

## Second-Party Opinion



Sustainalytics is of the opinion that the Kaisa Group Holdings Limited Sustainable Finance Framework aligns with the four core components of the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, Social Bond Principles 2020 and Green Loan Principles 2020. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Green Buildings, Energy Efficiency, Pollution Prevention and Control, Sustainable Water and Wastewater Management, Climate Change Adaptation, Renewable Energy, Clean Transportation, Affordable Housing, and Affordable Basic Infrastructure and Essential Services – are aligned with those recognized by the Green Bond Principles and the Social Bond Principles, respectively. Sustainalytics considers that the eligible categories will lead to positive environmental and social impacts and advance the UN Sustainable Development Goals, specifically SDG 3, 6, 7, 9, 11, 12 and 15.



**PROJECT EVALUATION / SELECTION** Kaisa Group Holdings Limited's internal process for evaluating and selecting projects is led by the Group's Sustainable Finance Working Group, comprised of representatives from the Property Management, Sustainability, Treasury, Investor Relations and Legal departments. Project eligibility is determined according to the criteria defined in the Framework. Shortlisted projects identified by the Property Management Department are then presented to the broader Working Group for approval. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** Kaisa Group's Sustainable Finance Working Group is responsible for the management of proceeds using a portfolio approach. Kaisa will maintain a register to track of the use of proceeds for each eligible project. Pending allocation proceeds will be temporarily deposited into Kaisa's General Funding Account in accordance with the Group's liquidity guidelines for short term deposits or investments. This is in line with market practice.



**REPORTING** Kaisa Group Holdings Limited intends to report on the allocation of proceeds in the Group's Annual Report, ESG or Sustainability report, or on its website on an annual basis until full allocation, including details of outstanding SFT and balance of unallocated proceeds. In addition, where feasible, Kaisa is committed to reporting on relevant green and social impact metrics. Sustainalytics views Kaisa's allocation and impact reporting as aligned with market practice.

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Shenzhen, China

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Introduction.....	2
Sustainalytics' Opinion .....	3
Appendices .....	11

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Kaisa Group Holdings Limited (“Kaisa”, “the Group” or the “Company”) is an integrated property developer headquartered in Shenzhen, China. The Group mainly operates in the property market of the Guangdong-Hong Kong-Macao Greater Bay Area, and has business activities across more than 20 industries, including property development, urban redevelopment, healthcare services, tourism, culture & sports. Kaisa was established in 1999 and has approximately 15,300 employees.

Kaisa has developed the Kaisa Group Holdings Limited Sustainable Finance Framework (the “Framework”) under which it intends to issue sustainability bonds, hybrid debt securities, convertible bonds and loan (Sustainable Finance Transactions or SFTs) and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that improve the environmental performance of its buildings and/or improve communities’ access to housing and essential services.

The Framework defines eligible green categories in the following seven areas:

1. Green Buildings
2. Energy Efficiency
3. Pollution Prevention and Control
4. Sustainable Water and Wastewater Management
5. Climate Change Adaptation
6. Renewable Energy
7. Clean Transportation

Additionally, the Framework defines social categories in the following two areas:

8. Affordable Housing
9. Affordable Basic Infrastructure and Essential Services

Kaisa engaged Sustainalytics to review the Kaisa Group Holdings Limited Sustainable Finance Framework, dated July 2020, and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG),<sup>1</sup> Green Bond Principles 2018 (GBP),<sup>2</sup> Social Bond Principles 2020 (SBP)<sup>3</sup> and the Green Loan Principles 2020 (GLP).<sup>4</sup> This Framework will be published in a separate document.<sup>5</sup>

Sustainalytics’ Second-Party Opinion reflects Sustainalytics independent<sup>6</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, and Social Bond Principles 2020, as administered by ICMA, and Green Loan Principles 2020, administered by LMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

<sup>1</sup> The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>.

<sup>2</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>3</sup> The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>.

<sup>4</sup> The Green Loan Principles are administered by the Loan Market Association and are available at [https://www.lma.eu.com/application/files/1815/8866/8537/Green\\_Loan\\_Principles\\_V03.pdf](https://www.lma.eu.com/application/files/1815/8866/8537/Green_Loan_Principles_V03.pdf)

<sup>5</sup> The Kaisa Group Holdings Limited Sustainable Finance Framework is available on Kaisa Group Holdings Limited’s website at: [www.kaisagroup.com](http://www.kaisagroup.com)

<sup>6</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.4.1, which is informed by market practice and Sustainalytics' expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Kaisa's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Kaisa representatives have confirmed (1) they understand it is the sole responsibility of Kaisa to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Kaisa.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Kaisa has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics is of the opinion that the Kaisa Group Holdings Limited Sustainable Finance Framework is credible and impactful, and aligns with the four core components of the SBG, GBP, SBP and GLP. Sustainalytics highlights the following elements of Kaisa's Sustainable Finance Framework:

