

GREEN FINANCE FRAMEWORK

March 2023

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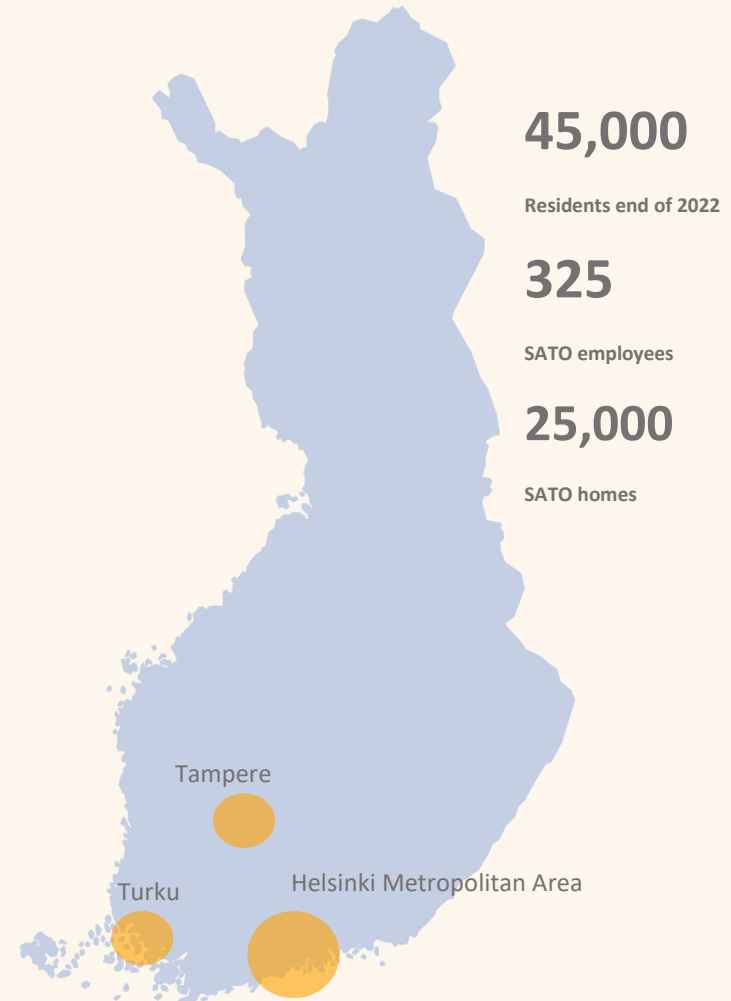
SATO in brief

SATO Group (“SATO” or “the Company”) is one of Finland’s leading rental housing providers. The Company’s goal is to build thriving and vibrant cities, pleasant homes and diverse living environments that will last for generations. SATO offers its residents homes in cities, near good public transport connections and services to make their daily lives easier.

The Company *owns builds, buys and renovates* urban homes to ensure safe, carefree and pleasant living for its residents. SATO also enables *sustainable housing* for its residents and encourage them to make sustainable choices in their daily lives.

SATO owns close to 25,000 homes in Finland’s largest growth centres Helsinki Metropolitan Area, Tampere and Turku. As a major housing provider, the Company bear responsibility for urban development and the environmental impacts of housing. SATO grows profitably and increases the value of its assets through investments, divestments and repairs.

As of December 31, 2022, the fair value of SATO’s investment properties was roughly EUR 5 bn. SATO’s net sales were EUR 291m. The operating profit was EUR 199m and profit before taxes was EUR 152m.



SATO's ESG approach

SATO's sustainability work is guided by its strategy and sustainability programme. The Company has evaluated material topics based on analyses and discussions with its stakeholders.

SATO's sustainability programme 2023-2026 consists of three focus areas: *sustainable housing*, *communities' wellbeing*, and being *sustainably profitable*. SATO's vision for the programme is to become a forerunner of sustainable rental housing.



