°CICERO Shades of Green

Eastnine
Green Finance Framework Second Opinion

September 24, 2020

Eastnine is a Swedish real estate company focusing on commercial real estate, **primarily office buildings, in the Baltic capitals**, with a mission to be a long-term provider of modern and sustainable office properties in prime locations in the Baltic capitals. The company currently owns ten properties, six in Vilnius and four in Riga.

Allocated proceeds will primarily refinance eligible assets in the green buildings, energy efficiency, clean transportation, and renewable energy categories, all specifically oriented towards Eastnine's real estate property portfolio. Eastnine is focusing on reducing emissions by reducing energy consumption and improving efficiency as well as by increasing on-site renewable energy generating capacity. Eastnine is also planning to develop the Baltic's first wooden office building in Riga. Buildings are required to be at the level of 'best practice', as determined by the LEED and BREEAM environmental certifications, in order to be considered for funding. The LEED and BREEAM certifications do not necessarily take into account all climate resilience factors, however all projects will be subject to extensive ESG due diligence, including factors such as life cycle assessments, local sourcing of materials and potential impacts on local communities. For energy efficiency improvements, Eastnine should take into account the relatively high baseline energy demand levels in the Baltic countries, as well as the risk of lock-in effects if efficiency improvements are made to existing fossil fuel-based infrastructure/appliances.

Eastnine has demonstrated a commitment to sustainability and as of 2020, has developed new and ambitious environmental targets. Following Eastnine's initial GRESB Benchmark report for 2019, which highlighted some areas for improvement within various social and governance factors including supply chain and waste management, Eastnine has displayed progress in these areas, by e.g., screening suppliers for ESG risks and conducting ESG due diligence in the selection process. In addition, climate scenario and climate risk assessments have been conducted and will be annually reported on, although these are yet to be fully incorporated into company decision-making. Eastnine conducts both allocation and impact reporting on multiple relevant indicators, following the GRI standards.

Based on the overall assessment of the projects that will be financed under this framework, and governance and transparency considerations, Eastnine's green finance framework receives a **CICERO Dark Green** shading and a governance score of **Excellent**. The dark green shading reflects the highest level of certifications. In order to further improve the framework, Eastnine could work to implement the TCFD recommendations and better incorporate climate scenario and risk analyses into its decision-making processes and corporate strategy.

SHADES OF GREEN

Based on our review, we rate Eastnine's green finance framework **CICERO Dark Green.**

Included in the overall shading is an assessment of the governance structure of the green finance framework. CICERO Shades of Green finds the governance procedures in Eastnine's framework to be **Excellent**.

GREEN BOND/ GREEN LOAN PRINCIPLES

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

°CICERO Dark Green

°CICERO Shades of Green

Contents

°CICERO Shades of Green

1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated August 2020**.** This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'shades of green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green	Examples
Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.	Wind energy projects with a strong governance structure that integrates environmental concerns
Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.	Bridging technologies such as plug-in hybrid buses
Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.	Efficiency investments for fossil fuel technologies where clean alternatives are not available
Brown is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future.	New infrastructure for coal

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of green financing are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

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

Eastnine is a Swedish real estate company focusing on commercial real estate, with a mission to be a long-term provider of modern and sustainable office premises in prime locations in the Baltic capitals. Eastnine was founded as an investment company focusing on Eastern Europe but has since restructured to ownership in real estate and aims to transition to a pure real estate company. As of 30 June 2020, Eastnine's property portfolio consisted of ten properties, six in Vilnius and four in Riga, with a total lettable area of around 114,000 m^2.

Environmental Strategies and Policies

In 2018, Eastnine committed to its overarching goal of reaching net-zero greenhouse gas (GHG) emissions from its operations by 2030, starting from the December 2019 level of 28kg CO_2/m^2. This will be achieved through measures related to energy efficiency and increasing the share of renewable energy in energy sourcing as well as increasing capacity for own renewable energy generation. The company has set specific interim goals, as detailed in the Annual Report. According to the 2019 report, Eastnine aims to reduce its energy consumption by 25% from 127 kWh/m^2 in 2019 to 100 kWh/m^2 in 2025, through a 4% annual average reduction in energy use. Renewable energy is aimed to be scaled up from 68% of energy consumption in 2019 to 100% by 2030.

