

Second-Party Opinion

Kyotherm Green Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Kyotherm Green Bond Framework aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories, Renewable Energy and Energy Efficiency, are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 7.



PROJECT EVALUATION / SELECTION Kyotherm's internal process in evaluating and selecting projects is managed by the Sustainability Committee (the "Committee"). The Committee will review and select projects based on their alignment with Framework eligibility criteria. Projects will be monitored to ensure eligibility. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Kyotherm's processes for management of proceeds is handled by the CFO. Net proceeds will be tracked internally to ensure traceability and will be allocated to eligible projects on a portfolio basis. The allocation timeframe is at 36 months after issuance. Pending full allocation, unallocated proceeds will be held temporarily in the treasury account. This is in line with market practice.



REPORTING Kyotherm intends to report on allocation of proceeds to investors on its website, on an annual basis, until full maturity of the bonds. Reporting will include a list of eligible projects, including a description of the project, the total amount of allocated proceeds, share of financing vs refinancing and total unallocated amounts, if any. In addition, Kyotherm is committed to reporting on relevant impact metrics. Sustainalytics views Kyotherm's allocation and impact reporting as aligned with market practice.

Evaluation date June 30, 2020

Issuer Location Paris, France

Report Sections

| | |
|------------------------------|---|
| Introduction..... | 2 |
| Sustainalytics' Opinion..... | 3 |
| Appendices | 7 |

For inquiries, contact the Sustainable Finance Solutions project team:

Evan Bruner (Amsterdam)

Project Manager
evan.bruner@sustainalytics.com
(+31) 20 205 0027

Charles Cassaz (Amsterdam)

Project Support
charles.cassaz@sustainalytics.com
(+31) 20 205 02 09

Jean-Claude Berthelot (Amsterdam)

Client Relations
susfinance.emea@sustainalytics.com
(+44) 20 3880 0193

Introduction

Headquartered in Paris, France, Kyotherm S.A.S. (“Kyotherm” or the “Company”) is an investment company dedicated to renewable heat and energy efficiency projects. The Company provides third-party financing for geothermal, biomass & biogas, solar thermal, heat recovery, energy efficiency and cogeneration projects.

Kyotherm has developed the Kyotherm Green Bond Framework (the “Framework”) under which it intends to issue a green bond and use the proceeds to finance and refinance, in whole or in part, existing and future projects providing low-carbon heat generation & distribution and energy efficiency solutions.

The Framework defines eligibility criteria in two areas:

1. Renewable Energy
2. Energy Efficiency

Kyotherm engaged Sustainalytics to review the Kyotherm Green Bond Framework, dated June 2020, and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP).¹ This Framework will be published in a separate document.²

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics independent³ 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 ICMA Green Bond Principles 2018;
- 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.

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 Kyotherm’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. Kyotherm representatives have confirmed (1) they understand it is the sole responsibility of Kyotherm 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 Kyotherm.

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.

¹ 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/>.

² The Kyotherm Green Bond Framework will be available on Kyotherm’s website at: <https://www.kyotherm.com/fr/investisseurs/>

³ 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.

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 Kyotherm has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Kyotherm Green Bond Framework

Sustainalytics is of the opinion that the Kyotherm Green Bond Framework aligns with the four core components of the GBP. Sustainalytics highlights the following elements of Kyotherm's Green Bond Framework:

