°CICERO Shades of Green

Peab AB
Green Finance Second Opinion

July 8, 2021

Peab AB (Peab) is a Nordic construction and civil engineering company, established in 1959. Peab has operations in Sweden, Norway, Finland and Denmark and is headquartered in Sweden. In 2020, 70% of the revenue was generated in Sweden. The Peab share is listed on Nasdaq Stockholm. Peab is organised in four business areas: construction, civil engineering, industry, and project development.

Projects to be financed under the green finance framework focus on green and energy efficient buildings (likely 60% of the proceeds**).** The green eligibility criteria for buildings include energy consumption criteria and will lead to more energy efficient properties.

An estimated 15% of the green proceeds will go towards the categories eco-efficient and/or circular economy, and clean transportation respectively. Peab's focus on developing eco-products and low-carbon transport solutions is positive and is likely to contribute to a reduced environmental and carbon footprint in the construction sector. Despite the risk for lock-in of emissions, CICERO Green views efficiency improvements of the construction sector - including in low-carbon asphalt and binder production - as necessary steps to reach the well below 2°C target of the Paris Agreement.

As a construction company which often works as a contractor, it is important that Peab continue focusing on reducing its own emissions. Client demands may vary and in the cases where these are not best-in-class, we encourage Peab to ensure emissions from its own activities during the construction and materials selection period are minimized and to engage in dialogue with clients to improve target levels overall.

Peab has a climate target to be climate neutral within 2045 and has established carbon intensity targets for Scope 1, 2 and 3 emissions for 2030. Investors should be aware that the climate neutrality target allows for up to 20% use of offsets. Peab's reporting on Scope 3 emissions has so far not included construction materials and end use of products, however we understand that Peab is planning to do so going forward and is targeting reductions in Scope 3 emissions through working with the value chain based on a life cycle perspective. We are encouraged by Peab's early adoption of TCFD-reporting, as well as their joint financial and sustainability reporting.

Based on the overall assessment of the project types that will be financed by the green finance framework, governance, and transparency considerations Peab's green finance framework receives an overall **CICERO Medium Green** shading and a governance score of **Excellent**. The framework would benefit from a full exclusion of fossil fuel elements. Peab could also consider reporting on the asset rather than portfolio level for the green finance framework.

SHADES OF GREEN

Based on our review, we rate the Peab AB's green finance framework **CICERO Medium Green.**

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

GREEN BOND AND GREEN LOAN PRINCIPLES

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

°CICERO Medium Green

Contents

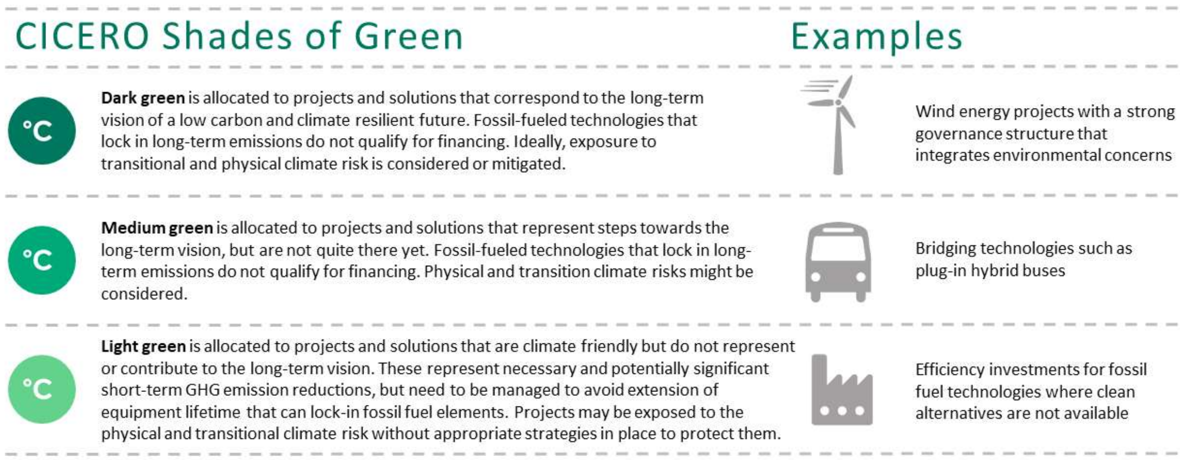
1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated July 2021. 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 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:



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 bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond 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.