Future development projects will be subject to sustainability checks focused on reducing energy consumption and monitoring embodied carbon in the construction process. This means ensuring that at least 80% of possible points within the energy section of environmental certifications are fulfilled, and that life-cycle assessments (LCAs) of the building carbon footprint are undertaken as a standard part of the design process. Eastnine has a general focus on environmental certifications such as LEED and BREEAM, and has a goal to achieve 100% of its portfolio (except properties subject to substantial redevelopment, e.g., land plots and properties acquired for demolition or significant reconstruction) certified at the minimum level of Excellent in BREEAM and Gold in LEED by 2021. As of 30 June 2020, 84% of the property portfolio is certified as BREEAM Excellent or LEED Platinum, while the remaining 16% is in an ongoing certification process, with LEED Platinum as a target. All new acquisitions are subject to robust ESG due diligence, including current performance and improvement potential, physical climate risks, potential environmental contamination, governance and reputational risks, as well as proximity to transportation infrastructure and potential impacts on local communities. The certification process is initiated within six months, except for those projects subject to redevelopment. Eastnine buildings have been amongst the first to receive LEED Platinum certification in the Existing Building category in Northern Europe. Currently, all buildings are powered 100% by renewable electricity guaranteed through certificates of origin. Commuting distance is reduced as all buildings are located within 20 minutes from the city centre.

In addition, Eastnine prioritizes the health and wellbeing of office users, including implementing bicycle storage and shower possibilities, as well as charging stations for electric vehicles. Aligned with this initiative, they will begin additionally certifying projects according to the WELL standard, which is oriented towards health and wellbeing.

Eastnine recognises its role in contributing to sustainable development of the region and focuses on supporting its local networks within its operations. The company is actively involved with the Green Building Council Lithuania (GBCL) and has supported various community and art initiatives to highlight green innovation and best practices

in the real estate sector. Eastnine is currently engaged with planning The Pine, which will be the first wooden office building in the Baltics.

Since 2018, Eastnine has been a member of the UN Global Compact and reports in line with GRI standards. They also mapped out their contributions towards the UN Sustainable Development Goals in 2018. A year later, they became a member of GRESB, which conducts assessments on ESG factors for real estate and infrastructure investments, including physical risk assessments. According to GRESB, Eastnine significantly outperformed its peers in building certifications in 2019, however the company was lagging in multiple other factors, including in energy efficiency, waste management and supply chain. Following this report, there is evidence to suggest that they have made multiple improvements on these fronts. Starting in 2020, Eastnine is implementing a web-based tool for environmental and social screening of Eastnine's suppliers to mitigate potential ESG risks in the company's supplier chain[1]. This tool is not yet being used for the selection process of eligible assets. They have also conducted climate screening and scenario analysis using STP 4.5 and STP 8.5, and disclose these in the Annual Report. Eastnine is looking into formally incorporating TCFD recommendations into future reporting.

Use of proceeds

Eastnine will finance or refinance eligible assets, in whole or in part, that promote the transition to low-carbon and climate resilient growth as determined by Eastnine and in line with Eastnine sustainability policy. The vast majority of proceeds will be directed towards developing buildings toward green certification standards. This includes largely refinancing of projects within the categories of green buildings (vast majority), clean transportation, energy efficiency and renewable energy. The first green bond issuance is expected to be 100% directed towards green buildings. Examples of eligible projects are financing of green buildings with environmental certifications, facilitation for electric vehicles, charging stations, pedestrian walkways, refurbishment of existing buildings, and the installation of small-scale renewable energy installations. Eligible assets will be owned by Eastnine group.

In addition to Green Finance Instruments issued by Eastnine in the capital market, the company may also receive green loans provided by lending institutions. These green loans will be financed through green bonds issued by the lending institutions and may be subject to different criteria than those laid out in this framework.