- Use of Proceeds:
  - The eligible categories in the framework – (i) Green Buildings, (ii) Energy Efficiency, (iii) Pollution Prevention and Control, (iv) Sustainable Water and Wastewater Management, (v) Climate Change Adaptation, (vi) Renewable Energy, (vii) Clean Transportation, (viii) Affordable Housing, and (ix) Affordable Basic Infrastructure and Essential Services – are aligned with those recognized by the SBG, GBP, SBP and GLP, and Sustainalytics believes that Kaisa's investment in these areas may improve resource efficiency, promote energy savings and access to basic services and housing. Kaisa has defined a look-back period of 36 months for refinancing activities.
  - The Framework specifies seven green categories that may improve resource efficiency, promote energy savings, prevent pollution, and increase climate resilience of urban environments. More specifically:
    - Under the Green Buildings category, Kaisa may finance the acquisition, construction and/or refurbishment of Green Buildings in China, primarily in the Guangdong-Hong Kong-Macao Greater Bay Area. The eligibility criterion for residential and commercial green buildings incorporates the following standards: (i) LEED Gold or above, (ii) Chinese Green Building Evaluation Label (China 3-Star) 2-Star or above, (iii) BREEAM Excellent or above, (iv) BEAM Gold or above, and (v) any other green building standard considered to be equivalent to the aforementioned certifications. In addition, buildings that fall within the top 15% energy efficient or emissions performance in the local

market are eligible under the Kaisa Sustainable Finance Framework. Sustainalytics considers the certification levels to be credible and robust, and to ensure proper integration of environmental considerations during buildings' life cycle (See Appendix 1 for additional details on these certification schemes). The Company has confirmed to Sustainalytics that under this category they may also finance expenditures related to the purchasing recyclable products used in the construction of green buildings.

- Under the Energy Efficiency category, Kaisa may finance the refurbishment of residential and commercial buildings that deliver a minimum 30% in energy efficiency or grade improvement according to local certifications assessed and qualified according to the "Assessment Standard for Green Construction of Buildings" by the Ministry of Housing and Urban-Rural Development of China. Some of the activities eligible for financing by the Framework include investments for roof greening, heat insulating walls and windows, high efficiency air conditioning systems, air circulation systems, high efficiency lighting units, lighting area controlling system, and energy efficient escalators and elevator systems.
  - In addition, the Company may also finance research and development (R&D) expenditures related to the development and building of systems and their structural design to implement energy efficiency measures in the buildings managed by Kaisa, R&D expenditures are limited to a maximum of 20% the bond issuance. Sustainalytics recognizes the potential value of R&D activities in energy efficient activities while also noting that the financing of these expenditures may or may not result in energy efficient technologies.
  - In the Pollution Prevention and Control category the Company may finance the installation of recycling facilities in buildings and air handling units to process the air from areas such as car parks and kitchens.
  - Within the Sustainable Water and Wastewater Management category, Kaisa may finance the installation of rainwater collection systems, water conservation systems, water recycling and treatment systems, and grease traps and septic tanks to treat water before discharge.
  - Within the Climate Change Adaptation category, the Company may finance investments to develop "Sponge Cities"<sup>7</sup> that aim to reduce flood risk and replenish groundwater. Activities in this category can include bioretention, rainwater cistern installations.
  - Under the Renewable Energy category, the Company may finance the installation of on-site solar energy and solar water heating systems and associated infrastructure, such as connection and conduction equipment.
  - In the Clean Transportation category, the Company may finance the installation of electric vehicle charging stations and the construction of dedicated parking spaces for electric vehicles.
- Kaisa's two social categories are aligned with those recognized by the SBP and Sustainalytics believes that Kaisa's investment in these areas may improve access to housing and basic services for underserved communities.
- Within the Affordable Housing category Kaisa may finance the construction and refurbishment/maintenance of low-cost housing<sup>8</sup> in residential developments. Approximately 10% of units in residential developments will be designated as affordable housing for individuals or families that meet local municipalities' definition of low-income.<sup>9</sup> The company has confirmed to Sustainalytics that the population aimed to benefit from these residential buildings is exclusively made up of individuals who receive subsistence allowance from the government.<sup>10</sup> The remaining units will be

<sup>7</sup> The Sponge Cities concept is designed to absorb and capture rainwater, and includes green rooftops, low elevation greenbelt, bioretention, rainwater-based irrigation, and rainwater cisterns for flood prevention.

<sup>8</sup> Low Cost Housing is defined as public housing with a rent or price threshold regulated by government authorities. Local government assesses the income levels and difficulty of obtaining housing of individuals or families. Based on the assessment, the government selects the beneficiaries of Low-Cost Housing units.