- Use of Proceeds:
 - The eligible categories, Renewable Energy and Energy Efficiency, are aligned with those recognized by the GBP. Projects will take place in the EU⁴ and the UK and will contribute to improvements in the heating sector by increasing the share of renewable generation and reducing heat losses through more efficient infrastructure. Sustainalytics positively views the expansion of renewable energy generation as an important step in facilitating the transition to a low-carbon economy.
 - The Renewable Energy category may include financing of heat generation facilities that use solar thermal, biomass and geothermal as primary energy source. Regarding solar thermal, Kyotherm has indicated to Sustainalytics that these facilities produce heat that is primarily generated from solar energy and relies only on limited fossil fuel backup. Regarding biomass, the Company has indicated to Sustainalytics that in order to qualify for the Renewable Heat Incentive (RHI) program, UK feedstocks must comply with the requirements of the Biomass Suppliers List (BSL)⁵, which requires biomass electricity generation to have a life-cycle emissions intensity of <125.3gCO₂/kWh. BSL also requires that feedstocks must come from land that is responsibly managed, has not been clear-cut or turned into a plantation for the production of biomass. Sustainalytics considers 100gCO₂/kWh to be the market practice emissions threshold for biomass, nonetheless, the threshold by the issuer represents a substantial reduction of CO₂ when compared to natural gas or combustion. Concerning biomass supply, Sustainalytics notes that Kyotherm commits to sourcing certified biomass (such as Sustainable Biomass Program, Roundtable on Sustainable Biomaterials, ISCC Plus or an equivalent program) or from certified forest, such as Forest Stewardship Council ("FSC") or any equivalent program. For more information concerning feedstock procurement, please refer to Section 2. For more information on the FSC program, please refer to Appendix 1: Certification Scheme for Forestry. Regarding geothermal, Sustainalytics notes that Kyotherm is not able to identify the direct emission factor for new project(s) at this time but is committed to implementing best practices and best-practice technologies. In addition, Kyotherm has provided Sustainalytics with documentation attesting that one of its previous geothermal projects had an average carbon intensity well below 100gCO₂/kWh. Sustainalytics encourages the Issuer to report on the direct emissions of the future projects.
 - As for the Energy Efficiency category, Kyotherm may finance lost heat recovery, as well as energy efficiency performance contracts and heat network distribution for networks that are primarily powered by renewable heat or waste heat from industrial processes.
- Project Evaluation and Selection:
 - Kyotherm's internal process in evaluating and selecting projects is managed by the Sustainability Committee (the "Committee"), comprised of the CEO and two members of the

⁴ As of May 2020, contracted projects are located in France, Germany, the Netherlands, the UK and Morocco.

⁵ UK Gov., "Biomass Suppliers List: Documents and guidance", at: <https://biomass-suppliers-list.service.gov.uk/documents-and-guidance>

Kyotherm Green Bond Framework

Investment Team. The Committee will review and validate the selection of project, monitoring the project portfolio and oversight of the allocation process. Investments aligned with the use of proceeds criteria outlined in the Framework may be include in the Eligible Projects Portfolio. In addition, project will be selected based on compliance national, European and international environmental and social standards. Based on these elements, Sustainalytics considers this process to be in line with market practice.

- **Management of Proceeds:**
 - Kyotherm’s processes for management of proceeds is handled by the CFO. Net proceeds will be allocated to the eligible projects on a portfolio basis, through intercompany loans and equity injections, or any other available funding forms. Proceeds will be tracked and monitored through internal systems established by the Treasury team to ensure traceability. The allocation timeframe is at 36 months after issuance. Pending full allocation, proceeds will be held temporarily in the treasury account. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
 - Kyotherm intends to report on allocation of proceeds to investors, on an annual basis, until full maturity of the bonds. Reporting will include a list of eligible projects, including a description of the project, allocated and unallocated amount, if any. In addition, Kyotherm is committed to reporting on relevant impact metrics, including the installed capacity financed in MW, the corresponding annual GHG emissions avoided in tons of CO₂ equivalent and the annual renewable energy production in MWh. Based on these elements, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2018

Sustainalytics has determined that the Kyotherm Green Bond Framework aligns to the four core components of the GBP 2018. For detailed information please refer to Appendix 2: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Strategy of Kyotherm

Contribution of Framework to Kyotherm’s sustainability strategy

Kyotherm considers clean energy as the core of its corporate strategy and the Company’s business model is focused on providing energy efficient solutions and low-carbon heating generation. As of May 2020, Kyotherm’s portfolio of projects comprised of 37% geothermal projects, 24% energy efficiency projects, 24% biomass and 15% solar thermal projects. The Company’s portfolio includes 75 sites, generates 200 GWh/year of low-carbon energy and is estimated to avoid 88,000 tons of CO₂eq over the projects’ lifetime. The Corporate Social Responsibility (“CSR”) of Kyotherm is based on climate and low-carbon solutions, as well as human development. For the climate and low-carbon solutions, Kyotherm is identifying projects and technologies having major impact on the reduction of CO₂ emissions and is committed to measure and reduce GHG emissions. Sustainalytics considers that the projects financed within the Framework fall within this scope and could therefore support the Company in its CSR strategy.