2 Brief description of Peab's green finance framework and related policies

Peab AB (Peab) is a Nordic construction and civil engineering company, established in 1959. The company has around 16,000 employees in Sweden, Norway, Finland and Denmark and is headquartered in Förslöv in southern Sweden. Peab is among the largest construction company in Sweden, and the Nordic region. The Peab share is listed on Nasdaq Stockholm. In 2020, 70% of the revenue was generated in Sweden.

Peab is organised in four business areas that collaborate to use local resources in the form of own personnel, input goods and subcontractors. The four collaborating business areas are described as follows:

i. **Construction;** works with new construction, extension and renovation of residential, public and commercial premises as well as offering construction services. In 2020, construction was the largest business area, where 41% of revenue was generated.
ii. **Civil Engineering;** is active on the local civil engineering market and larger Nordic infrastructure projects like highways, railroads and bridges. It also operates and maintains streets and roads.
iii. **Industry** delivers, among others, mineral aggregates, concrete, asphalt, temporary electricity and prefabricated concrete elements to external customers and the other business areas in Peab.
iv. **Project Development** handles group acquisitions as well as development, management and divestment of housing and commercial property.

Peab has several subsidiaries and joint-venture companies. Subsidiaries are entities over which Peab AB exercises a direct or indirect controlling interest. Joint ventures are entities where the group through cooperation agreements with one or more parties exercises a joint controlling interest, where the group has the indirect right to net assets.

Environmental Strategies and Policies

Peab's overarching goal is to be climate neutral by 2045 (including Scope 1, 2 and 3 emissions). The company informs us that it has the possibility to use offset emissions for up to 20% of the baseline (from 2015) to achieve climate neutrality. Furthermore, Peab has signed the "Roadmap for Fossil-Free Competitiveness" ("Färdplan för fossilfri konkurrenskraft") for the construction sector, which includes the whole construction value chain including materials. Emissions and targets are summarised in table 1 below.

Table 1: Peab's CO_2-emissions and main CO_2-emission reduction targets.

Emissions (tons CO_2eq[1])	Total	Scope 1	Scope 2	Scope 3
Main targets from 2021	Climate neutrality by 2045.	Reduce CO_2 intensity (tons CO_2e/MSEK) by 60 % by 2030, compared to base year 2015.		Reduce CO_2 intensity (tons CO_2e/MSEK) by 50 % by 2030, compared to base year 2015. [2]
2020	489 000	220 000[3]	50 000[3]	219 000
2019	391 000	102 000	8 700	281 000
Change 2019-2020	25%	115%	474%	-22%
Main sources		Direct emissions from construction sites, vehicles and production facilities.	District heating, purchased electricity.	Business travels, waste handling. Emissions from use of materials and end use of products are not included 2019/2020.

Emissions of greenhouse gases from fuel and other energy use (Scopes 1 and 2) increased in 2020 compared with 2019. According to the issuer, this is mainly due to an expansion of operations through an acquisition of a paving and mineral aggregates operations company. It is not clear how this affects the company's emissions intensity. In Peab's own operations, most of the CO_2 emissions are generated from fossil fuels used in transportation vehicles and construction equipment, heating workplaces and manufacturing products. Peab has initiated energy conserving measures and the phasing out and replacing fossil energy with renewable energy. To reduce Scope 3 emissions, Peab is working with the value chain based on a life cycle perspective. Examples include developing relevant climate procurement criteria to use in own procurement or towards suppliers, and developing and supplying construction ECO-products with lower climate footprint than the standard products (such as concrete, asphalt and prefabricated concrete elements).