E – Environmental Responsibility

The Company's biggest climate impact comes from energy consumption during the residential use phase and from the construction and repairs of its assets. Climate change mitigation and adaptation are at the core of the Company's ESG work and thus a great focus is on improving the buildings' *energy efficiency* and increase the share of *renewable energy*.

Carbon neutrality & energy efficiency through investments

SATO aims to reach *carbon neutrality by 2030* in terms of in-use energy consumption. To reach this target, SATO has among other measures signed an energy partnership agreement with Vantaa Energy to promote and develop carbon-neutral energy solutions for the heating and cooling of buildings as well as new innovative ways to reduce energy consumption.

SATO's proactive measures include monitoring and regulating the heating of 20,000 apartments through various IoT services. The buildings' heating systems are controlled by *artificial intelligence*, and residents can keep track of the temperature of their home via an online service. Temperature sensors reduce energy consumption by roughly 7% and the need for peak power by some 20%. To expand the monitoring of heating further, two pilot buildings use IoT sensors to measure the temperature at the level of individual radiators instead of the entire apartment. The pilot project, which will be completed in 2023, aims to improve the heating balance of the building in real time, reducing the need for heating.

At every new building and renovation site, SATO investigates the possibility of *geothermal heating*. The use of renewable energy in heating significantly reduces the in-use emissions of apartments. SATO currently has 17 buildings that are carbon neutral in



terms of electricity and heating. In 2023, new solar panel systems are installed to 24 properties.

In addition, *smart ventilation* is used to eliminate draughts and excessive under pressure, and to improve energy efficiency and comfort of living. In connection with renovations, *heat recovery* is added to the ventilation system of almost all buildings.

A life-cycle approach and sustainable materials

SATO regularly maintains and repairs properties according to the *life-cycle principle*. When selecting building materials for indoor spaces, the intention is to minimise their environmental impacts and promote circular economy. At the same time, the Company lowers the life-cycle and maintenance costs of its residential buildings and properties by investing in high-quality products and materials. Properly installed, long-lasting materials save natural resources, and in most cases, can be recycled or disposed of after use.

SATO encourages and guides actively residents to recycle waste, as this has a direct impact on reducing emissions from the Company’s activities. One of the objectives of SATO’s sustainability programme is to increase materials efficiency and promote the circular economy principles also during residential use phase. For example, the Company is continuously developing its waste reporting and aims to enable more detailed monitoring for residents regarding their home building’s waste.



SATO’s housing advisors guide residents personally on how to recycle waste and reduce water consumption. The Company also monitors the water consumption of buildings on a monthly basis.

S – Social Responsibility

SATO focus on communities’ wellbeing through for example, the Company’s *neighbor mentor activities* that are an initiative where neighbors help new people moving in to settle in and feel at home in the neighborhood. Currently, SATO has altogether 22 neighbor mentors in the Helsinki Metropolitan Area, Tampere and Turku.

During 2022, SATO donated to No Fixed Abode NGO (Vailla vakinaista asuntoa ry), which is a non-profit organization with the aim of reducing homelessness. SATO also collaborates with No Fixed Abode NGO in a project called #kämppäjaduuni in which the aim is to support project participants with housing and employment. Additionally, the Company made a donation for emergency relief for Ukraine through Unicef and The Finnish Red Cross.



G – Governance & Reporting

The *Board of Directors* makes strategic policies and decisions regarding sustainability and approves the sustainability programme and the annual sustainability report. The Board of Directors also considers sustainability criteria in investment decisions. *The CEO* monitors the implementation of sustainability, and the *CFO* is responsible for sustainability issues in the Corporate Management Group. SATO has also appointed a *Sustainability Manager* that reports to the CFO. The *sustainability steering group* is responsible for preparing guidelines and proposal for an action plan. It is also responsible for reporting on the progress of the sustainability targets at least four times a year. Practical measures and development goals are included in the action plan of each of SATO's units. The *heads of the units and supervisors* monitor the plans together with the sustainability steering group.