Eastnine will only finance or refinance projects located in the Baltics. Excluded from the framework are investments linked to fossil fuel energy generation, the weapons and defence industries, potentially environmentally harmful resource extraction, gambling and tobacco.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Eastnine has established a Green Finance Committee (GFC) to evaluate and select assets. The GFC will also be responsible for monitoring the Green Portfolio and for reporting on its environmental benefits. The Committee consists of individuals from Management, Group Treasury, Corporate Sustainability, and Property Management departments within Eastnine. If further environmental competence is required beyond Eastnine's Head of Sustainability e.g., for due diligence and environmental certification processes, external consultants and experts

[1] https://ethosinternational.se/en/sustainablesupplychain/

will be hired. Decisions for project selection are made on a unanimous basis, and the green portfolio of eligible assets is reviewed and updated on a quarterly basis. Any updates to the framework must be approved by the GFC. The Treasury department will keep a list of eligible green assets, which will be continuously updated by the Head of Treasury. This list of eligible assets is regularly monitored during the term of the green finance instrument to ensure proceeds are entirely allocated to eligible green assets.

The selection and allocation process will be externally assured by an independent assurance provider on an annual basis. This report will be made publicly available.

Management of proceeds

CICERO Green finds the management of proceeds of Eastnine to be in accordance with the Green Bond Principles. An amount equal to the net proceeds of any green financing raised will be separately identified within Eastnine's treasury department and applied by the company in the financing of eligible assets. Projects will be financed in individual disbursements. In the case that any of the allocated property is sold, such allocated proceeds will be reallocated to other properties that qualify according to the framework. The amounts and their corresponding eligible assets will form an earmarked portfolio. Any amounts will be adjusted to reflect amounts advanced for the financing and any repayment or prepayment of eligible assets. Eastnine intends to allocate all proceeds, but in the event any balance remains unallocated, proceeds will be applied according to the management policy of the company's liquidity reserves. Unallocated proceeds will not be invested in non-eligible assets.

The green loans from lending institutions will be separately tracked and reported upon, displaying the aggregate amount of green loans taken and specific eligible assets that have been financed by each loan.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

The Eastnine GFC will conduct both allocation and impact reporting and publicly disclose findings in the annual Green Finance Investor Report.

Allocation reporting will be on a project-by-project basis and will include a description of selected project(s) in the green portfolio, geographical distribution, type of financing instruments utilized and respective outstanding amounts, information on the share of new financing vs re-financing, a list of eligible assets financed and allocated amounts, and a selection of eligible asset examples. The allocation report will be externally reviewed.

Impact reporting will be based on relevant indicators for each category and methodology will be made available.

- Green buildings
    - Environmental certification
    - Energy consumption disclosed by absolute consumption (kWh) and intensity (kWh per square meter) per year
    - Calculated carbon footprint disclosed by absolute emissions (tons) and intensity (kg per square meter) per year. The GHG emissions are monitored annually by Eastnine in accordance with the GHG Protocol. For new developments, an LCA will be conducted to include construction and waste emissions.
    - Capacity renewable energy installed (MWh per year and MW)

    - Type of installed heating
- Energy efficiency
    - kWh/m²/ annum
    - % of energy use reduced/avoided
    - Energy efficiency increase (%)
    - Annual GHG emissions reduced/avoided in tCO_2 (using grid emissions factors according to the GHG Protocol)
- Renewable energy
    - For an investment in a stand-alone renewable energy project the energy production (MWh per year), installed capacity (MW) and the estimated yearly reduction of GHG emissions.
    - For an installation of a renewable energy in a real estate asset the percent of the asset's total energy use supplied by the installation, the energy production (kWh per year) and the estimated yearly greenhouse gas reduction
- Clean Transportation
    - This is a broad category, so key performance indicators will not be published ahead of the impact reporting. CO_2 emissions savings will be emphasized.

3 Assessment of Eastnine's green finance framework and policies

The framework and procedures for Eastnine's green finance investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Eastnine should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Eastnine's green finance framework, we rate the framework **CICERO Dark Green.**

Eligible projects under the Eastnine green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Green Buildings	Financing of buildings certified by at least one of the following certification systems that have, or will, receive a design stage certification, a post construction certification or an in-use certification of: • BREEAM with a minimum certification level of at least Excellent and at least 80 percent of the possible points within the energy category • LEED with certification level of Platinum and at least 80 percent of the possible points within the energy category • Or any equivalent system as determined by Eastnine	**Medium to Dark Green** ✓ Eastnine displays a high level of ambition through choosing the highest standard for LEED and the 'Excellent' standard for BREEAM certification, which are both equivalent to 'best practice' buildings. Specifically, the BREEAM Excellent rating is considered as 'best practice', while the highest standard is considered as 'innovator'. ✓ Eastnine has a specific focus on reducing energy consumption and requires 80 points in order to ensure substantial energy improvement in comparison to the baseline. Energy is the highest weighted component of both the BREEAM and LEED certifications.