Sustainalytics is of the opinion that the Kyotherm Green Bond Framework is aligned with the Company’s overall environmental agenda and initiatives and will contribute to further reducing the Company’s overall environmental footprint. However, Sustainalytics notes that the Company has not yet disclosed a publicly available sustainability strategy or released any quantitative, time-bound targets, which is encouraged.

Well positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the net proceeds from the bonds issued under the Framework will be directed towards eligible projects that are recognized by the GBP to have positive environmental impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. While Kyotherm does not carry the development, construction or operation of the assets financed directly, the financings could include risks related to indirect land use change (“ILUC”) and worker health and safety. Construction and operation are performed by counterpart through long-term contracts with Kyotherm subsidiaries, in compliance with the EU legislation.

Sustainalytics is of the opinion that the above-mentioned risks can be managed by Kyotherm and/or addressed by the relevant legislation and regulation, as followed:

Kyotherm Green Bond Framework

- The biomass assets of Kyotherm are located in the UK and benefit from the Renewable Heat Incentive (“RHI”) scheme.⁶ The scheme requires participants to comply with the Office of Gas and Electricity Market (“OFGEM”) sustainability criteria for biomass. The sustainability criteria include a land criterion and a GHG emissions criteria, the latter setting an emission limit of 34.8gCO₂ per MJ of biomass heat generated.⁷
- In the event of future biomass projects located outside the UK, Sustainalytics notes that the EU sustainability criteria for biofuels offers guarantees for land use risks.⁸ According to the criteria, ILUC “can occur when pasture or agricultural land previously destined for food and feed markets is diverted to biofuel production,” causing land use change and the release of GHG emissions “that negates emission savings from the use of biofuels instead of fossil fuels.”⁸ In order to mitigate these negative impacts, the revised version of the Renewable Energy Directive has introduced two new criteria.⁹ For example, risks are mitigated by the limits imposed for high ILUC-risk biofuels produced from food or feed crops with a significant expansion into land with high carbon stock.⁹
- The EU Directive on Safety and Health at Work provides a strong framework to ensure worker and health and safety is protected in the EU Member States.¹⁰ Employers must take the measures necessary for the safety and health protection of workers, including prevention of occupational risks and provision of information and training.¹⁰ Countries where Kyotherm operates have implemented the Directive in their national legislation, ensuring worker health and safety.¹¹

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Kyotherm has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All two use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused on the below where the impact is specifically relevant in the local context.

Increasing the Share of Renewables in Heating Generation in the EU

In the EU, heating needs vary according to the climate profile of each country.¹² Climate profiles can influence the needs for heating during cold seasons, which triggers higher energy consumption and GHG emissions.¹² Nevertheless, heating and cooling is responsible for half of the EU’s gross energy consumption.¹³ In 2017, fossil fuels and renewables, including biomass, accounted for 67.8% and 26.5% of the gross heat production in the EU-28, respectively.¹⁴ The same year, natural gas alone represented 39.2% of the gross heat production.¹⁴ Between 2000 and 2017, heat produced from renewable sources increased by 240.3%, while natural gas-based generation increased by 12.8%.¹⁴

The EU has set a binding target of 32% of renewables of gross final energy consumption from renewable sources by 2030.¹⁵ Sustainalytics notes that the low-carbon heating generation projects could increase the

⁶ OFGEM, “About the Domestic RHI”, at: <https://www.ofgem.gov.uk/environmental-programmes/domestic-rhi/about-domestic-rhi>

⁷ OFGEM, “Biomass sustainability”, at: <https://www.ofgem.gov.uk/environmental-programmes/ro/applicants/biomass-sustainability>