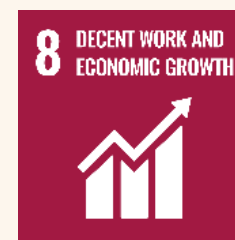
SATO's most important guidelines and principles include its *Code of Conduct*, *sustainability programme*, *guidelines for combating the grey economy*, its *partners' ethical guidelines*, as well as its *procurement*, *financing*, *risk management and disclosure policies* as well as *HR management principles*. The Company also has a publicly available *whistleblower function*. When selecting new partners, SATO carries out a supplier assessment, which entails going over the company's finances, references, resources and equipment.

In terms of sustainability reporting, SATO reports in accordance with the *Global Reporting Initiative (GRI)* and has conducted a climate scenario analysis in line with the *Task Force on Climate-Related Financial Disclosure (TCFD)* framework. SATO participates annually in *Global Real Estate Sustainability Benchmark GRESB*.



The United Nations Sustainable Development Goals

SATO has identified which of *UN's Sustainable Development Goals (SDGs)* that are considered to be particularly important and relevant for SATO's operations. Thus far, SATO is working actively to contribute to the following SDGs:



Significant ESG highlights & achievements

- SATO has 1,100 'Green homes' apartments that either have *geo-thermal heating or consumption-based water billing*, or both. Residents in 'Green homes' apartments will regularly receive information on emissions caused by housing, as well as guidance on more sustainable living
- SATO is the first rental housing operator to have 6 sites accepted on the sustainable buying website *Ostavastuullisesti.fi* (Buy sustainably). The homes are an *above-average choice in terms of sustainability*
- Together with the Helsinki Metropolitan Area Reuse Centre, SATO organised a *circular economy experiment* in Kallio, Helsinki, to recycle good-condition structural components and other items from an apartment building due to undergo renovation. The circular economy experiment helped save 46,000 kg of natural resources
- SATO launched a 6-month *water-saving pilot* in 10 of its buildings where SATO shared water-saving tips with its residents and encouraged them to inform of any leaky water fixtures
- SATO further expanded its model on *having house experts* who are responsible for the technical building work on homes and buildings. The purpose is to create a better customer experience and more efficient maintenance



ESG targets for 2023-2026 include:

- Reach carbon neutrality in terms of in use energy consumption by 2030, and join a net zero framework (e.g. SBTi, NZC Buildings)
- Specify a carbon neutrality roadmap and the scope of SATO's carbon footprint calculation
- Aim for energy class A in new construction projects
- Determine recycling targets for contractors
- Increase residents' awareness of environmental impacts of housing
- Formulate SATO's first biodiversity strategy
- Classify suppliers, and develop a self-assessment model as well as ESG criteria for procurement



The Green Finance Framework

Update of the Green Finance Framework

In March 2020, SATO established a Green Finance Framework (The “Framework”) focused on green and energy efficient buildings, energy efficiency, and renewable energy. The Framework has now been updated to reflect most recent market trends and best practices. The Framework has been developed in alignment with the *Green Bond Principles 2021 (“GBP”)*¹ and *Green Loan Principles 2021 (“GLP”)*².

The Framework is applicable for issuance of green debt instruments such as *green bonds, green hybrids, green commercial papers, green loans* and other types of debt instruments where the equivalent to the net proceeds will be applied to finance or re-finance, in part or in full, new or existing projects and assets with clear environmental benefits, as defined in this Framework (collectively referred to as “Green Financing Instruments” hereafter).

Swedbank has acted as advisor to SATO in the establishment of this Framework. Further, the Framework is reviewed by an impartial firm, which has provided a second opinion to confirm its alignment with the applicable principles. The Framework and second opinion from S&P are available on SATO’s website.

Use of proceeds

An amount equivalent to the net proceeds from SATO’s Green Financing Instruments will be used to finance or re-finance, eligible projects providing distinct environmental benefits (“*Green Eligible Assets*”) and comply with criteria detailed in the table on the following page. The look-back period is applicable for OPEX and limited to 3 years. The Company will continuously exercise its professional judgement, discretion and sustainability expertise when identifying the Green Eligible Assets.