Peab has a target to phase out environmentally hazardous products by 2030, and sub-goals related to reduced waste intensity and increased share of recycling are included in the target of being 100% resource efficient by 2040.

To increase sustainability, Peab is also working towards certification of their own constructed buildings portfolio. The company informs that apartment buildings in Sweden and Norway which are newly constructed by Peab will be certified according to the Nordic Swan ecolabel, and that own developed commercial buildings in Sweden are certified according to BREEAM as standard. In Finland, Peab is focusing on developing LEED-certified office buildings. Peab cannot guarantee certification scheme or level for the buildings they are constructing for others. Peab has no public transportation policy beyond what is included in certification schemes.

Peab regularly conducts risk assessments to identify short, medium and long-term risks related to the development of their business areas' products and services. Identified risks constitute the basis for decisions regarding changes in products and services provided. Stakeholder dialogues (including supplier audits) form the basis for the materiality assessment and have identified social, environmental and financial issues to be material for the company. All topics are also covered in Peab's sustainability governance. The issuer's Code of Conduct and Environmental Policy lay down the principles for responsible management of social and environmental issues and are signed by the CEO of the company to ensure anchoring at the top level. Both policies are extended to subcontractors and suppliers. Peab has a whistleblower function for anyone, employees or external stakeholders,

[1] CO_{2e}, carbon dioxide equivalent is a measurement term for greenhouse gas accounting.
[2] 2030 target for Scope 3 is extended to include business travels, waste handling, concrete/cement, asphalt/bitumen, steel, transportation services and construction equipment services.
[3] The acquisition of YIT's paving operations resulted in considerably higher energy consumption (included as of the second quarter 2020), which explains the main change in CO_{2e} emissions from fuel and electricity use. Figures for 2020 also include gas used in production (previously only gas used in vehicles has been included).

who wishes to draw attention to deviations from the Code of Conduct or other irregularities in the business. The CoC is translated to six relevant languages (among others English and Polish).

The issuer has, based on a scenario analysis, identified climate risks (both physical and transitional) as material to their operations, and has started to implement the TCFD-recommendations. The company's first TCFD reporting was included in the sustainability report for 2020. Identified risks relate to increased transitional risks from more stringent legal requirements and higher costs for emissions, and physical risks related to extreme weather and floods that affect Peab's production and choice of solutions. Peab issues a joint annual and sustainability report as well as CDP-reporting[4]. The sustainability report is according to the Global Reporting Initiative (GRI) Core Option.

Peab has signed the UN Global Compact and seeks to contribute to the global agenda in line with the UN Global Sustainable Development Goals (SDGs).

Use of proceeds

An amount equivalent to the net proceeds from Peab's green finance instruments shall be used to finance or re-finance eligible assets and expenditures providing distinct environmental benefits (green eligible assets). The issuer confirms that the main focus will be on re-financing. The look-back period is around three years.

Green eligible assets can be owned by Peab or its subsidiaries, joint ventures or associated companies. For the latter two mentioned, the value of green eligible assets is to be adjusted for the share of capital owned by Peab.

Eligible categories are green and energy efficient buildings; eco-efficient and/or circular economy adapted products, production technologies and processes; water and waste management; and clean transportation. The issuer informs that the green portfolio is dominated by green buildings, and that proceeds of the first bond is expected to go primarily (60%) towards Green and energy efficient buildings, 15% towards Eco-efficient and/or circular economy adapted products, production technologies and processes, 10% Water and waste management and 15% Clean transportation. Both Capex and Opex are eligible for funding.

The value of green eligible assets under the category "Green and energy efficient buildings" is based on the following criteria; i) buildings under construction are based on the estimated project value, and ii) buildings under own management are based on the market value reported in the balance sheet. For the remaining three categories, green eligible assets correspond to the relevant invested amount and associated operating expenditures.