		✓ In addition to the focus on energy consumption, it is also important to ensure additional factors such as climate resilience and climate risk are considered. Eastnine has conducted scenario analysis, but these have not yet been implemented in the framework. ✓ Emissions arising from the supply chain and construction processes are often significant. Eastnine requires life cycle analyses as a standard part of the selection process. Additionally, as part of the LEED Platinum requirements, strict guidelines on construction waste sorting and recycling are followed. Eastnine also heavily prioritizes local sourcing of materials. ✓ Be aware that new construction of buildings may have a greater environmental impact than renovations (or vice versa). Refinanced projects and acquisitions may not account for this discrepancy. ✓ Renewable electricity is purchased where available. Fossil-fuel based district heating or electricity will not be financed under this framework. ✓ The equivalent certification system will be determined in conjunction with external experts.
Clean Transportation	Financing of electric vehicles, charging stations, bicycle garages, pedestrian walkways, bicycle lanes and other investments that support and emphasize the use of clean transportation solutions.	**Dark Green** ✓ Supporting the development of infrastructure related to clean transportation and accessibility to green buildings will play an important role in the successful adoption of clean transportation methods. ✓ The issuer has specified that vehicle eligibility is limited to fully electric vehicles (i.e. no hybrid). ✓ The issuer has informed CICERO Green that charging stations are

		developed based on demand and in conversation with tenants. ✓ Commercial vehicles are not considered in this category.
Energy efficiency	Financing of refurbishment of existing buildings that lead to a 30 percent increase in energy efficiency. Investments include energy retrofits such as the installation of more efficient ventilation or heating system, replacing fuse ratings and adjusting light controls and light fittings.	**Dark Green** ✓ A 30% increase in energy efficiency corresponds to a good level of ambition, although investors should be aware that baseline levels of energy efficiency in the Baltics are high. ✓ Eastnine has further specified that in this category, proceeds will only be allocated to the costs associated with individual efficiency measures and will not be allocated to the value of the whole building. ✓ The issuer has assured CICERO Green that rebound effects are mitigated in commercial offices, where energy consumption is not price elastic, and energy use from heating and ventilation is often fixed via smart technologies. ✓ Potential lock-in effects may arise if efficiency improvements are made to existing fossil-fuel based infrastructure/appliances. ✓ Energy efficiency will be calculated according to GRI methodology, and standard methodology for energy intensity calculations.
Renewable energy	Financing of on-site solar power installations and stand-alone solar farms, related infrastructure and other renewable energy technologies in order to increase the share of renewable energy.	**Dark Green** ✓ This category is aimed at the issuer's target to reach 100% renewable energy by 2030. ✓ Eligible assets are primarily on-site solar power installations (vs stand-alone solar farms). ✓ Be aware that transmission lines might connect to existing fossil fuel power. ✓ Other non-solar renewable energy sources, e.g., geothermal, may be

	included for future projects. Sources such as biofuel and wind are not expected to be included in financing.

Table 1. Eligible project categories

Background

As members of the EU, the Baltic region countries are subject to the EU's climate targets of reducing collective EU greenhouse gas emissions by 40% by 2030 compared to 1990 levels, increasing the share of renewable energy to 32% and improving energy efficiency by at least 32.5%.[2] The European Green Deal aims for carbon neutrality in 2050.[3] Each of the Baltic countries have developed National Energy and Climate Plans (NECPs) in which they outline their targets and strategies in all sectors.[4] These strategies include measures such as increasing renewable energy capacity, increasing energy efficiency, facilitating the large scale implementation of clean transportation alternatives, and increasing carbon sinks through reforestation and the LULUCF sector. Non-ETS emissions, of which public buildings and households are a part, must decrease by 30% by 2030. Currently, renewable energy sources account for 40% of Latvia's primary energy supply and more than half of electricity generation.[5] In Lithuania, the majority of total primary energy supply comes from oil and natural gas (70%), while 20% is sourced from biofuels and waste.[6]