<sup>9</sup> The personal monthly subsistence allowance varies according to the region of residence within Guangdong Province. Tier 1: RMB 1,050 (approximately EUR 132) for urban and rural regions including Guangzhou and Shenzhen; Tier 2: RMB 934 (approximately EUR 118) for regions including Zhuhai, Foshan, Dongguan and Zhongshan; Tier 3: RMB 824 (approximately EUR 104) in regions including Huizhou, Jiangmen (excl. Taishan, Kaiping and Enping), and Zhaoqing (excl. counties); Tier 4: RMB 772 (approximately EUR 97) for regional towns such as Shantou and Shaoguan; and Tier 5: RMB 532 (approximately EUR 67) rural areas.

<sup>10</sup> The personal monthly subsistence allowance varies according to the region of residence within Guangdong Province. Tier 1: RMB 1,050 (approximately EUR 132) for urban and rural regions including Guangzhou and Shenzhen; Tier 2: RMB 934 (approximately EUR 118) for regions including Zhuhai, Foshan, Dongguan and Zhongshan; Tier 3: RMB 824 (approximately EUR 104) in regions including Huizhou, Jiangmen (excl. Taishan, Kaiping and

- allocated to relocated existing residents/villagers or made available for sale to mass public.
- In the Affordable Basic Infrastructure and Essential Services category the Company may finance the construction, refurbishment/maintenance public schools, public hospitals, public transportation (including provision of connectivity to public transportation), public sports facilities, and public parks/green spaces that are universally accessible public services as managed by the government, including provisions for citizen benefits and subsidies by the government. This infrastructure is intended to be developed in Urban Renewal Target Areas.<sup>11</sup> Based on the above, Sustainalytics considers these activities to be in line with market practice.
  - Project Evaluation and Selection:
    - Kaisa Group Holdings Limited’s internal process for evaluating and selecting projects is managed by the Sustainable Finance Working Group (SFWG). This group consists of representatives from Kaisa’s Property Management, Sustainability, Treasury, Investor Relations and Legal departments. Potential eligible projects will be shortlisted by the Property Management department and presented to the SFWG for review and final selection. The eligibility of the projects is determined against the use of proceeds criteria included in the Framework. The list of eligible green and social projects will be reviewed annually to add/remove projects according to the project criteria. Based on these elements Sustainalytics considers this process to be in line with market practice.
  - Management of Proceeds:
    - Kaisa’s SFWG is also responsible for the management of proceeds. Kaisa Group will maintain a register using a portfolio approach to track of the use of proceeds raised by the issuance and their allocation to each eligible project. In the event of unallocated proceeds, Kaisa will temporarily deposit proceeds into Kaisa’s General Funding Account and manage these in accordance with the Group’s liquidity guidelines for short term deposits or investments. Kaisa intends to fully allocate proceeds raised by the sustainability bonds within 24 months. Based on these elements Sustainalytics considers this process to be in line with market practice.
  - Reporting:
    - Kaisa intends to report on the allocation proceeds in the Group’s Annual Report, ESG or Sustainability report, or on its website on an annual basis, and in the event of any material change (e.g.: a project becomes ineligible and needs to be replaced), until full allocation. Allocation reporting will include details on allocation amounts to specific eligible projects, balance of unallocated proceeds, and the share of financing vs. refinancing.
    - Kaisa is also committed to impact reporting. Where feasible, the Company aims to report on reporting may include metrics such as annual greenhouse gas (GHG) emissions reduced/avoided (t CO<sub>2</sub> eq), annual renewable energy generation, annual energy savings in MWh/GWh, amongst others.
    - Based on the above elements, Sustainalytics considers this process to be in line with market practice.

Sustainalytics has determined that the Kaisa Group Holdings Limited Sustainable Finance Framework aligns to the four core components of the SBG 2018, GPB 2018, SBP 2020 and GLP 2020. For detailed information please refer to Appendix 2: Sustainability Bond/Sustainability Bond Programme External Review Form.

Kaisa is committed to integrate sustainability throughout its operations and has developed a Sustainable Governance Strategy to deliver long term value for the environment and society.<sup>12</sup>

Enping), and Zhaoqing (excl. counties); Tier: 4 RMB 772 (approximately EUR 97) for regional towns such as Shantou and Shaoguan; and Tier 5: RMB 532 (approximately EUR 67) rural areas.

<sup>11</sup> Defined as existing old residential, commercial, industrial or other dilapidated areas that have been identified by the relevant government authority as being in need of redevelopment and renewal due to: (i) lack of quality basic infrastructure, (ii) poor environmental circumstances or presence of major safety hazards, (iii) ineffective land, resource or energy use that do not meet the minimum requirements for socio-economic development and hamper the implementation of city planning, or (iv) requirements of the law.

