



# SATO

## Green Finance Second Opinion

March 04, 2020

**SATO Group ("SATO" or "Group") is a real estate investor which offers rental apartments, investment development and tenant services. The parent company of the group is SATO Corporation ("Company").** SATO serves customers in Finland and Russia. No projects in Russia will be financed under this framework.

The green finance framework will finance projects within the categories **green buildings, energy efficiency and renewable energy**. The majority of proceeds will be allocated to existing buildings. Energy efficiency thresholds for existing buildings that goes beyond regulation for new buildings are a clear strength of this framework. The energy efficiency criteria of 30 percent improvements for renovation projects is in line with the IEA recommendations for energy efficiency and represents a high level of ambition.

**Investors should be aware that the requirements for new buildings only are 9 percent better than today's regulation in Finland.** Taking into account that a substantial share of emissions from a lifecycle perspective comes from production and transportation of building materials and emissions from the construction phase, energy label B for new buildings are not very ambitious. This category currently represents 100 percent of the eligible green assets.

**SATO has incorporated ambitious environmental policies in the organization's governance.** Taking environmental responsibility is a core strategic area, with relevant targets defined and transparent reporting in place. SATO's systematic work with sustainable transportation systems is a clear strength. The issuer has however informed us that they don't report according to TCFD and do not take resilience and adaptation to more extreme weather into account beyond what is required by regulation.

Based on the overall assessment of the project types that will be financed by the green finance, governance and transparency considerations, SATO green finance framework receives a **CICERO Medium Green** shading. The framework would benefit from a higher energy efficiency ambition for new buildings, explicit screens for ESG risks, supply chain and resilience.

### SHADES OF GREEN

Based on our review, we rate the SATO'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 SATO's framework to be Good.



### GREEN BOND AND GREEN LOAN PRINCIPLES

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





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# 1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of SATO's framework dated March 2020. This second opinion remains relevant to all green bonds and other types of debt instruments 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 SATO 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 SATO'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:

### CICERO Shades of Green



**Dark green** is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.



**Medium green** is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.



**Light green** is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.



**Brown** is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future.

### Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available



New infrastructure for coal

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, the governance aspects are carefully considered and reflected in the overall shading of the green finance framework. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green finance 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 and potentially banks or other financial institutions. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent.



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

SATO is a group that provides real estate services. SATO offers rental apartments, investment development and tenant services. The Company offers rental homes, apartments, investment development, and tenant services. SATO serves customers in Finland and Russia. SATO was founded in 1940s and is today one of Finland's leading lessors of rental apartments. No projects in Russia will be financed under this framework.

### Environmental Strategies and Policies

SATO is committed to contribute to several of the UN's Sustainable Development Goals. SATO is aiming at carbon neutrality by 2030 when it comes to energy consumption of their properties. SATO reports its emissions according to GRI standard. The report is independently verified. The energy used for heating purposes has decreased by around 5 per cent from 2015 to 2018 adjusted for weather. Use of electricity use however slightly increased by 1 percent in the same period. Emissions are calculated according to the absolute consumption of district heating. Electricity was produced by wind power, and did not produce any emissions. SATO prioritizes climate issues such as making its buildings more energy efficient and to abandon fossil fuels. The Group still to some extent consumes heating oil in its operations. SATO has told us that they will replace all remaining oil heating systems in the near future.

SATO is working systematically to reduce its emissions and consumption of energy with clear short term goals (by 2022). The reduction in specific emissions caused by operations will be reduced by 18.5% from 2018 level by 2022 and consumption of energy by 9% from 2015 level by 2022. There is a clear priority that allocation of new investments should be along public transport routes. The Group has for several years worked on reducing its carbon footprint. As part of its climate partnership with the City of Helsinki, SATO made a commitment to reduce the consumption of heating energy by 15% by 2016 from the 2009 level and to locate its new housing investments are closely connected to public transportation solution. According to the issuer SATO has installed apartment-specific sensors to optimize indoor temperatures. The upgraded energy monitoring system enables SATO to detect deviations and resolve problems more rapidly. On site energy production (e.g. geotherm, solar panels) is used in some properties. Electricity used in SATO's properties is emission free (certificates of origin).