The building sector accounts for a large share of primary energy consumption in most countries, and the IEA reports that the efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand.[7] The energy efficiency of buildings is dependent on multiple factors including increasing affluence and expectations of larger living areas, growth in population and unpredictability of weather, and greater appliance ownership and use. All these factors should therefore be considered in the project selection process. In addition, voluntary environmental certifications such as LEED and BREEAM or equivalents measure or estimate the environmental footprint of buildings and raise awareness of environmental issues. These points-based certifications, however, fall short of guaranteeing a low-climate impact building, as they may not ensure compliance with all relevant factors e.g., energy efficiency, access to public transport, climate resilience, sustainable building materials. Many of these factors are covered under the World Green Building Council's recommendations for best practices for developing green buildings.[8] CICERO Shades of Green assesses all these factors when evaluating the climate impact of buildings.

According to the Exponential Roadmap[9], which lays out a trajectory for reducing emissions by 50% by 2030, emissions reductions strategies within the buildings sector need to be rapidly scaled up. The roadmap advocates for standardized strategies that are globally scalable within areas such as new procurement practices for construction and renovation that require dramatically improved energy and carbon emission standards, developing new low-carbon business models for sharing space and smart buildings to achieve economies of scale, and allocating green financing for sustainable retrofitting and construction. Within the clean transportation sector, the

[2] https://ec.europa.eu/clima/policies/strategies/2030_en
[3] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en
[4] https://ec.europa.eu/energy/topics/energy-strategy/national-energy-climate-plans_en
[5] https://www.oecd.org/environment/country-reviews/OECD-EPR-Latvia-2019-Abridged-Version.pdf
[6] https://www.iea.org/countries/Lithuania
[7] https://www.iea.org/reports/building-envelopes
[8] https://www.worldgbc.org/how-can-we-make-our-buildings-green
[9] https://exponentialroadmap.org/wp-content/uploads/2020/03/ExponentialRoadmap_1.5.1_216x279_08_AW_Download_Singles_Small.pdf

roadmap emphasizes the electrification of passenger vehicles, car sharing and shifting the focus from car ownership to car usership, as well as optimizing, retrofitting and electrifying heavy transportation.

In both Latvia and Lithuania, the main source of energy loss within district heating is energy inefficiencies in old multi-apartment buildings, necessitating the renovation and installation of energy efficient solutions within the real estate sector. According to a 2019 OECD Environmental Performance Review of Latvia, most of the Latvian building stock is over 25 years old and consists of multi-owner buildings with poor energy performance.[10] Since 2007, Latvia has used EU and national funds effectively to upgrade district heating networks and improve buildings' thermal efficiency, which has led to energy savings above the EU average. However, heat consumption per square metre in Latvia remains among the highest in Europe, necessitating an acceleration in efficiency investments in the region. The Lithuanian heating sector has efficient heat production and supply, and extensively makes use of biomass in its heat production.[11] Indeed, biomass is the majority energy source, comprising 68% in 2018, and projected to comprise 80% in 2020, with the remaining consisting of natural gas. Heat loss in Lithuanian urban networks has been reduced from 33% to 15%, reaching almost the level of Scandinavian networks of 12% heat loss.

EU Taxonomy

In 2020, the EU Taxonomy was released in a multi-lateral effort to standardise thresholds and metrics to aid the green transition. This also includes "Do-No-Significant-Harm" criteria, which focus on mitigating further non-climate-related environmental impact of the green transition activities. The Taxonomy provides signposting for investors and bond issuers to aid in their decision-making and project selection processes.

CICERO Green will not verify Eastnine's framework against the full EU taxonomy, but notes that the taxonomy includes specific thresholds that apply for the real estate sector, including[12]:

1. The design and construction of new buildings needs to ensure a net primary energy demand that is at least 20% lower than the level mandated by national regulations.
2. Ownership or acquisition of buildings built before 2021: Energy performance in the top 15% of similar stock.
3. Renovations should deliver 30% energy savings.
4. Large non-residential buildings should have a dedicated energy management system.