<sup>12</sup> Kaisa Group, “Annual Report 2019”, (2020), at: <https://www.kaisagroup.com/UpFiles/2020-04/202004291934031000050.pdf>

With regards to the environmental pillar, the Company is focused on low-carbon infrastructure development and minimizing the impact of its operations.<sup>12</sup> Kaisa highlights three key environmental initiatives: (i) emissions reduction, (ii) efficient use of resources, and (iii) green construction promotion. Kaisa acts on these initiatives by integrating sustainable building design, eco-friendly construction materials, energy and water saving measures, afforestation, waste sorting and recycling, standardized construction facilities and materials to increase reuse to its real estate development.<sup>12</sup> As a result, in 2019, the Group obtained its first green construction design certificates for five properties under its management.<sup>12</sup> The certified green construction area totalled approximately 977,208 m<sup>2</sup>.<sup>12</sup> These efforts could be further supported by several projects eligible under the Framework, including energy efficiency upgrades and refurbishments, solar installations and green building certification. Sustainalytics notes the direct contribution of these investments to Kaisa's overall sustainability strategy. While Sustainalytics acknowledges Kaisa's contribution to promoting green buildings, it also notes that the Company has not established quantitative time-bound targets for green buildings and encourages Kaisa to set targets to further strengthen its commitment to sustainability.

Kaisa's real estate development activities also focus on social initiatives, where the Company integrates various public service facilities such as education, healthcare, culture and sports facilities into its development projects.<sup>12</sup> These initiatives will be further enhanced by the projects funded under the Framework that target the provision of affordable housing and basic services to underserved communities.

Finally, Kaisa has various internal and staff initiatives that strengthen its environmental strategy.<sup>13</sup> These target the efficient design of ventilation and natural light facilities, increased staff awareness of resource consumption, coupled with smart-lighting and rainwater collection and reuse, which aim at reducing the use of energy and water in the Company's installations.

Based on the above, Sustainalytics is of the opinion that the Kaisa Group Holdings Limited Sustainable Finance Framework is aligned with the Company's sustainability strategy and will contribute to advancing the Group's environmental initiatives. Sustainalytics recognizes the importance of the above-mentioned commitments by Kaisa and its management as important contributors to the Group's sustainability performance and encourages the Group to develop publicly available policies and time-bound targets to further strengthen its sustainability practices.

While the eligible categories are recognized as impactful by the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, Social Bond Principles 2020 and Green Loan Principles 2020 Sustainalytics recognizes that the eligible projects may lead to potential negative environmental and social risks such as occupational health and safety, community relations, land-use changes, biodiversity loss, and waste generated in construction. Sustainalytics highlights the following measures that Kaisa has taken to mitigate these risks:

- The early stage of construction projects requires a comprehensive examination for environmental impact, ecology conservation, including soil and water conservation, and monitoring plans for the areas to be developed. This is carried out by a specialized firm.<sup>12</sup>
- Kaisa's construction projects incorporate the following measures to minimise negative effects on neighbouring communities of development sites: (i) roads and ventilation designing with noise reduction, and dustproof lights, (ii) soil cover, excavation by stages, and water sprinkling to reduce dust pollution, (iii) noise reduction walls, soundproofing, and low noise instruments and technologies, (iv) vibration reduction mats and seismic isolation ditches, and (v) integrating, coordinating and arranging the transportation of materials during non-peak traffic hours.<sup>12</sup>
- The Group developed internal policies to minimise the impact of its operations on the environment and reduce energy consumption and waste generation, these are: (i) Kaisa Group Office Environment and Security Management System, and (ii) Guidance on Kaisa Group Office Supplies Management.<sup>12</sup>
- Kaisa Group has the following internal policies to prevent and eliminate safety incidents: (i) Measures for Supervision and Administration on Safety Production, (ii) Measures on Safety Management of Properties Projects, and (iii) Catalogue on Safe and Civilized Construction on Properties Projects, as well as organize trainings for staff on safety knowledge and various drills of contingency plans on a regular basis.<sup>12</sup>
- Kaisa has instituted a Stakeholder Policy, which details the communication channels and action plans to address issues and concerns of each stakeholder group. The Policy helps Kaisa to understand, consider and respond to the various needs and concerns arising from daily operations and decision making.<sup>12</sup>

<sup>13</sup> Guidelines on Design of a System of Electricity Consumption and Energy Efficiency for Energy Conservation for Investment Properties of Kaisa Group Holdings



- Kaisa Group complies with the following laws and regulations of China: (i) Environmental Protection Law, (ii) Energy Conservation Law, (iii) Air Pollution Law, (iv) Law on the Prevention and Control of Solid Waste Pollution, (v) Law on the Prevention and Control of Water Pollution.<sup>12</sup>
- With regards to worker health, safety and sanitation, Kaisa Group complies with the following laws and regulations of China: (i) Production Safety Law, (ii) Industrial Injury Insurance Regulations, and (iii) Labour Law.<sup>12</sup>

Based on the above-mentioned policies, standards and assessments, Sustainalytics is of the opinion that Kaisa has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories. Sustainalytics encourages the Company to further integrate community consultation processes in the design and construction phase of all large infrastructure projects.