Green proceeds of Peab's green finance instruments will not be used to finance either fossil fuel energy generation, nuclear energy generation, weapons and defense industries nor gambling, or tobacco.

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.

Peab will establish a Green Finance Committee (GFC) to manage the selection of green eligible assets. Members of the GFC consists of the CEO, CFO, Head of Finance, and the Group Environmental Manager. Peab will ensure

[4] Climate reporting; https://www.cdp.net/en

that the GCF always has sustainability expertise onboard. All decisions are made in consensus, and this applies to the selection process of green eligible assets as well.

A list of green eligible assets is kept by the Finance Department who is also responsible for keeping it up to date. The GFC will follow the development of the green financing market and manage any future updates of the Framework to reflect current and future market practices (e.g. related to the EU Taxonomy) and potential updates to the GBP and GLP. The list of green eligible assets is monitored on a regular basis during the term of the green finance instruments to ensure that the proceeds are sufficiently allocated to green eligible assets. This is also a responsibility of the GFC.

Management of proceeds

CICERO Green finds the management of proceeds of Peab to be in accordance with the Green Bond Principles.

An amount equivalent to the net proceeds from Peab's green finance instruments will be tracked by using a spreadsheet where all issued amounts of green finance will be inserted, containing an overview of green eligible assets.

All green finance instruments issued by Peab will be managed on a portfolio level, and green finance instruments will not be linked directly to one (or more) pre-determined green eligible assets. The issuer will keep track and ensure there are satisfactory green eligible assets in the portfolio. Assets can, whenever needed, be removed, or added to/from the green portfolio. Any unallocated proceeds will be temporary held by Peab and placed on the issuer's ordinary bank account. Peab confirms that potential unallocated proceeds cannot be invested in activities associated with fossil fuels, and that potentially unallocated proceeds will be disclosed in the annual impact report. However, the issuer further informs that they have a significant pool of eligible assets and do not expect to have any unallocated proceeds.

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.

Peab commits to regular reporting on a portfolio level until no green finance instruments are outstanding. The report will be published on the company's website on an annual basis and will include allocation and impact reporting. The Finance Department with support from Sustainability Team is responsible for the reporting. Allocation of proceeds reporting will be subject to an annual review by an external verifier, but Peab informs that they do not plan for external verification of the first impact report.

Allocation reporting will include the total amount of green finance instruments issued, share of proceeds used for financing/re-financing, share of proceeds used for eligible categories described and share of unallocated proceeds (if any).

Impact reporting. Peab intends to report on quantitative impact indicators where relevant data is available for the below four main categories. Examples of projects financed will be given in the impact report. Calculations will be made on a best effort basis. The issuer informs that they intend to be open on the calculation methodology and grid factor used, but that they have not yet decided which grid-factor to use. Examples of metrics are listed below:

Green and energy efficient buildings:

- Information on the energy consumption in kWh/m^2/year
- Energy performance certificate class, if any
- Type of certification including level, if any (e.g. Miljöbyggnad Silver, Nordic Swan Ecolabel, etc.)
- Estimated annual greenhouse gas emissions reduced or avoided (tCO_2e)

Eco-efficient and/or circular economy adapted products, production technologies and processes:

- Share of ECO products of total production (%)
- Estimated annual greenhouse gas emissions reduced or avoided (tCO_2e)

Water and waste management:

- Metric tons processed in the facility
- Material recovery rate (%)

Clean transportation:

- Share of vehicles/equipment using low carbon energy in relation to total fleet
- Estimated annual greenhouse gas emissions reduced or avoided (tCO_2e)

3 Assessment of Peab's green finance framework and policies

The framework and procedures for Peab's green finance 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 Peab 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 Peab's green finance framework, we rate the framework **CICERO Medium Green.**

