



# Green Financing Framework

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## 1. Introduction

Colonial Group (“**Colonial**” or the “**Group**”) is a leader in the European Prime Office REIT market with more than €12 billion of assets located across Paris, Madrid and Barcelona. It currently has 84 assets 64 in Spain and 20 in France), and had 95% EPRA occupancy as of June 2021. As of H1-21, 77% of Colonial’s portfolio is located in central business districts locations (“**CBD**”) and 93% of the office portfolio in operation benefits from high-end energy certifications. Colonial delivers market superior returns to its shareholders through a quality and long-term sustainable strategy.

### Colonial’s Strategy is built on:

- > **A business model** focused on the development, renovation and operation of high-quality offices in prime locations, mainly CBD.
- > **Maximum commitment** to the creation of high-quality offices, with a particular emphasis on efficiency and sustainability.
- > **A Pan-European strategy** that is diversified among the office markets of Paris, Madrid and Barcelona.
- > An **investment strategy** that combines “Core” acquisitions with “Prime Factory” acquisitions, and projects with value-added components.
- > A **clear industrial real estate approach** to capture value creation that sets us apart on the market.
- > A **solid capital structure** with a clear commitment to maintaining the highest credit rating standards – investment grade.
- > **Attractive returns** for shareholders based on recurring return combined with the creation of real estate value based on value-added initiatives.

### Colonial’s Mission:

- > **"To create long-term shareholders, investors, employees and all stakeholders through investment and management of office buildings that enable our customers to realize their value potential".**

### Colonial’s Vision:

- > **"To be leaders in the European prime office market, recognized by our experience and professionalism, our strength and profitability, providing excellent sustainable real estate solutions tailored to the needs of customers".**

## 2. ESG at the core of Colonial’s Corporate Strategy

Colonial pursues a clear leadership in ESG, being at the heart of its strategy, as well as prioritizing sustainable long-term returns based on a business model of high-quality assets. Accordingly, Colonial’s strategy has a central focus on maximum excellence in the fields of governance, social aspects and sustainable investment.

In line with its long-term sustainability strategy, Colonial is committed to the United Nations’ 2030 Agenda. To this end, it has conducted an analysis of its contribution to the achievement of the Sustainable Development Goals (“SDGs”) and all actions included in its ESG Strategic Plan have been analyzed in detail. On the basis of this analysis, the main goals to which the organization can make the greatest positive impact, have been identified along with other interrelated SDGs to which Colonial also contributes:



As stated before, Colonial’s strategy is committed to excellence and leadership in ESG since it is the fundamental basis for guaranteeing long-term sustainable returns for all its shareholders.

### 2.1 “E” for Environmental

Colonial pays particular attention to the identification of risks and opportunities arising from climate change, which may affect its activity, assets and investment in the present and future. To demonstrate this, in 2020 Colonial joined the Task Force on Climate-related Financial Disclosures (the “TCFD”) as a TCFD supporter.

In early 2021, Colonial joined the Science Based Target Initiative (“SBTi”), which defines new objectives aligned with science to reduce emissions and to limit the rise in the Earth’s average temperature to below 2°C.

To achieve its ambitions, and in accordance with the Group's 2015-2030 Business Sustainability Plan, various specific environmental policies were implemented:

- > Colonial is making significant progress in **energy efficiency and sustainability** thanks to its avant-garde designs and the portfolio's automation and digitalization consumption control tools which are also contributing to the ultimate innovation of customers and service providers.
- > The Group is committed to the implementation of **100% non-polluting renewable energies** through nearly zero-energy buildings ("**NZEBs**") which are essential to fight climate change.
- > The Group is working towards achieving low-GHG buildings without undermining tenant's comfort and safety, while also **adapting the portfolio to future scenarios of climate change and the mitigation of its effects.**
- > Given the scarcity and contamination of water resources threatened by climate change, Colonial has set **objectives for water saving consumption and reuse.** Colonial implements measures to promote responsible consumption and avoids polluting spills.
- > Actions and standards regarding **biodiversity** are introduced and promoted in undertaking the Company's portfolio, its facilities and in relation to its stakeholders.
- > In order to ensure the proper management of the ESG policies in its value chain, the Group has defined **social and environmental criteria for choosing its suppliers.** Likewise, the responsible acquisition of materials and the sustainable management of waste are encouraged in new construction works and in reforms, operations and maintenance promoting the circular economy.