While we note that there is currently no existing regulatory benchmark on energy demand requirements for the Baltic countries, it is reasonable to expect that buildings with a LEED Platinum or BREEAM Excellent certification would be aligned with the taxonomy, given their focus on energy demand. Energy saving renovations for existing properties that result in buildings lowering their primary energy demand with 30%, as is mentioned in Eastnine's green finance framework, are also to be classified as sustainable within the EU Taxonomy. It is further anticipated that activities related to energy efficiency, including installation of solar panels, heat pumps, extension of district heating and cooling, are to be classified as sustainable according to the EU Taxonomy.

The taxonomy also highlights the importance of lifecycle emissions including a focus on building material such as sustainably sourced wood. Do-No-Significant-Harm criteria include measures such as ensuring resistance and resilience to extreme weather events, preventing excessive water consumption from inefficient water appliances,

[10] https://www.oecd.org/environment/country-reviews/OECD-EPR-Latvia-2019-Abridged-Version.pdf
[11] https://lsta.lt/en/about-dh-sector/
[12] https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf

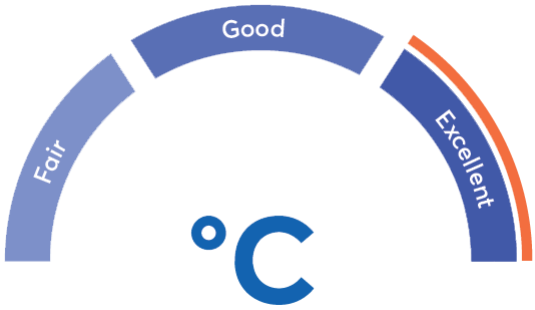
ensuring recycling and reuse of construction and demolition waste and limiting pollution and chemical contamination of the local environment.

Governance Assessment

Four aspects are studied when assessing the Eastnine's governance procedures: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Eastnine has a stated high ambition and commitment to be pioneers on sustainability in the real estate sector. The company has clear environmental targets and strategies in place and has demonstrated progress towards these goals. Robust ESG due diligence is undertaken for each project, including multiple relevant factors in the environmental, social and governance categories. The environmental factors account for climate risk and resilience. In addition, the company works directly with contractors, subcontractors, and other supply chain actors to address environmental concerns, e.g., working with the Lithuanian District Heating Association to address the energy intensity of the district heating energy mix.

Within the selection process, there is no environmental veto-power (decisions are made on a unanimous basis), however there is a clear company strategy to ensure environmental concerns are accounted for. Where extra environmental expertise is required, external experts are consulted with. The selection process and the allocation of proceeds will be externally reviewed on an annual basis, and the results will be publicly disclosed. Climate scenario analysis has been undertaken and is reported on but has not yet been incorporated into company strategy. Eastnine is a member of the UN Global Compact and reports on relevant indicators for each of the eligible asset categories according to GRI standards. Reports are publicly disclosed with transparent methodology.



The overall assessment of Eastnine's governance structure and processes gives it a rating of **Excellent**.

Strengths

Eastnine demonstrates a clear focus on environmental and climate issues and has identified ambitious targets for emissions reductions and energy efficiency improvements. Progress towards these targets is impressive, although the company recognises that its 2018-baseline is high, which makes it easier to make fast progress. In addition, Eastnine has conducted climate scenario analysis and reports on its climate risk in accordance with GRESB.

Eligible project categories are clear and exhibit high standards for selection. All new acquisitions are subject to robust ESG due diligence, including current performance and improvement potential, physical climate risks, potential environmental contamination, governance and reputational risks, as well as proximity to transportation infrastructure and potential impacts on local communities. Where further expertise is required e.g., for due diligence and environmental certification processes, external experts are consulted with.

There is a clear need in the Baltic region for accelerated investment in energy efficiency measures to reduce the high energy consumption of the real estate sector and Eastnine's inclusion of the LEED Platinum and BREEAM

Excellent standards, as well as their focus on ensuring energy consumption is minimized caters well to this need. Additionally, these certification requirements display a high level of ambition, especially given that Eastnine also considers further factors such as local sourcing of materials, construction emissions, access to transportation routes and charging facilities. Life cycle assessments are also a standard part of the selection process, which ensures proper accounting and minimization of multiple sources of emissions.