Eligible projects under the Peab's green finance 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 bonds aim 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
Green and energy efficient buildings	Buildings that either have or with the objective to receive: • Miljöbyggnad Silver or Nordic Swan Ecolabel; or • Energy consumption at least 20% below the applicable national building regulation; or • EPC of class A is applicable for all countries. In Sweden, EPC of class or B is also included; or • Major renovations resulting in reduced energy consumption of at least 30%.	**Medium Green** ✓ The issuer informs that the green portfolio is dominated by green buildings, and that approximately 60% of the first bond issuance is expected to go towards Green and energy efficient buildings. Both Capex and Opex are eligible for funding. ✓ Investors should be aware that costs related to the use of fossil fuel machinery in the construction phase are eligible. In a life cycle assessment of buildings, emissions related to construction, and materials in particular, can represent 40% of the total. In order to assess the greenness of the portfolio of a construction company such as Peab, investors should also factor in the company's direct impacts through own emissions. ✓ The issuer confirms that buildings with a clear link to a fossil fuel-based heating system will not be included, but that some fossil fuel elements may be present in the system (Sweden has a largely

		renewables-based district heating and electricity system, but with some fossil fuel elements). ✓ Miljöbyggnad Silver means that energy use has to be 20 % lower than that required by BBR (Swedish Building regulations), and in Sweden the Nordic Swan Ecolabel requires an energy use 10-15% lower than BBR. In Sweden, EPC A is at least 50% better than current regulations, while EPC B is between 50% and 75% of current regulation for new buildings. ✓ Peab informs that properties which fail to receive the designated certification will be removed from the pool of eligible projects. ✓ Peab has no public transportation policy on the buildings it develops beyond what is included in certification schemes. Access to public transportation is an important way of decreasing the carbon footprint of housing. ✓ Peab confirms that the green asset pool will not include customers involved with heavy GHG-emitting industries. ✓ According to IEA, efficiency of building envelopes needs to improve by 30% by 2025 to be aligned with the Paris target and the issuer's criteria for renovations is in line with this.
Eco-efficient and/ or circular economy adapted products, production technologies and processes	Investments and associated operating expenditures related to the development, production and use of ECO-products, with significant reduced environmental footprint compared to standard products. Investments and associated operating expenditures within this particular category may include: • Production facilities • Machinery and equipment • Research and development	**Light to Medium Green** ✓ The issuer informs that for the first bond it is expected that around 15 % of the green proceeds will be used for Eco-efficient and/or circular economy adapted products. ✓ According to the issuer, examples of projects include: - the use of biofuel for drying and heating the gravel material in the manufacturing of Peab's ECO-Asphalt, - replacing cement with slag in binders, - equipment needed for converting to renewable fuels, - new terminals and silos as well as production facilities for providing low-carbon binders. ✓ The issuer confirms that green proceeds can be used for purchase of machinery running on fossil fuels. ✓ Improving the environmental efficiency of construction materials represent a potentially important contribution to reducing the carbon footprint of the industry, however investors should be aware that without thresholds, improvements could range from substantial to relatively minor

Water and waste management	Investments and associated operating expenditures related to minimised waste, minimised wastewater, and increased recycling. Investments and associated operating expenditures within this particular category may include: • Recycling facilities. • Machinery and equipment related to recycling/wastewater treatment. • Research and development.	**Medium Green** ✓ The issuer informs that for the first bond, it is expected that around 10 % of the green proceeds will be used for Water and waste management. ✓ The issuer confirms that green proceeds can be used for purchase of machinery running on fossil fuels. ✓ The issuer informs that no part of the investment related to the production facilities will be excluded as long as it enables minimised waste, minimised wastewater, and increased recycling.
Clean transportation	Investments and leasing expenses related to low carbon transport solutions for people and goods including: • Construction equipment using low-carbon energy at the construction sites. • Low-carbon vehicles, such as electric, hybrid and low-carbon fuel vehicles. • Infrastructure supporting electric vehicles, such as charging stations and infrastructure preparing for electric vehicle charging provisions. • Infrastructure enabling increased access to low-carbon fuel	**Medium Green** ✓ The issuer informs that for the first bond it is expected that around 15 % of the green proceeds will be used for clean transportation. ✓ According to the issuer, examples of eligible projects are funding of the transition of vehicles and construction equipment into low-carbon alternatives as well as innovation projects for electrical transportation solutions. ✓ Increasing, or enabling, the use of renewable fuel is an important step to reduce construction site emissions. ✓ The issuer confirms that construction of roads will not be supported under the clean transportation category. ✓ Hybrid vehicles can be supported. ✓ The issuer cannot confirm that equipment funded using green proceeds will not also use fossil fuels but expects this to be minimal as customers and future legal requirements will push towards renewable energy.