## 2.2 "S" for Social

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Pursuant to the commitment undertaken by the Group in relation to gender equality, the first Equality Plan was drawn up and published in the first quarter of 2021. To this end an **Equality Committee** was set up, composed of eight employees.

Likewise, the Group carried out its second **Great Place to Work survey**, which had a higher participation than the previous one. This survey is carried out every two years, and it provides an understanding of, and an insight into, the commitment and confidence of Colonial's employees.

Globally, the Group has a "**Well-being policy**" which aims at achieving healthy, safe and pleasant environments that promote well-being and enable people to develop their skills, both personally and professionally. The Group guarantees optimal conditions of the indoor environment and the use of its facilities.

**2.3 “G” for Governance**

The **Board of Directors** establishes and determines the Group’s general strategies and policies, in particular, strategic development in terms of ESG and the policies to this end.

In order to accelerate its strategic ESG leadership, at the end of 2020 the Group created the **Sustainability Committee**, a delegated committee of the Board of Directors. The Sustainability Committee has met twice since it was created, and each year it will meet at least on a quarterly basis.

In late 2018, the Group created **the ESG Committee** body to guarantee the operational implementation of the strategic directives dictated by the Board of Directors and, in turn, the Sustainability Committee. The functions assigned to the ESG Committee and the Sustainability Committee enable the monitoring of measures to manage risk and opportunities in relation to climate change. As such, this Framework will be supported through the ESG Committee.



**External Recognition**

- > Colonial has obtained the **EPRA Gold sBPR rating for the 6<sup>th</sup> consecutive year**, which certifies the highest reporting standards in ESG.
- > Colonial obtained a **rating of 94 out of 100 in the GRESB index 2021 and SFL 92 out of 100**, placing the Group at high-end of its sector. This 5-star rating is above the average of its peers and has led to an impressive increase of scoring of +33 points from 2018 to 2021 for Colonial and +6 points for SFL.
- > The Group has obtained **a rating of A from CDP 2021**, confirming its leadership in decarbonization. This rating far exceeds the European regional average as well as the financial services sector average. Globally only 12 real estate companies have reached that level, including only 5 in Europe. In Spain, only 10, and Colonial is the only one in the real estate sector
- > Colonial has obtained a **rating at the high end of the sector from Vigeo Eiris**, placed in the top 5% of the 4,902 rated companies (10<sup>th</sup> of 92 within financial services). This rating exceeds the average of the sector in all performance and risk management KPIs, with a major year-on-year boost.
- > **Sustainalytics has given Colonial a rating of 10.1 in ESG risk**, placing it in the top 36 of the 1,069 listed real estate companies analyzed. The agency highlights the good management of ESG policies in accordance with all the international standards.

- > **MSCI has given Colonial an A on its ESG rating**, one of the most preeminent ratings internationally, in particular due to its very high standards in Corporate Governance.

### 3. Strategic plan for decarbonization

The Company has defined its strategic plan for decarbonization. This plan implies the commitment of the Group so that by 2050, its entire office portfolio will be neutral in carbon emissions, an ambition which is fully aligned with the Paris climate agreement of December 2015.

To underscore the Group's commitment to the Paris Agreement, Colonial has adhered to the SBTi. This initiative sets new emissions reduction goals in alignment with science and to limit the rise in global average temperatures to below 2°C.

For the Colonial Group, this implies:

- > **Neutrality in carbon emissions by 2050 and;**
- > **A 75% reduction in Scopes 1 & 2 by 2030 starting from 2015.**

To achieve its ambition, the Group developed a **2015-2030 Business Sustainability Plan**, setting 2015 as the base year, to monitor reductions in consumption (in particular of energy and the carbon footprint) with the aim of charting a path towards carbon neutrality.