All eight use of proceeds categories are aligned with those recognized by the SBG and GLP. Sustainalytics has focused on three where the impact is specifically relevant in the local context.

China faces several challenges in its energy sector, arising from growing demand for energy, inefficient use of energy,<sup>14</sup> and rapid urbanization.<sup>15</sup> Energy efficiency in buildings is of crucial importance to the sustainability of China's because energy consumption in buildings accounted for 20% of the country's total energy use,<sup>15</sup> and around 20% of energy-related CO<sub>2</sub> emissions in 2016.<sup>16</sup> The government of China has outlined energy efficiency standards for the new buildings to address its energy efficiency challenges.<sup>15</sup> The government of the People's Republic of China has developed two complementary national policies aiming to promote and regulate green buildings. These are the: (i) 13<sup>th</sup> Five Year Plan for Building Energy Efficiency and Green Building Development, and the (ii) Strategic Action Plan for Energy Development (2014-2020). These policies aim for 50% of all new urban buildings to be certified green buildings,<sup>17</sup> and at accelerating green building construction and renovation of existing buildings, and promote green lighting, respectively.<sup>14</sup> Furthermore, the National Development and Reform Commission<sup>18</sup> published the 13<sup>th</sup> Five Year Plan for Energy Development (2016-2020) aimed at advancing energy efficiency and energy consumption management, to achieve reductions in energy consumption per unit of GDP by 15% compared to 2015.<sup>14</sup>

As a result, in 2015, all new buildings in urban areas complied with energy efficiency design standards and energy efficient buildings<sup>19</sup> accounted for more than 40% of total urban residential building area.<sup>15</sup> According to the International Energy Agency, China has made significant energy efficiency improvements across its economy, without which, China would have used 12% more energy in 2017.<sup>20</sup> Energy efficiency in residential buildings in particular have resulted in savings of 2.1 EJ in the period 2000-2017, and China is expected to be able to avoid 4.5 EJ of energy use by 2040 if it maximizes available cost-effective efficiency potential.<sup>20</sup>

Given the above, Sustainalytics considers that Kaisa's projects to build, renovate or refurbish green buildings, and adopt energy efficiency improvements can contribute to energy efficiency goals while leading significant environmental benefits in China.

<sup>14</sup> Energy Charter Secretariat, "China Energy Efficiency Report", (2018), at: [https://energycharter.org/fileadmin/DocumentsMedia/EERR/EER-China\\_ENG.pdf](https://energycharter.org/fileadmin/DocumentsMedia/EERR/EER-China_ENG.pdf)

<sup>15</sup> CCEEE, "Energy Efficiency in China 2018", (2019), at:

<http://www.cceee.org.cn/Site/cceee/Uploads/20190121/0946/Energy%20Efficiency%20China%202018%20final%20web.pdf>

<sup>16</sup> BEREC, "China Building Energy Use 2018", at: <https://berc.bestchina.org/?ky/Article250/92.html>

<sup>17</sup> WEF, "China's clean, green buildings of the future", (2017), at: <https://www.weforum.org/agenda/2017/06/china-clean-green-buildings-future/>

<sup>18</sup> The National Development and Reform Commission formulates and organises the implementation of national economic and social development strategies, medium and long-term plans, as well as annual plans to comprehensively coordinate economic and social development.

<sup>19</sup> Defined by the Ministry of Housing and Rural Development

<sup>20</sup> IEA, "Energy efficiency in China", (2018), at: <https://www.iea.org/articles/energy-efficiency-in-china>

Annual economic losses due to floods were equivalent to 1% to 3% of China's GDP in the decades from 1990 to 2010.<sup>21</sup> The Greater Pearl River Delta (GPRD),<sup>22</sup> a populated area that contributes to 12.5% of China's GDP<sup>23</sup> is particularly vulnerable to flooding.<sup>24</sup> Moreover, main economic and population hubs Hong Kong, Shenzhen, and Guangzhou are highly exposed to flooding events, particularly water logging, stemming from rapid urbanization and real estate development without proper water management<sup>25</sup> and increased climate change exposure.<sup>26</sup> Guangzhou and Shenzhen developed local adaptation plans to respond to these challenges, the Sponge City plans.<sup>27,28</sup> The Sponge City plans are a set of actions to minimize the impact of city development and the built environment on the natural environment and to manage water sustainably for the future, ultimately rendering Chinese cities more resilient to major pluvial floods.<sup>27,28</sup>

Sustainalytics believes that Kaisa's investments in climate change adaptation and sustainable water management will contribute to achieving the local governments' goals to reduce flooding risks and provide significant environmental benefits.