SATO is able to calculate an energy figure for each building for energy efficiency planning purposes. In the future, SATO plans to take environmental certificates into use for residential buildings, and to measure energy efficiency during construction on all new sites. The Group also works with its subcontractors in order to reduce environmental impacts. Subcontractors measure and report on-site waste by category (wood, metal, stone etc). In addition, the on-site consumption of water, electricity and energy is measured based on e.g. what is invoiced. Currently emissions regarding transportation of waste is not measured.

### Use of proceeds

SATO Corporation will issue green bonds, green commercial papers and other types of debt under this green finance framework to finance or refinance green projects or assets within the categories green buildings, energy efficiency and renewable energy. The majority of proceeds will be allocated to existing and new green and energy efficient buildings.



### **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.

The selection of green eligible assets will be managed by a Green Finance Committee ("GFC") consisting of the CFO, Treasurer and Head of Sustainability. All decisions are made in consensus, including the selection of eligible assets and projects. The Head of Sustainability has a veto in all decisions with regards to the selection of eligible green assets.

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

### **Management of proceeds**

CICERO Green finds the management of proceeds of SATO to be in accordance with the ICMA Green Bond and Loan Principles.

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.

### **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.

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

The Use of Proceeds reporting will be subject to annual review by an auditor and published on the Company's website.



### 3 Assessment of SATO’s green finance framework and policies



The framework and procedures for SATO’s green 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 SATOs 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 SATO’s green finance framework, we rate the framework **CICERO Medium Green**.

#### Eligible projects under the SATO’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 finances 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
<b>Green and energy efficient buildings</b>    	i. 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./year	<b>Medium to Light Green</b>  <ul style="list-style-type: none"> <li>✓ Energy efficiency thresholds also for existing buildings that goes beyond regulation for new buildings are a clear strength of this framework.</li> <li>✓ The energy efficiency criteria of 30 percent improvements for renovation projects is in line with the IEA recommendations for energy efficiency and represents a high level of ambition.</li> <li>✓ Investors should however be aware that the requirements for new buildings under category i. only are 9 percent better than today’s regulation. Since a substantial share</li> </ul>
	ii. 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”<sup>1</sup> or better
  - “BREEAM Very Good”<sup>2</sup> or better
  - “BREEAM In-Use Very Good” or better
  - RTS - Rakennustieto Environmental Classification, 3 stars or better<sup>3</sup>
  - Nordic Swan Ecolabel<sup>4</sup>
- iii. Major renovations resulting in reduced energy consumption of at least 30%
- ✓ of emissions, from a lifecycle perspective, comes from production and transportation of building materials and emissions from the construction phase, energy label B for new buildings are not very ambitious and therefore achieve a medium to light green shading. This category currently represents 100 percent of the eligible green assets.
  - ✓ SATO has confirmed that all new green buildings need to be connected to public transport facilities.
  - ✓ The share of fossil fuel in district heating network that the buildings are connected to depends on the region. buildings that use fossil fuel energy for heating or cooling directly are excluded from this category.
  - ✓ Consequences of climate change, adaptation to climate change and building resilience are not taken into account explicitly.
  - ✓ Proceeds will be allocated based on the market value of the assets reported in the balance sheet.
  - ✓ Following certified buildings standards provides clarity to the market. The additional requirement on energy consumption prevents lock-in of technological solutions as standards will be updated in time.

