

*In thriving cities people enjoy
a high level of well-being.*

SATO'S GREEN FINANCE FRAMEWORK

sato

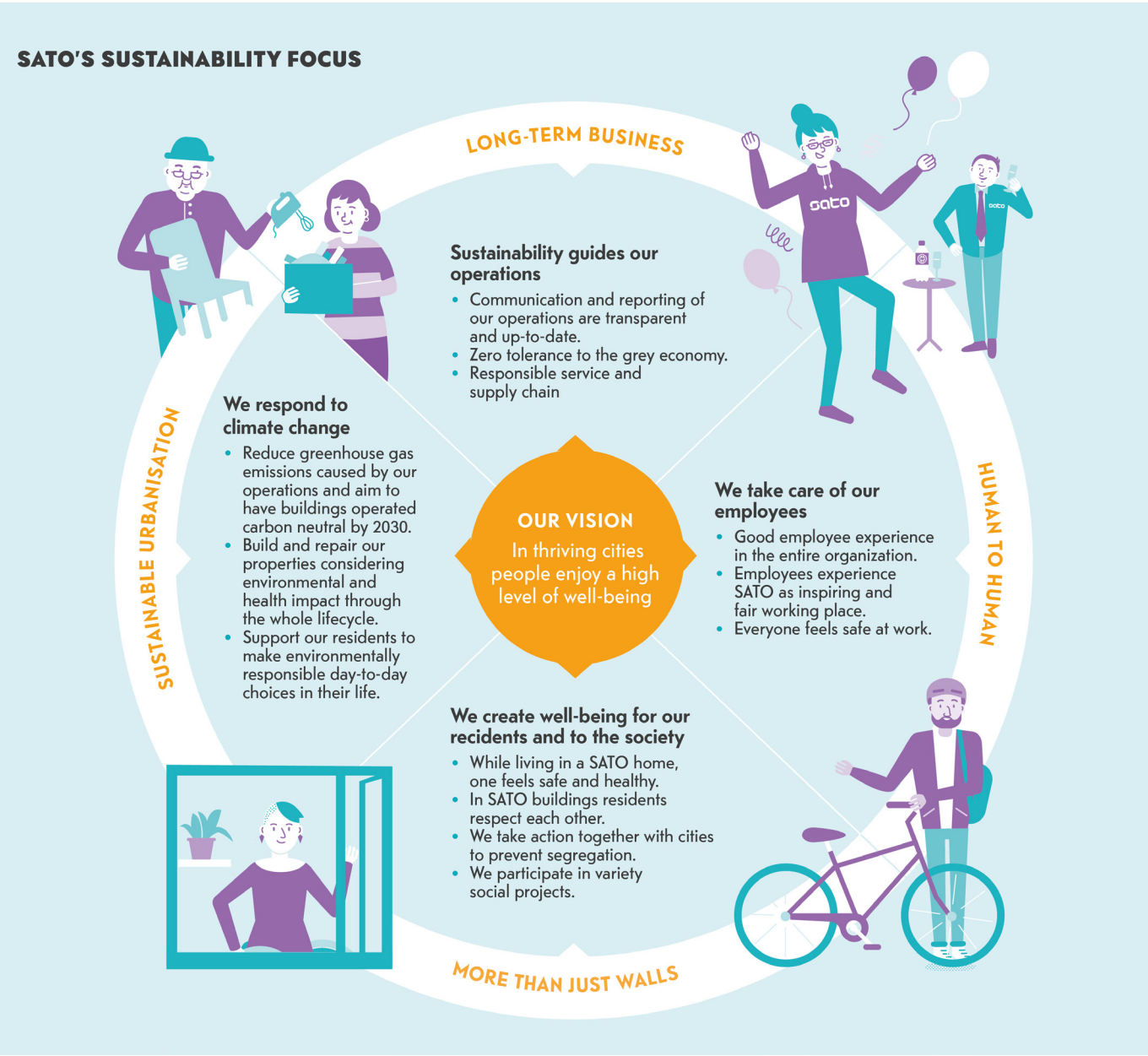
I. INTRODUCTION

I.1 ABOUT SATO

SATO Group ("SATO" or "Group") was founded in 1940s and is today one of Finland's leading lessors of rental apartments. The parent company of the Group is SATO Corporation ("Company"). Today, SATO owns around 26,100 SATO homes, with the property portfolio valued EUR 4,658 million at the end of 2019. SATO's goal is to build thriving neighborhoods where people enjoy a high level of well-being. SATO owns, builds, buys and renovates urban homes to ensure safe, carefree and pleasant living for its customers. SATO's service promise to its customers is: A home the way you want it.

