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Second Party Opinion

SATO's Green Finance Framework

March 6, 2023

SATO Oyj, a housing investment company, provides rental apartments and services in Finland. The group owns close to 25,000 homes in fast-growing Helsinki Metropolitan Area, Tampere, and Turku. SATO is also involved in property development and construction and renovation services. The company was incorporated in 1951 and is headquartered in Helsinki. SATO Oyj is a subsidiary of Balder Finska Otas AB.

In our view, SATO's Green Finance Framework, published on March 2, 2023, is aligned with:

- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021

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Issuer's Sustainability Objectives

SATO's primary sustainability objective is to reach carbon neutrality by 2030 in terms of in-use energy consumption. To that end, the company aims to set recycling targets for its contractors, increase residents' awareness of the environmental impacts of housing, and achieve energy class A certifications for its new construction projects, among other things. SATO also aspires to promote and develop carbon-neutral solutions for heating and cooling its buildings and reducing energy consumption, including via AI-controlled heating systems and temperature sensors.

Under its Green Finance Framework, SATO can issue a variety of green debt instruments including green bonds, green hybrids, green commercial paper, green loans, and other types of debt instruments to finance or refinance new or existing projects and assets with environmental benefits. In the absence of formal standards for green commercial paper instruments, we believe SATO's approach is in line with current market expectations.

Second Party Opinion Summary


Use of proceeds

Alignment  SATO's Green Finance Framework is aligned with this component of the Green Bond Principles (GBP) and Green Loan Principles (GLP).

Score Not aligned Aligned **Strong** Advanced

SATO commits to allocate an amount equal to the net proceeds issued under the framework exclusively to finance or refinance new or existing projects and assets with environmental benefits. This includes the construction, renovation, or acquisition of green buildings as well as investments to improve the energy efficiency of buildings, such as retrofits or clean transportation infrastructure.


Process for project evaluation and selection

Alignment  SATO's Green Finance Framework is aligned with this component of the GBP/GLP.

Score Not aligned Aligned **Strong** Advanced

The company's framework outlines the process to ensure selected projects fit within the eligible asset categories. SATO has established a Green Finance Committee (GFC), comprising the CFO, Treasurer, and Head of Sustainability, which is responsible for the selection of eligible green assets in line with the framework's criteria. The issuer also clearly specifies the process by which it identifies and manages environmental and social risks related to the buildings.

Management of proceeds

Alignment  SATO's Green Finance Framework is aligned with this component of the GBP/GLP.

SATO will track the allocation of proceeds from all outstanding instruments using an internal system. Management of proceeds will be done on a portfolio level, meaning that the issued instruments will not be linked directly to pre-determined green eligible assets. SATO aims to allocate the proceeds from any green financing it issues under the framework within 36 months following their issuance date. The company will place any unallocated proceeds temporarily within its liquidity reserve.

Reporting

Alignment  SATO's Green Finance Framework is aligned with this component of the GBP/GLP.

Score Not aligned **Aligned** Strong Advanced

SATO commits to report on the allocation of proceeds as well as the impact of financed projects annually for as long as there are green financing instruments outstanding.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 SATO's Green Finance Framework is aligned with this component of the GBP/GLP.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider SATO's overall use-of-proceeds commitments to be strong.

The company commits to dedicate an amount equivalent to the net proceeds from its green financing instruments to finance or refinance eligible projects that deliver environmental benefits, including green and energy-efficient buildings. Eligible sub-categories reference the EU Taxonomy's Technical Screening Criteria for a substantial contribution to climate change mitigation, such as the requirement for new buildings to have a Primary Energy Demand (PED) 10% lower than the threshold set for Nearly Zero-Energy Building (NZEB) or existing buildings to be within the top 15% of the national or regional building stock expressed as operational PED. The eligible project categories also include the retrofitting of buildings to make them more energy efficient (resulting in a reduction in primary energy demand of at least 30%) or the installment of charging stations for electric vehicles. In our view, these types of investments help reduce the substantial carbon footprint of the real estate sector and are in line with SATO's stated goal to reach carbon neutrality by 2030 in terms of in-use energy consumption.

Finally, the company commits to report on the proportion of funds used for financing versus refinancing as part of its allocation reporting, which we view as a strength, and defines a maximum look-back period for operating spending of three years, which we consider to be in line with common market practice.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 SATO's Green Finance Framework is aligned with this component of the GBP/GLP.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider SATO's overall process for project selection and evaluation commitments to be strong.

The company's Green Finance Framework outlines the evaluation and selection process for green eligible assets, which is overseen by a committee comprising the CFO, Treasurer, and Head of Sustainability. Eligible projects need to align with national building requirements and company requirements. The selection process also considers environmental as well as social elements, such as the company's sustainable procurement policy or the building's proximity to public transport.

Finally, SATO defines several exclusion criteria. No proceeds from its green finance instruments can be used for assets in Russia, nor can they be used for buildings related to fossil fuel energy generation, among others.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensuring that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.


 SATO's Green Finance Framework is aligned with this component of the GBP/GLP.

The company commits to track the funds allocated to eligible green projects through internal systems into which all issued amounts of green financing instruments will be recorded. We note that the proceeds will not be credited to a separate sub-account. Further, SATO manages the proceeds from its green financing instruments on a portfolio level, meaning that these are not linked directly to any predetermined eligible green assets. However, the company has stated that it will ensure there are sufficient green eligible assets in the portfolio at all times.

Pending full allocation of proceeds to eligible projects, SATO will place any unallocated proceeds temporarily in its liquidity reserve and manage these accordingly.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 SATO's Green Finance Framework is aligned with this component of the GBP/GLP.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider SATO's overall reporting practices to be aligned.

The company commits to reporting annually on the allocation and impact of the proceeds for as long as it has green financing instruments outstanding. The report will be published on SATO's website. Allocation and impact reporting will include a combination of actual and estimated indicators, including the total amount of green financing instruments issued, type of EPC label (A or B), or the annual energy saved per square meter.

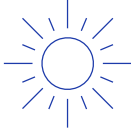

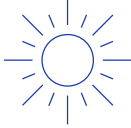
SATO commits to an independent third-party verification of its post-issuance allocation, which, in our view, strengthens reporting practices. However, we note that the company does not disclose the key underlying methodology and assumptions used to calculate the projects' quantitative performance measures.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

SATO's Green Finance Framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Green and energy-efficient buildings	  7. Affordable and clean energy 11. Sustainable cities and communities*
Energy efficiency	 7. Affordable and clean energy*

*The eligible project categories link to these SDGs in the ICMA mapping.

Second Party Opinion

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