentage of total project expenses for the year.	A price increase for scope 3 emissions from construction material would increase costs SEK 10 million, the equivalent of 0.2% of total project expenses for 2020.	GRI 305, pages 145-149 in the 2020 Annual Report
	Costs	Climate compensation paid, expressed in SEK m/year.	Vasakronan has voluntarily paid climate compensation for its remaining emissions for more than ten years. From 2020, all reported emissions from operations are compensated. Compensation for emissions from 2020 will be paid in 2021 and is estimated at SEK 2 million.	GRI 305, pages 145-149 in the 2020 Annual Report
Higher water costs due to greater investment needs in water and sewage networks	Costs	Total water consumption in the property portfolio and the effect of a 100% price increase for water on costs. Expressed in SEK m ³ /year and percentage of operating surplus.	Total water consumption the property portfolio amounted to 867,895 m ³ (1,109,087). A doubling of the price of water would entail an increase in water costs of approximately SEK 19 million, equivalent to 0.4% of the operating surplus in 2020.	GRI 303-5, page 144 in the 2020 Annual Report

Risk/opportunity	Financial category	Unit of measure	Financial impact	Reference
PHYSICAL RISKS				
Properties will become permanently unusable due to rising sea levels. <i>(Systematic physical risk)</i>	Assets	The share of properties in areas with heightened risks for rising sea levels.	A survey of the property portfolio was carried out in 2020 that included rising sea levels. The result was that none of the properties were deemed at risk of flooding up until 2100. The assessment is therefore that there is no risk of any negative financial impact from permanently higher sea levels.	TCFD report, pages 2-3
Increased energy needs (primarily cooling) due to a warmer climate <i>(Systematic physical risk)</i>	Costs	The impact of a 100% increase in cooling needs on operating costs. The estimate is based on the outcome for cooling needs for 2019, since the outcome for 2020 was not deemed representative due to the Covid-19 pandemic. Expressed in SEK m and percentage of operating surplus.	The impact of a 100% increase in cooling needs entails increased costs of SEK 29 million, the equivalent of 0.6% of the operating surplus for 2020.	GRI 302-1, pages 142-143 in the 2020 Annual Report
Properties becoming temporarily unusable due to increased precipitation or other temporary flooding <i>(Acute physical risk)</i>	Income	Estimated loss in income due to properties becoming temporarily unusable. Based on the assumption that one percent of the property portfolio is damaged annually and that it leads to, on average, two weeks of lost income in the affected property portfolio. Expressed in SEK m and percentage of operating surplus.	Assuming that one percent of the property portfolio will be temporarily unusable, the loss of income is estimated at SEK 3 million per year, the equivalent of 0.05% of the operating surplus.	TCFD report, pages 2-3
	Costs	Estimated increase in maintenance costs due to properties becoming temporarily unusable and in need of repairs on an annual basis. Assuming that one percent of the property portfolio is damaged and that it would cost SEK 1,000/sq. m. to repair. Expressed in SEK m and percentage of operating surplus.	Assuming that one percent of the property portfolio will be temporarily unusable and need to be repaired, the maintenance costs would increase SEK 2.3 million per year, the equivalent of 0.45% of the operating surplus.	TCFD report, pages 2-3

Risk/opportunity	Financial category	Unit of measure	Financial impact	Reference
OPPORTUNITIES				
Increased own production of renewable energy	Income	Income from sales of on-site produced renewable energy. Expressed in SEK m/year.	Income from sale of on-site produced renewable energy from solar photovoltaics amounted to SEK 0 million since the solar park built during the year has not yet gone into operation. In 2021, revenue from the solar park and from a minor energy surplus from other solar photovoltaic systems is expected to amount to approximately SEK 1.8 million.	GRI 302-1, pages 142-143 in the 2020 Annual Report
	Costs	Lower energy costs due to on-site produced renewable energy. Expressed in MWh of energy and SEK m/year.	In 2020, own-produced energy in the portfolio reduced the need for purchased energy by 3,700 MWh, the equivalent of cost savings of approximately SEK 3.7 million, the equivalent of 0.07% of the operating surplus.	GRI 302-1, pages 142-143 in the 2020 Annual Report
Higher revenue from sustainable/certified properties	Income	Rental revenue from environmentally certified properties. Assuming higher repurchase rates, higher occupancy rates and higher rent levels, altogether rental revenue would increase 1%. Expressed in SEK m and percentage of total rental revenue and operating surplus, respectively.	Rental revenue from environmentally certified properties amounted to SEK 6,294 million (6,350), representing 90% (90) of the total rental revenue. A 1% increase in rental revenue would entail an increase of SEK 63 million, equivalent of 1.2% of the operating surplus.	GRI CRE8, page 153 in the 2020 Annual Report
	Costs	The cost of certifying/recertifying properties, SEK m.	The new build Priorn in Malmö was certified in Malmö in 2020 and 15 existing properties were recertified at a total cost of approximately SEK 1 million.	GRI CRE8, page 153 in the 2020 Annual Report
Higher valuations for environmentally certified properties	Assets	Market value for environmentally certified properties in relation to market value for the entire property portfolio, at the balance-sheet date, per cent. Expressed in SEK m and percentage of total market value on the closing date.	At the end of 2020, properties with a total market value of SEK 135,861 million (132,841) were environmentally certified, reflecting 84% (85%) of the total market value of the property portfolio.	GRI CRE8, page 153 in the 2020 Annual Report
Lower material costs in construction projects due to increased share of reused material	Costs	Estimated potential cost savings due to increased share of recycled material in construction projects, based on the assumption that material costs stand for 55% of the project expenses and that reused material costs 25-50% less than new material. Expressed in SEK m.	In 2020, the costs for material in finished projects were SEK 1,353 million. An increased reuse of materials in these construction projects would have an effect of approximately SEK 340-680 million on project expenses.	GRI 301, page 140 in the 2020 Annual Report
Favourable financing for green assets	Costs	Lower interest expense due to financing through the framework for green financing. Expressed in SEK m.	It is currently difficult to estimate how much lower interest expenses are with financing through our green framework, but our assessment is that it leads to better access to financing and significantly lower interest expenses.	Impact Report for green financing, pages 162-169 in the 2020 Annual Report
	Assets	Assets that meet the criteria in the green framework. Expressed in SEK m.	At the end of 2020, assets in the green pool totalled SEK 53,776 million (33,318).	Impact Report for green financing, pages 162-169 in the 2020 Annual Report
	Liabilities	Total green bonds outstanding and other green debt instruments. Expressed in SEK m.	At the end of 2020, the volume outstanding of green bonds and other green debt instruments totalled SEK 34,905 million (25,763).	Impact Report for green financing, pages 162-169 in the 2020 Annual Report