SATO plans its rental apartments where demand for them is greatest: along good transport routes and near a wide range of services. SATO operates and invests primarily in the Helsinki metropolitan area, Tampere and Turku, where the demand for housing and the expected value development are highest. However, SATO also operates in Jyväskylä, Oulu and St Petersburg.

The SATO Group's net sales in 2019 were EUR 296 million. The operating profit was EUR 726 million and profit before taxes EUR 671 million (both figures include EUR 552 million of unrealised fair value change of investment properties). The value of SATO's investment properties was roughly EUR 4.7 billion.



1.2 SATO'S SUSTAINABILITY CONTRIBUTION

Urbanization increases the demand for rental housing in growth centers. SATO wishes to be an enabler of urbanization, but with a positive influence on the development of society and business life. SATO's greatest environmental loads are caused by building materials, energy consumption from living, and property development. The aim is to improve all above areas and reduce emissions for all properties and homes.

The foundation of SATO's sustainability work comprises of the Group's strategy and sustainability policy and objectives stemming from UN's Sustainable Development Goals ("SDG"). Listed below are a few of SATO's current environmental goals. The goals are updated from time to time.

- reduction in specific emissions caused by operations by 18.5% from the 2018 level by 2022
- reduction in specific consumption of energy by 9% of the 2015 level by 2022
- reduction in specific consumption of water by 6.0% of the 2018 level by 2022
- the allocation of new investments along public transport routes

SATO is lowering the greenhouse emissions caused by its operations, aiming to be carbon neutral by 2030 on the account of the energy consumption of our properties. SATO's other targets include:

- developing the assessment of waste volumes and setting targets for reducing them;
- developing energy efficiency and environmental criteria applicable in new production;

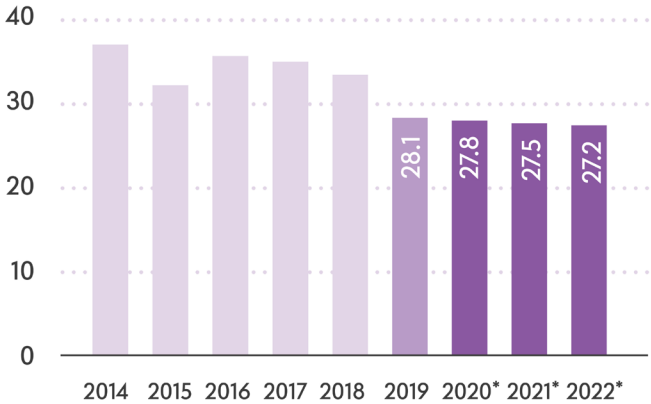
Besides its environmental objectives, SATO has signed an agreement with the European Investment Bank to finance developing and constructing of nearly zero-energy buildings¹ and repairs to improve the energy efficiency of the Group's current rental apartments during the next few years. In addition, SATO is committed to the goals of the climate partnership with the City of Helsinki² and the energy efficiency agreement in the real estate industry³.