**Energy efficiency**



- i) Energy retrofits such as the usage of LED **Dark Green** lighting, low-flow water fixtures and toilets, improvements in ventilation systems and isolation
  - ✓ Allocated proceeds correspond to the relevant invested amount.
- ii) Investments enabling clean transportation such as charging stations for electric vehicles
  - ✓ Be aware of lock-in effects.
  - ✓ In new construction, when building parking spaces, SATO ensures they
- iii) Improved waste management

<sup>1</sup> Information available at <https://new.usgbc.org/leed>

<sup>2</sup> Information available at <https://www.breeam.com/>

<sup>3</sup> Information available at <https://m1.rts.fi/en/>

<sup>4</sup> Information available at <https://www.nordic-ecolabel.org/>



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		can easily provide infrastructure for charging electric vehicles.
		✓ No direct investments in waste incineration is included in this category.
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<b>Renewable energy</b>	i) Onsite renewables energy (incl. solar panels), installations of geothermal energy	<b>Dark Green</b>
		✓ SATO aims to install renewable energy solutions in their properties where appropriate.
		✓ Be aware that some geothermal projects could be associated with large GHG emissions. Emissions from such projects should at least be below 100 g CO <sub>2</sub> /kwh.

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Table 1. Eligible project categories

## Background

According to the International Energy Agency (IEA), the buildings and buildings construction sectors combined are responsible for 36% of global final energy consumption in 2018 and nearly 40% of total direct and indirect CO<sub>2</sub> emissions. Appliances (excluding heating, cooking and cooling appliances) are responsible for around 17% of final electricity use by buildings. The energy and emissions savings potential remain largely untapped because of continued use of less efficient technologies, lack of effective policies and weak investments in sustainable buildings. The IEA's Sustainable Development Scenario suggests 50% of new constructed building area in 2030 to be near zero emission – in addition to increased renewable heat sources up to 25% in 2030.<sup>5</sup> Energy efficient buildings are crucial important building blocks towards reaching the 2°C goal.

In 2018 emissions grew in Finland by two per cent from the previous year. The growth in emissions was most influenced by increased consumption of natural gas and peat.

Physical climate change such as extreme events and flooding are affecting all sectors and regions already. Due to historical emissions, we are de facto locked in for approximately 1.5°C global warming.<sup>6</sup> Given today's policy ambition, the world is most likely heading toward 3°C warming in 2100 which implies accelerated physical climate impacts, including more extreme storms, accelerated sea level rise, droughts and flooding.<sup>7</sup> For near-term physical risk, investors and companies must consider the probabilities of physical events and resiliency measures to plan for and protect against the worst impacts.

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<sup>5</sup> <http://www.iea.org/tcep>

<sup>6</sup> <https://www.cicero.oslo.no/en/posts/news/scientists-demystify-climate-scenarios-for-investors>

<sup>7</sup> [https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR\\_AR5\\_FINAL\\_full\\_wcover.pdf](https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR_AR5_FINAL_full_wcover.pdf)

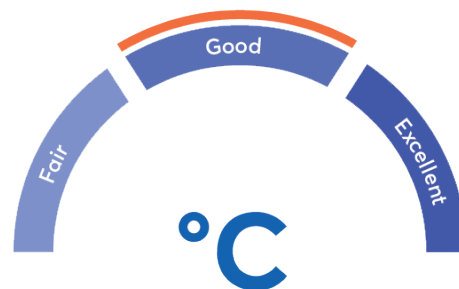




### Governance Assessment

Four aspects are studied when assessing the SATO's governance procedures: 1) the policies and goals of relevance to the green finance 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.

SATO has incorporated ambitious environmental policies in the organization. Taking environmental responsibility is a core strategic area, with relevant targets defined and transparent reporting in place. The issuer would benefit from a more systematic inclusion of climate risk and resilience into management systems and reporting. The overall assessment of SATO's governance structure and processes gives it a rating of **Good**.



### Strengths

SATO is working systematically to reduce its emissions and consumption of energy with clear short term goals (by 2022). The reduction in specific emissions caused by operations will be reduced 18.5% from 2018 level by 2022 and consumption of energy by 9% from 2015 level by 2022. On a global level energy efficiency gains of just 1 percent is not very ambitious. On a global level, we need to make things more energy efficient at a rate of 3.2% per year through 2040 in order to be in line with the IEA's Sustainable Development Scenario<sup>8</sup>. This is double the rate of improvements in the period 2000-2016. Last year heating consumption decreased by 2.2 per cent, specific electricity consumption by 0.8 per cent. SATO is encouraged to strengthen its ambitions even further. There is a clear priority by the Group that allocation of new investments should be along public transport routes.