¹ Green Bond Principles published in June 2021 (with June 2022 Appendix I) are Voluntary Process Guidelines for Issuing Green Bonds established by International Capital Markets Association (ICMA)

Financing and refinancing

New financing is applicable to planned and ongoing Green Eligible Assets as well as Green Eligible Assets completed within the latest 12 months/reporting year. *Re-financing* is applicable to Green Eligible Assets older than 12 months/completed prior to the reporting year.

The value of Green Eligible Assets






The value of assets under “Green and energy efficient buildings” is based on the following criteria; *new buildings* under construction correspond to the relevant amount invested up to date; *existing buildings* correspond to the market value of such assets reported in the balance sheet. The value of assets under the category “Energy efficiency” correspond to the relevant invested amount.

EU Taxonomy

SATO strives to align the Green Use of proceeds with the *EU Taxonomy* to the extent possible. The EU Taxonomy is a classification system with six environmental objectives. The Green Eligible Asset categories’ Substantial Contribution to the environmental objective *Climate Change Mitigation* is presented in the below table.



² Green Loan Principles published in February 2021 are voluntary process guidelines for issuing green loans established by Loan Markets association (“LMA”)

Green Eligible Asset categories	Sub-categories	Related SDGs	EU Taxonomy environmental objective
<p>Green and energy efficient buildings</p> 	<p>New buildings (built after 31 Dec 2020)³</p> <ul style="list-style-type: none"> • Primary Energy Demand (PED) PED 10% lower than the threshold set for Nearly Zero-Energy Building (NZEB) according to national building regulations, or • EPC A or B combined with e-value ≤ 81 kWh/sq.m./year • For buildings larger than 5000 m²: <ul style="list-style-type: none"> • The building undergoes testing for air-tightness and thermal integrity, upon completion; and • The life-cycle Global Warming Potential (GWP) of the building resulting from the construction has been calculated for each stage in the life cycle <p>Existing buildings (built before 31 Dec 2020)⁴</p> <ul style="list-style-type: none"> • EPC A or within top 15% of the national or regional building stock expressed as operational PED and demonstrated by adequate evidence, or • EPC A or B combined with e-value ≤ 82 kWh/sq.m./year <p>Major renovations</p> <ul style="list-style-type: none"> • Buildings that have been refurbished with renovations resulting in a reduction of primary energy demand of at least 30% within a maximum of 3 years in comparison to the energy performance of the building before the renovation 	 	<p>Climate change mitigation</p>
<p>Energy efficiency</p> 	<ul style="list-style-type: none"> • Energy retrofits such as installation of solar panels, geothermal energy, usage of LED lighting, low-flow water fixtures and toilets, improvements in ventilation systems and isolation • Investments enabling clean transportation such as charging stations for electric vehicles • Improved waste management e.g. physical enhancements to waste areas in existing buildings to facilitate and encourage residents to recycle 		<p>Climate change mitigation</p>

³ New buildings are defined as building built after 31 Dec 2020, in line with the current definition in the EU Taxonomy.

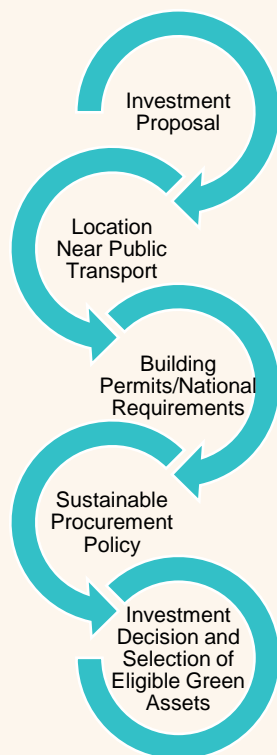
⁴ Existing buildings are defined as buildings built before 31 Dec 2020, in line with the current definition in the EU Taxonomy.