¹ European commission, Nearly zero-energy buildings: <https://ec.europa.eu/energy/en/topics/energy-efficiency/energy-performance-of-buildings/nearly-zero-energy-buildings>

² <https://www.ilmastokumppanit.fi/en/>

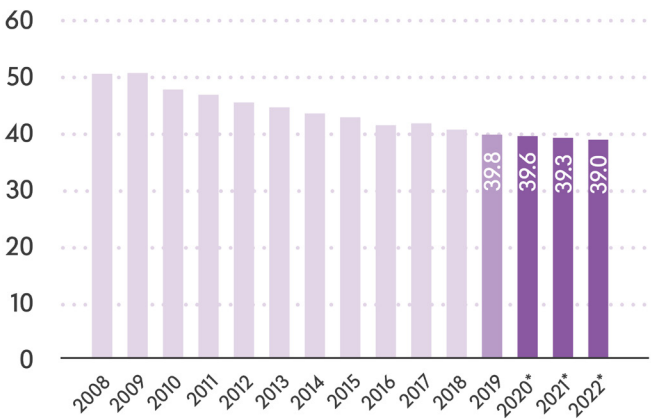
³ <http://www.energiatohokkuussopimukset2017-2025.fi/en/energy-efficiency-agreements/>

Greenhouse gas emission intensity of buildings, kg CO₂-e/m²/year



* SATO's target

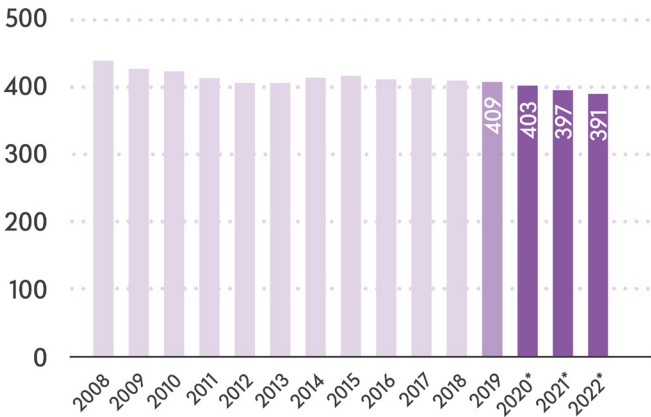
Standardised heating consumption, kWh/m³/year



* SATO's target

Figures are adjusted for weather

Building water intensity, dm³/rm³/a



* SATO's target

SATO has invested greatly in energy efficiency for all homes and properties. For example, SATO has installed apartment-specific temperature and humidity sensors to approximately 17,000 apartments that enable to ensure optimal temperatures for homes and address any exceptional humidity values. The upgraded energy monitoring system enables SATO to detect any deviations and resolve problems more rapidly. In addition, SATO only uses zero emission energy sources in the property portfolio.

Statutory energy certificates have been prepared for all SATO properties. SATO also has a separate energy efficiency rating for the Group’s residential buildings, taking into account the energy efficiency and costs of each building. Using this rating, SATO is able to calculate an energy figure for each building for action planning.

Plans for the future include consideration of environmental certificates for residential buildings, and to measure energy efficiency during construction on all new sites.

1.2.1 SUSTAINABILITY REPORTING AND RECOGNITION

SATO reports its corporate sustainability annually in accordance with the Global Reporting Initiative (GRI) reporting guidelines. The annual sustainability report has now been drawn up for the fifth consecutive year in line with the GRI guidelines. All sustainability reports are assured by a third party.

SATO participated for the fifth time in the Global Real Estate Sustainability Benchmark (GRESB) assessment providing an internationally comparable score. SATO kept its four stars on a scale of one to five in the GRESB assessment. In its peer group, Northern European housing investment companies, SATO was ranked higher than the average score.

1.3 THE GREEN FINANCE FRAMEWORK

Sustainability in all forms is a highly prioritized area for SATO where reaching the target of constructing nearly zero-energy buildings is one of the focus areas, and the issuance of Green Finance Instruments will be used to help achieve a positive environmental impact. When issuing Green Finance Instruments, this Green Finance Framework (the “Framework”) will apply.

This Green Finance Framework is aligned with the following four recommended components of the Green Bond Principles (“GBP”)⁴ ; Use of Proceeds (Section 2), Process for Project/Asset Evaluation and Selection (Section 3), Management of Proceeds (Section 4) and Reporting (Section 5). As such the Framework may be updated from time to time to reflect current market practices and potential updates in the GBP.

This Framework is applicable for the issuance of Green Finance Instruments including Green Bonds, Green Commercial Papers and other types of debt instruments where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Green Projects/Assets with distinct environmental benefits.