Energy efficiency thresholds for existing buildings that goes beyond regulation for new buildings are a clear strength of this framework. The energy efficiency criteria of 30 percent improvements for renovation projects is in line with the EIA recommendations for energy efficiency and represents a high level of ambition. Investors should however be aware that the requirements for new buildings only are 9 percent better than today's regulation.

### Weaknesses

No significant weaknesses perceived.

### Pitfalls

Investors should note that the energy efficiency threshold for new buildings with energy label B eligible under SATO's framework are only 9 percent better than equivalent to the current Finnish regulations. This category currently represents 100 percent of the eligible green assets. In a low carbon 2050 perspective the energy performance of buildings is expected to be improved, with passive and plus house technologies becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments. The energy efficiency criteria of 30 percent improvements for renovation projects is in line with the EIA recommendations for energy efficiency and represents a higher level of ambition than the thresholds for new and existing buildings.

The issuer has informed us that environmental aspects are integrated into their management systems. The issuer has however informed us that they don't report according to TCFD and do not take resilience and adaptation to

<sup>8</sup> <https://www.iea.org/weo2018/>



more extreme weather into account beyond what is required by regulation. According to the Finnish climate guide increased rainfall, and snowfall being replaced by rainfall in winter, will probably increase river flows and floods.<sup>9</sup> According to this guide a survey of major flooding carried out by regional environmental centers, Finland has property with a total value of at least EUR 550 million across all the flood risk areas. The strengthening of winds and storms will also become expensive and the useful life of buildings is likely to become shorter. Developing projects with climate resilience in mind is, therefore, critical for this sector. The issuer would benefit from a more systematic inclusion of climate risk and resilience into management systems and reporting.

The framework includes impact reporting; however, it does not list all the projects. SATO will report on an aggregate level for the green assets.

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<sup>9</sup> <https://ilmasto-opas.fi/en/ilmastonmuutos/vaikutukset/-/artikkeli/51d0c5f5-349b-4ffa-9419-7a78d612c17e/suomen-talous.html>



# Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Green Finance Framework March 2020	
2	Report of the Board of Directors and Financial Statements 2019	<a href="https://assets.ctfassets.net/z7ety0aygnfq/jzu5kEslwUvTsAIX3gocY/e6440824c7ef3bea5b31a802bbf73cd5/Report_of_the_Board_of_Directors_and_Financial_Statements_2019.pdf">https://assets.ctfassets.net/z7ety0aygnfq/jzu5kEslwUvTsAIX3gocY/e6440824c7ef3bea5b31a802bbf73cd5/Report_of_the_Board_of_Directors_and_Financial_Statements_2019.pdf</a>
3	SATO Annual Report and Sustainability Report 2018:	<a href="https://assets.ctfassets.net/z7ety0aygnfq/6Ckac0yuCosIdM7afRZz45/2b6b290b83dd91d1b3654afbd46d65c/SATO_Annual_and_Sustainability_report_2018.pdf">https://assets.ctfassets.net/z7ety0aygnfq/6Ckac0yuCosIdM7afRZz45/2b6b290b83dd91d1b3654afbd46d65c/SATO_Annual_and_Sustainability_report_2018.pdf</a>
4	Information about Governance, Sustainability, Environment, Code of Conduct, and Procurement (links on the left-hand side of the page):	<a href="https://www.sato.fi/en/sato-company">https://www.sato.fi/en/sato-company</a>
5	RTS GLT Environmental Classification	The new RTS Environmental Classification system (RTS GLT) is designed for parties who are commissioning construction projects and who want to build in an environmentally responsible manner.



## 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 recognized 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).