⁸ European Commission, “Sustainability criteria for biofuels specified”, (2019), at:

https://ec.europa.eu/commission/presscorner/detail/en/MEMO_19_1656

⁹ (i) The Directive sets national limits of 1 percentage point higher than the 2020 national share of these fuels in final consumption of energy in rail and road transport in each Member State (with a maximum of 7%) and (ii) “national limits at Member States’ 2019 level for the period 2021-2023, which, after the 31st of December 2023, will gradually decrease to zero by 2030 at the latest, for high ILUC-risk biofuels, bioliquids and biomass fuels produced from food or feed crops with a significant expansion into land with high carbon stock (“high ILUC-risk fuels”).”

European Commission, “Sustainability criteria for biofuels specified”, (2019), at:

https://ec.europa.eu/commission/presscorner/detail/en/MEMO_19_1656

¹⁰ Official Journal of the European Communities, “Council Directive of 12 June 1989 on the introduction of measures to encourage improvements in the safety and health of workers at work”, (1989), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31989L0391&from=EN>

¹¹ European Commission, “Evaluation of the practical implementation of the EU occupational safety and health (OSH) directives in EU Member States”, (2015), at: <https://ec.europa.eu/social/BlobServlet?docId=16895&langId=en>

¹² UNFCCC, “7th National Communication & 3rd Biennial Report from the European Union under the UN Framework Convention on Climate Change (UNFCCC)”, (2017), at: https://unfccc.int/sites/default/files/resource/459381_European%20Union-NC7-BR3-1-NC7%20BR3%20combined%20version.pdf

¹³ European Commission, “Heating and cooling”, (2020), at: [https://ec.europa.eu/energy/topics/energy-efficiency/heating-and-cooling_en#:~:text=Heating%20and%20cooling%20in%20buildings,of%20the%20EU's%20energy%20consumption.&text=In%20industry%2C%2070.6%25%20of%20energy,\(7.2%20Mtoe\)%20for%20cooling.](https://ec.europa.eu/energy/topics/energy-efficiency/heating-and-cooling_en#:~:text=Heating%20and%20cooling%20in%20buildings,of%20the%20EU's%20energy%20consumption.&text=In%20industry%2C%2070.6%25%20of%20energy,(7.2%20Mtoe)%20for%20cooling.)

¹⁴ European Commission, “Electricity and heat statistics”, (2019), at: <https://ec.europa.eu/eurostat/statistics-explained/pdfscache/34226.pdf>

¹⁵ European Commission, “2030 climate & energy framework”, at: https://ec.europa.eu/clima/policies/strategies/2030_en

share of renewable energy sources in gross heat production and their subsequent share in final energy consumption. As such, the financings of heat generation facilities that use solar, biomass and geothermal as the primary energy source could assist the EU in meeting the aforementioned target.

Sustainalytics is of the opinion that the renewable heat generation projects are impactful and could contribute to increase the share of renewables in final energy consumption, contributing to the EU target for renewables.

Case Study: Benefits of Heat Recovery in France

In 2018, Kyotherm financed a waste heat recovery project similar to the ones that may be financed through the Framework, highlighting the Company track-record in heat recovery. The project recovers waste heat from the annealing process line of a steel factory plant and connects it to the nearby district heating network located in Chély d'Apcher, France. The project helped recover up to 12 GWh of heat and saves approximately 5,400 tons of CO₂ emissions, annually. In addition, the project is contributing to the French Multi Annual Energy Plan, which acknowledges the opportunity for recovery of energy from waste heat.¹⁶ Furthermore, the Energy Transition for Green Growth Act has set a target of 39.5 TWh of renewable and recovered heating and cooling delivered by the networks by 2030 compared to 2012. Sustainalytics notes that the future heat recovery projects financed within the Framework could further contribute towards achieving this target.¹⁷

Sustainalytics is of the opinion that the waste heat recovery projects are impactful and will contribute to assisting France in meeting its renewable and recovered heat distribution target.