The Framework is reviewed by an external impartial firm that has provided a second opinion to confirm the alignment of the Green Finance Framework with the key features of the GBP.

The Framework together with the second opinion by CICERO is available on the SATO’s website.



2. USE OF PROCEEDS

An amount equivalent to the net proceeds from SATO's Green Finance Instruments will be used to finance or re-finance, in part or in full, Eligible Green Assets as defined below. SATO will continuously exercise its professional judgement, discretion and sustainability expertise when identifying the Eligible Green Assets.

Eligible Green Assets relevant for use under the Framework include:

Green and energy efficient buildings

1. All new construction and existing buildings that either have or with the objective to receive an energy performance certificate (EPC) of class A, or an EPC of class B that have an energy consumption ("e-value") of below or equal to 82 kWh/sq.m./year⁵
2. All new construction and existing buildings that either have or with the objective to receive one of the following certifications, and has an energy consumption ("e-value") that is 15% or lower than required by the Finnish National Building Code:
 - "LEED Gold"⁶ or better
 - "BREEAM Very Good"⁷ or better
 - "BREEAM In-Use Very Good" or better
 - RTS - Rakennustieto Environmental Classification, 3 stars or better⁸
 - Nordic Swan Ecolabel⁹
3. Major renovations resulting in reduced energy consumption of at least 30%

Energy efficiency

1. Energy retrofits such as the usage of LED lighting, low-flow water fixtures and toilets, improvements in ventilation systems and isolation
2. Investments enabling clean transportation such as charging stations for electric vehicles
3. Improved waste management

Renewable energy

1. Onsite renewables energy (incl. solar panels), installations of geothermal energy

Eligible Green Assets under "Green and energy efficient buildings" are based on the market value of such assets reported in the balance sheet. Eligible Green Assets under "Energy efficiency" and "Renewable energy" correspond to the relevant invested amount.



⁴ Green Bond Principles (2018): <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

⁵ The National Building Code of Finland requires new residential buildings to have a maximum energy consumption ("e-value") of 90kWh/sq.m./year. National Building Code of Finland, Energy efficiency: <https://www.ym.fi/en-US/Land-use-and-building/Legislation-and-instructions/The-National-Building-Code-of-Finland/Energy-efficiency-of-buildings>

⁶ Information available at <https://new.usgbc.org/leed>

⁷ Information available at <https://www.breeam.com/>

⁸ Information available at <https://glt.rts.fi/etusivu/rtts-ymparistoluokitus/rtts-glt-environmental-classification-information-in-english/>

⁹ Information available at <https://www.nordic-ecolabel.org/>

3. PROCESS FOR ASSET EVALUATION AND SELECTION

3.1 ENVIRONMENTAL SUSTAINABILITY OBJECTIVES

SATO has an established work to meet social and environmental goals connected to the UN’s SDGs. SATO puts a special focus on the reduction of emissions, the energy efficiency of its buildings and the abandonment of fossil fuels. Particular environmental sustainability objectives declared by SATO are available in Section 1.2.

3.2 SELECTION OF ELIGIBLE GREEN ASSETS

The evaluation and selection process for Eligible Green Assets is a key process in ensuring that the amount equivalent to the net proceeds from Green Finance Instruments is allocated to assets and activities which meet the criteria in the Framework.

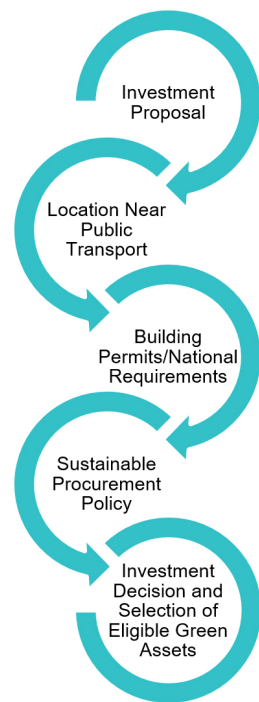
The entire project portfolio is subject to environmental consideration in the development and construction phase which are aligned with SATO’s sustainability strategy. On the right is a chart to depict SATO’s process for green asset/project selection starting from new construction.