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*Colonial will build the first office building in Spain made entirely of wood.*

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The **2015-2030 Business Sustainability Plan** has established a set of targets with specific focus on the following objectives:

1. **Carbon footprint reduction (Scopes 1 + 2) by more than 75% from the base year and full carbon neutrality in 2050.**
2. **Reduction of energy intensity by more than 10% from the base year.**
3. **Energy certificates for 100% of the offices portfolio in operation.**
4. **Supply of more than 70% of green energy in the portfolio.**
5. **Monitoring of energy KPIs for the entire portfolio of offices in operation.**
6. **Waste management and the circular economy: optimization of waste management and implementation of a circular economy model.**
7. **Suppliers: ESG clauses in all contracts with significant suppliers.**
8. **Clients: "Green Clauses" for all new clients.**
9. **Enhance the biodiversity of the Group's portfolio environment.**

## 4. Rationale of the Green Financing Framework

The creation of a Green Financing Framework (the “**Framework**”) is a consistent and tangible step to further align the Group’s financing strategy with its corporate mission, objectives and sustainability targets. It will support Colonial’s strategy and is a valuable tool that the Group will use for the implementation of its development within an integrated sustainability approach.

This Framework is designed as an overarching framework. As such, issuances under this Framework will comprise **future green bonds and the existing bond debt to be requalified into green bond debt**<sup>1</sup>, subject to the approval of the Bondholders in General Meeting.

- > The Framework serves as the reference document for green bond issues by Inmobiliaria Colonial, Socimi, S.A. and by Société Foncière Lyonnaise (“**SFL**”); together defined as the “**Issuing Entities**”.
- > Under this Framework, each Issuing Entity will allocate the proceeds of its green bonds to Eligible Green Assets and Eligible Equity Share<sup>2</sup> booked on its own balance sheet (the “**Eligible Green Portfolio**”).
- > The total amount of outstanding green bonds issued by each Issuing Entity shall be lower than the amount of its Eligible Green Portfolio at all times.

The Framework has been developed in alignment with the four pillars of the Green Bond Principles 2021 (“**GBP**”) of the International Capital Markets Association (“**ICMA**”).

Section 4 is presented through the following five core components:

1. Use of Proceeds.
2. Process for Project Evaluation and Selection.
3. Management of Proceeds.
4. Reporting.
5. External Verification.

### 4.1 Use of Proceeds

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The Use of Proceeds of any green bond under this Framework will be subject to the following eligibility criteria, to be applied to new or existing assets (the “**Eligible Green Assets**”).

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<sup>1</sup> In order to take effect, this conversion has to be approved at the General Meeting of Bondholders by the holders of existing bonds.

<sup>2</sup> Eligible Equity Share = % of equity hold x [Outstanding amount of Eligible Green Assets of the company - Outstanding amount of financings of the Eligible Green Assets of the company – Outstanding amount of the corporate financings allocated to the Eligible Green Assets of the company]



Eligible Green Assets aim at addressing the EU environmental objective of climate change mitigation. They refer to the following economic activities:

- > Acquisition and ownership of buildings.
- > Construction and renovation of buildings.

To be eligible, an asset under construction or renovation must target, once in use, one of the Eligibility Criteria defined below.

The emissions thresholds presented below as Eligibility Criteria are to be read as GHG emissions intensity factors, expressed in kgCO<sub>2</sub> per sq.m. per year, covering landlord controlled scope 1 and 2, according to the market-based methodology of the GHG Protocol<sup>3</sup>.

Eligible Green Assets	Eligibility Criteria
<b>Green Buildings</b>	<ul style="list-style-type: none"> <li>&gt; <b>Buildings which have received at least one (or more) of the following certifications:</b> <ul style="list-style-type: none"> <li>○ LEED “Gold” or above</li> <li>○ BREEAM in Use “Very Good” or above</li> <li>○ HQE “Excellent” or above</li> </ul> </li> <li style="text-align: center;">or</li> <li>&gt; <b>Buildings which do not exceed the following emissions thresholds</b> <ul style="list-style-type: none"> <li>○ 2020-2023 &lt; or = 20Kg CO<sub>2</sub>/m<sup>2</sup> per year</li> <li>○ 2024-2025 &lt; or = 15 Kg CO<sub>2</sub>/m<sup>2</sup> per year</li> <li>○ 2025 onwards &lt; or = 10 Kg CO<sub>2</sub>/m<sup>2</sup> per year</li> </ul> </li> </ul>

#### 4.2 Process for Project Evaluation and Selection

The **ESG Committee** will verify the compliance of the selected pool of Eligible Assets with the eligibility criteria defined by this Framework, and will be responsible for approving allocations of net proceeds on an annual basis.