Alignment with/contribution to SDGs

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

| Use of Proceeds Category | SDG | SDG target |
|--------------------------|--------------------------------|--|
| Renewable Energy | 7. Affordable and Clean Energy | 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix |
| Energy Efficiency | | 7.3. By 2030, double the global rate of improvement in energy efficiency |

Conclusion

Kyotherm has developed the Kyotherm Green Bond Framework under which it will issue green bonds and the use of proceeds to finance renewable heat and energy efficiency projects. Sustainalytics considers that the project funded by the green bond proceeds will provide positive environmental impact.

The Kyotherm Green Bond 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 Kyotherm Green Bond 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 7. Additionally, Sustainalytics is of the opinion that Kyotherm 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 Kyotherm is well-positioned to issue green bonds and that the Kyotherm Green Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018.

¹⁶ Ministry of Ecological and Solidarity Transition, "Le projet de PPE pour consultation du public", (2020), at: <https://www.ecologique-solidaire.gouv.fr/programmations-pluriannuelles-lenergie-ppe>

¹⁷ Ministry of Ecological and Solidarity Transition, "Loi de transition énergétique pour la croissance verte", (2015), at: <https://www.ecologique-solidaire.gouv.fr/loi-transition-energetique-croissance-verte>

Appendices

Appendix 1: Certification Scheme for Forestry

| | Forest Stewardship Council (FSC)¹⁸ |
|--------------------------------------|--|
| Background | The Forest Stewardship (FSC) is a non-profit organization established in 1993 that aims to promote sustainable forest management practice by evaluating forest management planning and practices independently against FSC's standards. |
| Basic Principles | <ul style="list-style-type: none"> • Compliance with laws and FSC principles • Tenure and use rights and responsibilities • Indigenous peoples' rights • Community relations and workers' rights • Benefits from the forests • Environmental impact • Management plans • Monitoring and assessment • Special sites – high conservation value forests (HCVF) • Plantations |
| Types of standards/benchmarks | <ul style="list-style-type: none"> • Forest Management certification (for single/multiple applicant(s) – industrial or private forest owners, forest license holders, community forests, and government-managed forests) • Small and Low Intensity Management Forests (SLIMFs) program (for small forests and forests that are managed at low intensity would be eligible) • Chain of Custody (CoC) certification (for supply chain companies' planning, practices and products – all operations that want to produce or make claims related to FSC-certified products must possess this certificate) • Controlled Wood verification (for assurance that 100% virgin fiber mixed with FSC-certified and recycled fiber originates from a verified and approved source) |
| Governance | The General Assembly is comprised of all FSC members and constitutes the highest decision-making body. Members can apply to join one of three chambers – environmental, social, or economic – that are further divided into northern and southern sub-chambers. Each chamber maintains 33.3% of the weight in votes, and votes are weighted so that the North and South hold an equal portion of authority in each chamber, to ensure influence is shared equitably between interest groups and countries with different levels of economic development. |
| Scope | FSC is a global, multi-stakeholder owned system. All FSC standards and policies are set by a consultative process. There is an FSC Global standard and for certain countries FSC National standards. Economic, social, and environmental interests have equal weight in the standard setting process. FSC |

¹⁸ Forest Stewardship Council, FSC Principles and Criteria for Forest Stewardship: https://ca.fsc.org/preview_principles-criteria-v5_a-1112.pdf