Process for asset evaluation and selection

Selection of Green Eligible Assets

The evaluation and selection process for Green Eligible Assets is a key process in ensuring that the proceeds from Green Financing Instruments are 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. Below is a chart to depict SATO’s process for green asset selection starting from new construction:



To identify and mitigate environmental and social risks, SATO follows internal and legislative risk management procedures. For all projects, environmental permit process is undergone. On company level, SATO is committed to reporting and addressing climate related risks for its entire supply chain in accordance with the TCFD framework. Internal criteria are used for all potential new projects. This criteria include reviews of aspects such as location in existing urban structure as well as energy efficiency and other ecological issues. Additionally, case-by-case risks and mitigation measures are taken into consideration in investing decisions.

The selection of Green Eligible Assets is managed by a dedicated group, the *Green Finance Committee* (“GFC”). Members of the GFC consist of CFO, Treasurer and Head of Sustainability. The Head of Sustainability has a veto in all decisions with regards to the selection of Green Eligible Assets.

To select Green Eligible 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 Green Eligible Assets is kept by the Treasury Department and the GFC is responsible for keeping this list up to date.

Further responsibilities of the GFC

The Framework will be updated from time to time to reflect current market practices and potential updates to the GBP, if and when the GFC deems it necessary.

The list of Eligible Green Assets is monitored by GFC on a regular basis during the term of the Green Financing Instruments to ensure that the proceeds are sufficiently allocated to Eligible Green Assets.

Exclusions

The proceeds from the Green Finance Instruments will not be used to finance *assets located in Russia, fossil fuel energy generation, nuclear energy generation, weapons, and defence industries nor potentially environmentally negative resource extraction, gambling, or tobacco.*

Management of proceeds

Net proceeds from SATO's Green Financing Instruments will be tracked by using a spreadsheet where all issued amounts of Green Financing Instruments will be inserted. The spreadsheet will also contain the list of Green Eligible Assets (see Section Use of Proceeds). The information available in the spreadsheet (allocation & impact) will in turn serve as basis for regular reporting (see Section Reporting) and will be verified by an external party (see Section External review).

All Green Financing Instruments issued by SATO will be managed on a *portfolio level*. This means that a Green Financing Instrument will not be linked directly to any pre-determined Green Eligible Assets. The Company will keep track and ensure there are sufficient Green Eligible Assets in the portfolio. Assets can, whenever needed, be removed or added to/from the Green Eligible Assets portfolio.

Any unallocated proceeds may temporary be placed in the liquidity reserve and be managed accordingly. Should there be any unallocated proceeds, SATO strives to allocate them within 36 months.

Reporting

To enable investors, lenders, and other stakeholders to follow the development of the assets and projects funded by Green Financing Instruments, a Green Finance Report will be made available on the Company's website. The Green Finance Report will include an *allocation report and an impact report* and will be published *annually* as long as there are Green Financing Instruments outstanding.

Allocation reporting

- Total amount of Green Financing Instruments issued
- Share of proceeds used for financing/re-financing as well as share of proceeds used for categories described in Section "Use of Proceeds"
- Share of unallocated proceeds (if any)
- Examples of the relevant Green Eligible Assets

Impact reporting

The impact report aims to disclose the environmental impact of the Green Eligible Assets financed under this Framework. The impact report will, to some extent, be aggregated and depending on data availability, calculations will be made on a best effort basis. The impact report may include some of the below listed metrics.

Green and energy efficient buildings

- EPC (A or B)
- Information on the energy usage for the Eligible Green Assets in kWh/m²/year ("e-value")
- Building material and heating source
- One or several key performance indicators such as greenhouse gas emissions (kg Co₂-e/m²); specific energy consumption (kWh/m³); specific water consumption (l/m³); energy use – % below new building requirements; or other relevant indicators

Energy efficiency

- 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
- Distribution capacity and/or storage capacity (MW) for onsite arrangements such as renewable energy production or geothermal installations; or other relevant performance indicator

External review

Second party opinion

To confirm the transparency and robustness of SATO's Green Finance Framework, it is verified and approved by an *external party*. The second opinion by S&P, together with this Framework are available on SATO's website; www.sato.fi.

External review

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

sato

asiakaspalvelu@sato.fi

tel. +358 20 334 443

sato.fi/en