Table 1. Eligible project categories

Background

As members of the EU, Sweden, Denmark and Finland are subject to the EU's climate targets of reducing collective EU greenhouse gas emissions by 40% by 2030 compared to 1990 levels, increasing the share of renewable energy to 32% and improving energy efficiency by at least 32.5%.[5] The European Green Deal aims for carbon neutrality in 2050.[6] Sweden has developed a National Energy and Climate Plan (NECP) in which it outlines the targets and strategies in all sectors.[7] These strategies include measures such as increasing renewable energy capacity, improving energy efficiency, facilitating the large scale implementation of clean transportation alternatives, and implementing carbon sinks through reforestation and the LULUCF sector. Non-ETS emissions,

[5] https://ec.europa.eu/clima/policies/strategies/2030_en
[6] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en
[7] https://ec.europa.eu/energy/topics/energy-strategy/national-energy-climate-plans_en

of which public buildings and households are a part, must decrease by 63% by 2030. In February 2020, Norway released updated targets for 2030 to cut GHG emissions by 50-55% from 1990 levels[8].

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 building sector accounts for over 40% of primary energy consumption in most countries. 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.[9] Energy efficiency improvements in buildings are thus important building blocks towards reaching the 2°C goal.

In Sweden, the residential and service sectors account for almost 40% of the total energy use (Source: Swedish Energy Agency, "Energy in Sweden 2017"). Although heating-related GHG emissions have been dramatically reduced since the transition from oil-based heating to district heating during the 1990's, energy consumption in buildings still has potential to improve. One of the ways of encouraging greater energy efficiency focus is through the use of energy performance certificates – or EPCs. EPCs have been a legal requirement in Sweden since 2006 and categorise a property on a range from A (low energy consumption) to G (high energy consumption). A building that has an energy consumption corresponding to the requirement imposed on a newly built building is placed in energy class C.

Properties can choose to be certified according to other sustainability schemes as well, such as the Sweden-specific *Miljöbyggnad* (in addition to energy use, indoor climate and material use are assessed), the Nordic Swan (*Svanen*) system, Passive House, Green Building, LEED, BREEAM or BREEAM-SE. These schemes provide varying degrees of measurement of the environmental footprint of a building, including energy use. Some are more stringent than others and also offer internal gradings (excellent-good, platinum-silver, etc.).

EU Taxonomy. In March 2020, a technical expert group (TEG) proposed an EU taxonomy for sustainable finance that specified mitigation thresholds and "do no significant harm" (DNSH) criteria for eligible activities. The DNSH-criteria are developed to make sure that progress against some objectives are not made at the expense of others and recognises the relationships between different environmental objectives[10]. In April 2021, EU published its delegated act to outline its proposed technical screening criteria for climate adaptation and mitigation objectives, respectively, which it was tasked to develop after the EU Taxonomy Regulation it entered into law in July 2020[11]. CICERO Green understands that Peab is in the process of assessing the Taxonomy and its implications for the company. CICERO Green has not assessed alignment with the EU Taxonomy in this Second Party Opinion.