Starting in the 1980s, China has enacted a series of housing reforms aimed at liberalizing the housing market.<sup>29</sup> These reforms changed the landscape of the country's housing sector as the central government transitioned from a supplier of housing units to a regulator of a private market.<sup>30</sup> For example, at the end of the 1980s, around 82% of permanent urban residents (i.e. non-migrant workers) lived in public-owned housing.<sup>29</sup> By 2011, private ownership had taken a more prominent role with home ownership rates for permanent urban population among the highest in the world (89%).<sup>31</sup> However, affordability of housing became an issue for low and moderate income households<sup>29</sup> as property prices in cities have quadrupled since 2000.<sup>32</sup> The rapid increase in house prices has made home ownership particularly unaffordable for young and migrant workers.<sup>31</sup> As a response, by 2019 over 200 million people in China (approximately 14% of the population) were renting their homes,<sup>33</sup> and the rental market is expected to expand significantly by 2030.<sup>33</sup>

In this context, the Chinese central government established housing assistance programs to alleviate affordability issues.<sup>34</sup> In 2014, the "Interim Measure for Social Assistance" was released with a nationwide policy for housing assistance, which requires local governments to provide assistance to low income families.<sup>34</sup> In 2018, the Chinese government passed reforms to allow construction of affordable housing on land that had not

<sup>21</sup> Zhnag, Q., et al. (2020), "Assessment of Flood Risk Exposure for the Foshan-Zhongshan Region in Guangdong Province, China", *Water*, at: <https://www.mdpi.com/2073-4441/12/4/1159>

<sup>22</sup> Nine Pearl River Delta (PRD) cities in Guangdong Province: Guangzhou, Shenzhen, Dongguan, Huizhou, Foshan, Zhongshan, Zhuhai, Jiangmen, and Zhaoqing, as well as two Special Administrative Regions: Hong Kong and Macau

<sup>23</sup> CBRE, "Greater Pearl River Delta Infrastructure Outlook. APAC Major Report", (2016), at: <https://www.cbre.com/research-and-reports/greater-pearl-river-delta-infrastructure-outlook>

<sup>24</sup> Ynag, L., et al. (2014), "Climate-related flood risks and urban responses in the Pearl River Delta, China", *Regional Environmental Change*, at: <https://link.springer.com/article/10.1007/s10113-014-0651-7>

<sup>25</sup> IIAS, "Tackling the growing flood risk in the Pearl River Delta: urban climate change adaptation with Chinese characteristics?", (2017), at: <https://www.iias.asia/event/tackling-growing-flood-risk-pearl-river-delta>

<sup>26</sup> Dabrowski, M., et al. (2016), "Challenges of adaptation to the increasing flood risk in cities: lessons from the Pearl River Delta," *Adaptation Futures* 2016. TU Delft, at: <https://pure.tudelft.nl/portal/files/6296866/5765543.pdf>

<sup>27</sup> Meng, M., et al. (2019), "Collaborative spatial planning in the face of flood risk in delta cities: A policy framing perspective," *Environmental Science & Policy*, at: <https://www.sciencedirect.com/science/article/pii/S1462901118302764?via%3Dihub#sec0010>

<sup>28</sup> IWA, "Shenzhen. A Fresh Metropolis. The booming Chinese city will follow the sponge city approach", at: <https://iwa-network.org/city/shenzhen/>

<sup>29</sup> Zou, Y. (2014), "Contradictions in China's affordable housing policy: Goals vs. structure," *Habitat International*, at: <https://www.sciencedirect.com/science/article/pii/S0197397513000532>

<sup>30</sup> ADBI, "The Housing Challenge in Emerging Asia. Options and Solutions", (2016), at: <https://www.adb.org/sites/default/files/publication/190060/adbi-housing-challenge-emerging-asia-options-solutions.pdf>

<sup>31</sup> Shi, W., et al (2016), "Affordable housing policy in China: New developments and new challenges," *Habitat International*, at: <https://www.sciencedirect.com/science/article/pii/S0197397515302101>

<sup>32</sup> *The Economist*, "China is trying new ways of skimming housing-market froth", (2018), at: <https://www.economist.com/china/2018/02/15/china-is-trying-new-ways-of-skimming-housing-market-froth>

<sup>33</sup> *Forbes*, "China Now Has An Answer To Its Housing Crisis - It's Called Rent", (2019), at: <https://www.forbes.com/sites/wadeshepard/2019/10/29/china-now-has-an-answer-to-its-housing-crisisits-called-rent/>

<sup>34</sup> Lixiong, Y. (2018), "The Social Assistance Reform in China: Towards a Fair and Inclusive Social Safety Net," *Addressing Inequalities and Challenges to Social Inclusion through Fiscal, Wage and Social Protection Policies*, at: <https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2018/06/The-Social-Assistance-Reform-in-China.pdf>



been classified for residential development.<sup>35</sup> The reforms are aimed at solving a shortage of buildable plots, and in turn help balance the housing demand and land supply imbalance.<sup>35</sup>

Given the above, Sustainalytics considers that Kaisa's projects to finance the construction and refurbishment/maintenance of low-cost housing in residential developments can contribute to ensuring affordability and access to housing to lower and moderate-income families in China.