The ESG Committee’s role will include:

- > Monitoring the Eligible Green Portfolio of each Issuing Entity during the life of the transactions.
- > Managing any identified potential ESG risks associated with Eligible Assets. In particular, if any Eligible Green Asset exits the Issuing Entity’s portfolio or when the ESG Committee decides to remove an Eligible Green Asset from one Eligible Green Portfolio<sup>4</sup>, the ESG Committee will use its best efforts to

<sup>3</sup> GHG Protocol, World Resources Institute.

<sup>4</sup> If such asset no longer meets the eligibility criteria, or if the working group identifies the occurrence of a material controversy associated with one eligible assets.

substitute such assets as soon as practical, once an appropriate Eligible Green Asset has been identified for substitution.

- > Managing any future update of this Framework. Such updates will only apply to green bonds that are issued after the release of a new Second Party Opinion.

Before each Green Bond issuance, the Issuing Entity commits to report the indicative percentage of financing and refinancing expected in the allocation of the use of Proceeds, as prepared by the ESG committee.

### **4.3 Management of Proceeds**

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An amount equivalent to all of the Group's outstanding green bond issuances will be allocated to the Eligible Green Portfolio in line with section entitled "Use of Proceeds".

Any future green bond will be primarily submitted by the relevant Issuing Entity to the ESG Committee. The ESG Committee will verify annually the alignment of the pre-selected Eligible Green Portfolio with the total amount of funds raised via green bonds.

The Eligible Green Portfolio will be tested every year to evaluate the amount of Eligible Green Assets which meet the criteria defined in section entitled "Use of Proceeds". The ESG Committee will establish a tracking in its Internal Report System, that will contain information on the use of proceeds of the outstanding Green financing.

If, for any reason (after a new issue, for example), the amount of Eligible Green Assets falls below the amount of outstanding green bonds, the unallocated funds will be temporarily placed in accordance with the Issuing Entity's investment guidelines. At its own discretion, the Issuing Entity may consider investing in money market funds in accordance with a responsible investment policy. The Issuing Entity commits on a best effort basis to reach full allocation within 24 months.

### **4.4 Reporting**

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The Group will prepare, and make available to investors, an Allocation and Impact Report for Green Bonds linked to this Framework, specifying the relevant measurement methodologies.

The reporting document will be published each year until full allocation and thereafter in case of material changes. It will be provided by the Group and by each Issuing Entity in the section of its website dedicated to investors.

#### **4.4.1 Allocation Reporting**

The report on allocation will contain the following information:

- > The total amount of green bonds outstanding per Issuing Entity.
- > The amount of each Eligible Green Portfolio, broken down geographically.
- > The share of financing and refinancing (in %) of each Eligible Green Portfolio.

- > Any remaining portion to be allocated, with the percentage of unallocated funds.

#### **4.4.2 Impact Reporting**

The impact report will support the allocation report described above.

Key environmental impact indicators will include estimated expected quantitative reporting metrics when feasible such as:

- > External certification breakdown and/or
- > Breakdown per carbon metric (kg CO<sub>2</sub>e/sq m) assessment and/or
- > Annual GHG emissions reduced/avoided in tons of CO<sub>2</sub> equivalent.

#### **4.5 External Verification**

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##### **4.5.1 Second Party Opinion**

The Group has appointed Vigeo Eiris to provide a Second Party Opinion on the Framework, its transparency, governance and alignment with the GBP.

In the event that this Framework is updated in the future, the Group commits to update the Second Party Opinion. Such updates of the Framework will only apply to issuances that are launched after the issuance of a new Second Party Opinion. This Second Party Opinion document will be made publicly available on the Group's website: [www.inmocolonial.com](http://www.inmocolonial.com).

##### **4.5.2 Verification by a Third Party**

An independent auditor will verify as at 31 December each year, until full allocation and thereafter in case of material changes, that each Eligible Green Portfolio is greater than the current amount of green bonds outstanding and that it complies with the criteria set out in section entitled "Use of Proceeds".

This independent auditor's report will be provided on the Group and on the relevant Issuing Entity's website.

## 5. Disclaimer

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