Weaknesses

CICERO Green finds no material weaknesses in Eastnine's green finance framework.

Pitfalls

As evidenced in Eastnine's 2019 GRESB assessment, the company lagged behind its peers on multiple ESG factors such as supply chain considerations, materials sourcing and energy efficiency. However, there is evidence to suggest that Eastnine has made considerable improvements on these fronts. Eastnine has started working directly with contractors and subcontractors on environmental concerns, e.g., to address the carbon intensity of the energy mix in the Lithuanian heating sector, and will, in 2020, implement a web-based tool for environmental and social screening of Eastnine's suppliers to mitigate potential ESG risks in the company's supply chain. There is also a specific focus on energy efficiency and reducing energy consumption in the framework.

Eastnine's choice of LEED Platinum and BREEAM Excellent standards, as well as their stated focus on reducing energy consumption by requiring at least 80 point in this category has potential for high impact in reducing the carbon intensity of the real estate sector. However, there is a risk that full reliance on LEED and BREEAM standards, which may not fully take into account further environmental and climate resilience factors, may detract attention from these other important factors. Eastnine mitigates this through its life-cycle assessments and supply chain screening processes, however it will be important to remain aware of this risk. Further, new construction of buildings may – based on locational factors – have a greater environmental impact than renovations (or vice versa), and refinanced projects may not account for this discrepancy. CICERO Green therefore encourages Eastnine to ensure this factor is also included in its life cycle assessments.

While district heating and fossil-fuel based power is not included in financing, the funded buildings may partly be run by fossil fuel generated electricity and heat from the local district heating systems. However, renewable energy will be purchased where feasible, and solar installations for buildings are included under this framework, to increase on-site renewable generation and reduce demand from local power networks. Be aware that the purchase of renewable energy for powering green buildings through certificates of origin will not necessarily guarantee that new renewable energy generating capacity is added. Eastnine has also been working directly with Lithuanian heating sector to push for greater ambition on reducing the carbon intensity of the energy mix for district heating.

Within the energy efficiency category, while it is commendable to require a 30% increase in energy efficiency for eligibility, Eastnine should make sure to account for the relatively high starting levels of energy consumption in existing buildings in the Baltic countries. Given that energy efficiency is one of the key issues facing the heating sector, it may be required to explore further increasing ambition in this category.

Certain efficiency improvements may lead to rebound effects, as reducing the cost of an activity will incentivise increased activity. If efficiency improvements are directed towards fossil-fuel based infrastructure/equipment, there is a risk that the volume of absolute emissions increases. CICERO Green suggests to possibly avoid green financing of projects where the risk of rebound effects is particularly high. Eastnine has stated that these risks will be considered for new projects, and that commercial buildings are less susceptible to rebound effects given that electricity consumption in commercial properties is not price elastic. However, given that this framework is

predominately refinancing of existing eligible assets, CICERO Green suggests to ensure rebound effects are mitigated before the initiation of building projects.

Properties undergoing significant redevelopment (e.g., demolitions and significant reconstructions) are exempt from the company's environmental due diligence criteria and are not expected to receive financing under this framework. In the case that these properties eventually do receive funding, it will be important for Eastnine to ensure the process for ESG due diligence and project selection is also undertaken. CICERO Green would also encourage Eastnine to ensure that precautions are taken to ensure demolition and significant reconstruction still follow strict environmental guidelines.

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	Eastnine Green Finance Framework. Dated August 2020.	Green Finance Framework provided by Eastnine.
2	Eastnine Annual Report 2019. Eastnine.	Publicly available annual report for 2019, which includes information on sustainability goals and progress towards targets.
3	GRESB Benchmark report, 4 Sep 2019.	Report detailing Eastnine's performance in the GRESB Benchmark assessment.
4	Eastnine Environmental Policy. 21 Feb 2020.	Document outlining Eastnine's environmental policy, valid from Feb 21, 2020.
5	Supplier Code of Conduct. 25 Mar 2019.	Document outlining policies for Eastnine's suppliers.

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Appendix 2:
About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).