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Green Buildings	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Energy Efficiency	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Pollution Prevention and Control	3. Good health and well-health	3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination
	6. Clean water and sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
	12. Responsible consumption and production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Sustainable Water and Wastewater Management	6. Clean water and sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Climate Change Adaptation	15. Life on land	15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world
Renewable Energy	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean Transportation	11. Sustainable cities and communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in

<sup>35</sup> SCMP, "China plans to streamline process for building affordable homes as part of efforts to ease property prices", (2018), at: <https://www.scmp.com/property/hong-kong-china/article/2130026/china-plans-streamline-process-building-affordable-homes>

		vulnerable situations, women, children, persons with disabilities and older persons
Affordable Housing	11. Sustainable cities and communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Affordable Basic Infrastructure and Essential Services	11. Sustainable cities and communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums  11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities

Kaisa has developed the Kaisa Group Holdings Limited Sustainable Finance Framework under which it intends to issue sustainability bonds and the use of proceeds to finance green residential and commercial buildings, energy efficiency, pollution prevention and control, sustainable water and wastewater management, climate change adaptation, renewable energy projects, clean transportation, affordable housing and basic infrastructure and access to essential services. Sustainalytics considers that the project(s) funded by the sustainability bond proceeds will provide positive environmental impact.

The Kaisa Group Holdings Limited Sustainable Finance Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Kaisa Group Holdings Limited Sustainable Finance Framework is aligned with the overall sustainability strategy of the Company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 6, 7, 9, 11, 12 and 15. Additionally, Sustainalytics is of the opinion that Kaisa has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Kaisa Group Holdings Limited is well-positioned to issue sustainability bonds and that the Kaisa Group Holdings Limited Sustainable Finance Framework is robust, transparent, and in alignment with the four core components of the ICMA Green Bond Principles 2018, ICMA Social Bond Principles 2018, ICMA Sustainability Bond Guidelines 2018 and LMA Green Loan Principles 2020.

	<p>Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.</p>	<p>The Chinese 3-Star Green Building Standard is a Certification System used in China for residential and public buildings (including commercial, hotel and government-owned) that was introduced in 2006 by MOHURD (Ministry of Housing and Urban-Rural Development).</p>	<p>BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.</p>	<p>BEAM Society Limited (BSL) developed the Hong Kong Building Environmental Assessment Method ("HK-BEAM"), a green building assessment tool established in 1996 with the issue of two assessment methods, one for 'new' and one for 'existing' office buildings, largely based on the UK Building Research Establishments' BREEAM. The HK-BEAM aims to promote buildings that are more sustainable through enhanced design, construction, commissioning, management, operation and maintenance practices.</p>
	<p>Certified Silver Gold Platinum</p>	<p>1-Star 2-Star 3-Star</p>	<p>Pass Good Very Good Excellent Outstanding</p>	<p>Bronze Silver Gold Platinum</p>
	<ul style="list-style-type: none"> <li>• Energy and atmosphere</li> <li>• Sustainable Sites</li> <li>• Location and Transportation</li> <li>• Materials and resources</li> <li>• Water efficiency</li> <li>• Indoor environmental quality</li> <li>• Innovation in Design</li> <li>• Regional Priority</li> </ul>	<ul style="list-style-type: none"> <li>• Land savings and outdoor environment;</li> <li>• Energy savings and utilisation;</li> <li>• Water savings and utilisation;</li> <li>• Material savings and utilisation;</li> <li>• Indoor environment;</li> <li>• Operations and management</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Land Use and Ecology</li> <li>• Pollution</li> <li>• Transport</li> <li>• Materials</li> <li>• Water</li> <li>• Waste</li> <li>• Health and Wellbeing</li> <li>• Innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Site Aspects (location, planning and design, emissions from the site)</li> <li>• Materials Aspects (efficient use of materials, selection of materials, waste materials)</li> <li>• Energy Use (annual energy use, energy efficient systems, energy efficient equipment, facilities for energy, management)</li> <li>• Water Use (water quality, water</li> </ul>