The selection of Eligible Green Assets is managed by a Green Finance Committee (“GFC”) consisting of the CFO, Treasurer and Head of Sustainability. All decisions are made in consensus, and that applies to the selection process of Eligible Assets as well. The Head of Sustainability has a veto in all decisions with regards to the selection of Eligible Green Assets.

To select Eligible Green Assets, the GFC screens the existing portfolio and potential new construction projects based on the criteria set out in this Framework.

New construction projects naturally also follow company policies and national building requirements.

A list of Eligible Green Assets is kept by the Treasury Department and the GFC is responsible for keeping this list up to date. The GFC is also responsible for updating this document if so required by e.g. future market development.



3.3 EXCLUSION

The proceeds from the Green Finance Instruments will not be used to finance assets located in Russia, and will not be used to finance assets that directly use fossil fuels as a source of energy.

4. MANAGEMENT OF PROCEEDS

The net proceeds from SATO’s Green Finance Instruments will be tracked using a separate spreadsheet. The spreadsheet will specify the net proceeds from each Green Finance Instrument and will also include a list of the Eligible Green Assets.

All Green Finance Instruments issued by SATO Corporation will be managed on a portfolio level. This means that a Green Finance Instrument will not be

linked directly to one (or more) pre-determined Eligible Green Assets. The Company will keep track and ensure there are sufficient Eligible Green Assets in the portfolio. Assets can, whenever needed, be removed or added to/from the Eligible Green Assets portfolio.

Any unallocated proceeds temporary held by SATO will be placed on the Company’s ordinary bank account or in the short term money market.

5. REPORTING

To be fully transparent towards the Green Finance Instrument investors and other market stakeholders, SATO commits to regular reporting as long as it has Green Finance Instruments outstanding.

The reports will be made available on SATO’s website and will include “Use of Proceeds reporting” and “Impact reporting”:

Use of Proceeds reporting

The Use of Proceeds reporting will be published on SATO’s webpage on an annual basis for Green Bonds and other types of green debt instruments, and on a semi-annual basis for Green Commercial Paper. The report for Green Commercial Paper will show the total amount of Eligible Green Assets (in euros) and the total amount of outstanding Green Finance Instruments (in euros).

The annual report will include the following information:

- Total amount of Green Finance Instruments issued, divided by type of instrument
- Share of proceeds used for financing/re-financing as well as share of proceeds used for categories described in Section 2
- Total amount of unallocated proceeds, if any



Impact reporting

The Impact reporting will be published on SATO’s website on an annual basis. The report will include information indicating the environmental impact of the Eligible Green Assets on an aggregate level, and to the extent data is available and not of a sensitive nature:

- For Eligible Green Assets in “Green and energy efficient buildings”:
 1. Energy performance certificate class (A or B)
 2. Information on the energy usage for the Eligible Green Assets in kWh/m²/year (“e-value”)
 3. Type of certification, if any, and degree of certification (e.g. LEED/BREEAM)
 4. One or several key performance indicators such as greenhouse gas emissions (kg CO₂-e/m²); specific heat consumption (kWh/m³); specific water consumption (l/m³); specific electricity consumption (kWh/m³); amount of waste (tons); or other relevant indicators
- For Eligible Green Assets in “Energy efficiency” and “Renewable energy”:
 1. Annual energy saved per square meter (kWh); estimated annual greenhouse gas emissions reduced or avoided (tCO₂e); annual reduction in water consumption; annual amount of recycled waste; or other relevant performance indicator.
 2. Distribution capacity and/or storage capacity (MW) for onsite arrangements such as renewable energy production or geothermal installations; or other relevant performance indicator.

6. EXTERNAL REVIEW

To confirm the transparency and robustness of SATO’s Framework, it is verified and approved by an external second opinion provider. The second opinion by CICERO is available on SATO’s website.

The Use of Proceeds reporting will be subject for an annual review by an external part. A verification report provided by the external part will be published on SATO’s website.



FOR ADDITIONAL INFORMATION, PLEASE CONTACT

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