| | |
|-----------------------------------|---|
| | follows the ISEAL Code of Good Practice for Setting Social and Environmental Standards. |
| Chain-of-Custody | <ul style="list-style-type: none"> • The Chain-of-Custody (CoC) standard is evaluated by a third-party body that is accredited by FSC and compliant with international standards • CoC standard includes procedures for tracking wood origin • CoC standard includes specifications for the physical separation of certified and non-certified wood, and for the percentage of mixed content (certified and non-certified) of products • CoC certificates state the geographical location of the producer and the standards against which the process was evaluated. Certificates also state the starting and finishing point of the CoC |
| Non-certified wood sources | <p>FSC's Controlled Wood Standard establishes requirements to participants to establish supply-chain control systems, and documentation to avoid sourcing materials from controversial sources, including:</p> <ol style="list-style-type: none"> a. Illegally harvested wood, including wood that is harvested without legal authorization, from protected areas, without payment of appropriate taxes and fees, using fraudulent papers and mechanisms, in violation of CITES requirements, and others, b. Wood harvested in violation of traditional and civil rights, c. Wood harvested in forests where high conservation values are threatened by management activities, d. Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses, e. Wood from management units in which genetically modified trees are planted. |
| Accreditation/verification | <p>FSC-accredited Certification Bodies (CB) conduct an initial assessment, upon successful completion companies are granted a 5-year certificate. Companies must undergo an annual audit and a reassessment audit every 5 years. Certification Bodies undergo annual audits from Accreditation Services International (ASI) to ensure conformance with ISO standard requirements.</p> |
| Qualitative considerations | <p>Sustainalytics views FSC as being robust, credible standard that is based on comprehensive principles and criteria that are aligned with ISO. The scheme has received praise for its contribution to sustainable forest management practices¹⁹ and has also faced criticism from civil society actors.²⁰ In certain instances, this standard goes above and beyond national regulation and is capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standard is similar or equal to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by the scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p> |

¹⁹ FESPA, FSC, PEFC and ISO 38200: <https://www.fespa.com/en/news-media/blog/fsc-pefc-and-iso-38200>

²⁰ Yale Environment 360, Greenwashed Timber: How Sustainable Forest Certification Has Failed: <https://e360.yale.edu/features/greenwashed-timber-how-sustainable-forest-certification-has-failed>

Appendix 2: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

| | |
|---|-------------------------------|
| Issuer name: | Kyotherm |
| Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: | Kyotherm Green Bond Framework |
| Review provider's name: | Sustainalytics |
| Completion date of this form: | |
| Publication date of review publication: | |

Section 2. Review overview

SCOPE OF REVIEW

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 GBPs:

- | | |
|--|--|
| <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 |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd 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.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

| |
|---|
| Please refer to Evaluation Summary above. |
|---|

Section 3. Detailed review

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

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories, Renewable Energy and Energy Efficiency, are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 7.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input 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 type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input 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 (<i>please specify</i>): |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Kyotherm's internal process in evaluating and selecting projects is managed by the Sustainability Committee (the "Committee"). The Committee will review and select projects based on their alignment with Framework eligibility criteria. Projects will be monitored to ensure eligibility. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

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

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
|--|--|

- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Kyotherm's processes for management of proceeds is handled by the CFO. Net proceeds will be tracked internally to ensure traceability and will be allocated to eligible projects on a portfolio basis. The allocation timeframe is at 36 months after issuance. Pending full allocation, unallocated proceeds will be held temporarily in the treasury account. This is in line with market practice.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only Allocations to both existing and future investments
- Allocation to individual disbursements Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Kyotherm intends to report on allocation of proceeds to investors on its website, on an annual basis, until full maturity of the bonds. Reporting will include a list of eligible projects, including a description of the project, the total amount of allocated proceeds, share of financing vs refinancing and total unallocated amounts, if any. In addition, Kyotherm is committed to reporting on relevant impact metrics. Sustainalytics views Kyotherm's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported:

- Allocated amounts Green Bond financed share of total investment

- Other (*please specify*): list and description of eligible projects, share of financing vs. refinancing and total unallocated amount

Frequency:

- Annual Semi-annual
- Other (*please specify*):

Impact reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (*please specify*):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
- Decrease in water use Other ESG indicators (*please specify*): installed capacity in MW, renewable energy generation in MWh

Frequency

- Annual Semi-annual
- Other (*please specify*):

Means of Disclosure

- 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.

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

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
- Verification / Audit Rating
- Other (*please specify*):

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- 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 Green 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 Green Bond Principles. 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 Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green 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. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green 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 GBP, 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.

Disclaimer

Copyright ©2020 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. For over 25 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in the policies, practices and capital projects. With 16 offices globally, Sustainalytics has more than 600 staff members, including over 200 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com.