				<p>conservation, effluent)</p> <ul style="list-style-type: none"> <li>Indoor Environmental Quality (safety, hygiene, indoor air quality, ventilation, thermal comfort, lighting quality, acoustics and noise, building amenities)</li> <li>Innovations and Additions</li> </ul>
	<p>Prerequisites (independent of level of certification) + Credits with associated points</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>Prerequisites:</p> <p>The system functions on a checklist basis, with 1-Star buildings meeting 26 criteria, 2-Star with an additional 43 items and 3-Star on a further 14 items. Criteria and weighting differ for public and residential buildings, more weight is given to energy and material savings, while the standard for residential buildings places greater importance on urban land saving and outdoor environments.</p>	<p>Prerequisites depending on the levels of certification + Credits with associated points</p> <p>This number of points is then weighted by item and gives a BREEAM level of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>HK BEAM is a credit-based system where the overall weighting is given by the relative number of credits given for the compliance with sub-criteria derived from the above-mentioned areas of assessment.</p> <p>For some of the environmental aspects detailed in HK-BEAM, compliance with legal requirements is taken as a prerequisite for the award of credits. Consequently, when an assessed issue becomes subject to legislation, it will no longer count for an award of credits, and would be amended or deleted in any future revisions of HK-BEAM.</p> <p>The Overall Assessment Grade is based on the percentage of applicable credits gained. The award classifications are:</p> <p>Platinum 75% - Excellent          Gold 65% - Very Good          Silver 55% - Good          Bronze 40% - Above Average</p>

Kaisa Group Holdings Limited
Kaisa Group Holdings Limited Sustainable Finance Framework
Sustainalytics
July 16, 2020

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBG:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Use of Proceeds                             | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds                      | <input checked="" type="checkbox"/> Reporting                                    |
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification   |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating  |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

Please refer to Evaluation Summary above.

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

Overall comment on section (if applicable):

The eligible categories in the framework: (i) Green Buildings, (ii) Energy Efficiency, (iii) Pollution Prevention and Control, (iv) Sustainable Water and Wastewater Management, (v) Climate Change Adaptation, (vi) Renewable Energy, (vii) Clean Transportation, (viii) Affordable Housing, and (ix) Affordable Basic Infrastructure and Essential Services are aligned with those recognized by the SBG, GBP, SBP and GLP and Sustainalytics believes that Kaisa's investment in these areas may improve resource efficiency, promote energy savings and access to basic services and housing.

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy   | <input checked="" type="checkbox"/> Energy efficiency  |
| <input checked="" type="checkbox"/> Pollution prevention and control   | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation   |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management  | <input checked="" type="checkbox"/> Climate change adaptation  |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input checked="" type="checkbox"/> Green buildings  |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Affordable basic infrastructure   | <input checked="" type="checkbox"/> Access to essential services                        |
| <input checked="" type="checkbox"/> Affordable housing  | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input type="checkbox"/> Socioeconomic advancement and empowerment                      |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):  |

If applicable please specify the social taxonomy, if other than SBP:

Overall comment on section (if applicable):

Kaisa Group Holdings Limited's internal process for evaluating and selecting projects is led by the Group's Sustainable Finance Working Group, comprised of representatives from the Property Management, Sustainability, Finance and Treasury departments. Project eligibility is determined according to the criteria



defined in the Framework. Shortlisted projects identified by the Property Management Department are then presented to the broader Working Group for approval. Sustainalytics considers the project selection process in line with market practice

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives                     | <input type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                           | <input type="checkbox"/> Other ( <i>please specify</i> ):  |
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification              | <input type="checkbox"/> In-house assessment   |
| <input type="checkbox"/> Other ( <i>please specify</i> ):   |  |

Overall comment on section (*if applicable*):

Kaisa Group's Sustainable Finance Working Group is responsible for the management of proceeds using a portfolio approach. Kaisa will maintain a register to track of the use of proceeds for each eligible project. Pending allocation proceeds will be temporarily deposited into Kaisa's General Funding Account in accordance with the Group's liquidity guidelines for short term deposits or investments. This is in line with market practice.

- |  |  |
|--|--|
| <input type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |  |
| <input type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |  |
| <input type="checkbox"/> Other ( <i>please specify</i> ):  |  |
| <input type="checkbox"/> Allocations to future investments only  | <input type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements  | <input type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds                                   | <input type="checkbox"/> Other ( <i>please specify</i> ):                    |

Overall comment on section (if applicable):

Kaisa Group Holdings Limited intends to report on the allocation of proceeds in the Group's Annual Report, ESG or Sustainability report, or on its website on an annual basis until full allocation, including details of outstanding SFT and balance of unallocated proceeds. In addition, where feasible, Kaisa is committed to reporting on relevant green and social impact metrics. Sustainalytics views Kaisa's allocation and impact reporting as aligned with market practice.

Project-by-project  On a project portfolio basis

Linkage to individual bond(s)  Other (please specify):

Allocated amounts  Sustainability Bond financed share of total investment

Other (please specify):

Annual  Semi-annual

Other (please specify):

Project-by-project  On a project portfolio basis

Linkage to individual bond(s)  Other (please specify):

GHG Emissions / Savings  Energy Savings  
 Decrease in water use  Other ESG indicators (please specify):

Annual  Semi-annual

Other (please specify):

Information published in financial report  Information published in sustainability report

Information published in ad hoc documents  Other (please specify):

Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

(e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

- i. Second Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Sustainability Bond Guidelines. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental impact or alignment of reporting with the SBG, may also be termed verification.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the SBG, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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