Governance Assessment

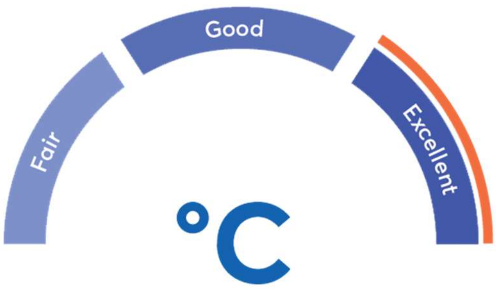
Four aspects are studied when assessing Peab's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this

[8] https://www.regjeringen.no/no/aktuelt/norge-forsterker-klimamalet-for-2030-til-minst-50-prosent-og-opp-mot-55-prosent/id2689679/
[9] http://www.iea.org/tcep
[10] Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020. https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en
[11] EU taxonomy for sustainable activities | European Commission (europa.eu)

is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Peab has adopted a target to be climate neutral within 2045 and has also established carbon intensity targets for 2030. Peab has a comprehensive approach to sustainability, supported by materiality- and risk assessments. The issuer has implemented reporting according to the TCFD-recommendations and a joint annual- and sustainability report, including financial information.

Peab's reporting on Scope 3 emissions has so far not included construction materials and end use of products, however Peab is planning to do so going forward and is targeting reductions in Scope 3 emissions through working with the value chain based on a life cycle perspective. Peab could further strengthen reporting by reporting on asset rather than portfolio level for the green finance framework.



Through stakeholder dialogues including supplier audits, a Code of Conduct which is extended to subcontractors and suppliers, and a whistleblower function, Peab has governing procedures set up to discover the most salient risks in the supply chain.

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

Strengths

Peab’s focus on developing eco-products is positive and is likely to contribute to a reduced environmental and carbon footprint in the construction sector. Furthermore, it is a strength that Peab is targeting the enabling and increase of renewable fuel in transportation at construction sites, as this is an important step to reduce construction site emissions. For a construction company such as Peab it is important to target not only the end product (green buildings) but also GHG emissions which they can directly control.

CICERO Green is encouraged by the company's early adoption of the TCFD-recommendations and well as the joint annual- and sustainability report, including also financial information.

Weaknesses

We find no material weaknesses in Peab’s green finance framework.

Pitfalls

Peab has chosen relatively ambitious building and energy standards for the green finance framework. However, the company’s corporate policies are less stringent and since construction of properties is Peab’s main business area, a lack of ambition in the real estate sector broadly speaking may mean that the issuer becomes involved in the construction of buildings which fall short of environmental best practice. We encourage Peab to increase the ambition level for its entire portfolio and establish energy intensity targets for all projects - including for contracted developments whenever possible. The company could also become more ambitious on requirements related to the location of the buildings it is involved with: currently the lack of a policy relating to proximity of public transport may lead to constructions where the use of private transport is needed.

Peab has allowed for the inclusion of the use of fossil fuels in the eco-efficient and/or circular economy adapted products, production technologies and processes and the waste and waste management categories. Investors should be aware that this might lead to investments with a risk of lock in of equipment running on fossil fuels. The industry is moving in the direction of cleaner fuels, but there is currently no guarantee for how quickly this transition will happen.

Peab has a climate target to be climate neutral within 2045 and has established carbon intensity targets for 2030. It is positive that the issuer has both long and near-term targets. However, investors should be aware that the climate neutrality target allows for up to 20% use of offsets. Moreover, Peab's 2030-targets are intensity based, and it will be important to monitor the development of absolute emissions as well.

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	Peab's Green Finance Framework, dated July 2021	Green Finance Framework
2	Peab's Environmental Policy dated 17-12-2020.	Laying down Peab's environmental guiding principles.
3	Peab's Code of Conduct, dated February 3, 2021.	Giving the foundation for Peab's core values.
4	Peab's Annual and sustainability report 2020.	Summarising Peab's work on i.e. sustainability.
5	Peab's Årsredovisning 2020, Miljö.	Peab's environmental reporting, 2020.

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 recognised 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).