

STATEMENT ON PRINCIPAL ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS

Product name: SANKEI REAL ESTATE Inc.

The following is the adverse sustainability impact statement of SANKEI REAL ESTATE Inc. (“SRE”) pursuant to Regulation (EU) 2019/2088 (“SFDR”). SRE has no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan and rely on Sankei Building Asset Management Co., Ltd. (the “Asset Manager”), to manage and operate the properties in our portfolio. SRE and the Asset Manager are hereinafter referred to collectively as “we”, “us” or “our”.

Please note that SFDR requirements, including the scope of their application to issuers outside the European Economic Area, continue to evolve. We are therefore taking a principles-based approach to compliance with the SFDR disclosure standards, which are subject to change.

1. Summary

We consider principal adverse impacts of our investment decisions on sustainability factors. The present statement is our consolidated statement of the principal adverse impacts on sustainability factors (“PAI”). The statement covers the reference period from January 1, 2023 to December 31, 2023. The statement will be reviewed at least once a year.

We believe that our sustainability initiatives are essential for our sustainable growth. We improve mid- and long-term returns of investors and contribute to the realization of sustainable society and urban development by implementing initiatives that address ongoing social and lifestyle changes. Under our sustainability policies, we, in collaboration with the Asset Manager, take actions on climate change, including energy saving efforts and reduction of GHG emissions, introduction of renewable energy, and preservation of the water environment.

We use the definition of PAI as described in Recital 20 of SFDR being “those impacts of investment decisions and advice that result in negative effects on sustainability factors”, with sustainability factors referring to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters as defined in article 2 (24) of SFDR.

We believe that investment decisions that negatively affect climate or other environment-related resources, or have negative implications for society, can have a significant impact to risk and value creation for our unitholders. To this end, we consider PAI of our investment decisions throughout all major steps of the investment decision and property management process throughout the lifecycle of the properties in our portfolio.

2. Description of principal adverse sustainability impacts

Nearly all types of economic activity have the potential to impact various PAI indicators, both positively and adversely. We aim to manage the risk connected to PAI from our investment decisions in several ways, including general screening criteria, due diligence and our ESG initiatives. Some of the PAI indicators listed below are currently already being monitored and reported. As the availability of data improves, we aim to add more indicators.

Table 1
Principal adverse sustainability impacts statement

SRE does not invest in investee companies, but invest in real estate. As adverse sustainability indicators 1-16 as contained in the Regulatory Technical Standard pertain to investee companies, these are not included in this PAI statement, which pertains to real estate investments.

Indicators applicable to investments in real estate assets						
Adverse sustainability indicator		Metric	Impact in 2023	Impact in 2022	Explanation	Actions taken
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	N/A	N/A	We do not invest in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels.	N/A
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	As of December 31, 2023, 50.7% of our properties were not “Green Buildings” (as defined to the right) based on the total floor area (calculated in proportion to co-owners’ shares).	As of December 31, 2022, 65.4% of our properties were not “Green Buildings” (as defined to the right) based on the total floor area (calculated in proportion to co-owners’ shares).	<p>To track the environmental performance of our properties, we rely on certifications issued by third-party organizations, such as the Development Bank of Japan (“DBJ”)’s Green Building certification, Building Energy-efficiency Labeling System certification (“BELS”), Comprehensive Assessment System for Built Environment Efficiency (“CASBEE”) certification, and other equivalent certifications. We call our properties that receive any such certifications “Green Buildings”.</p> <p>With respect to CASBEE, we consider a property to have sufficient environmental certification if it received B+ Rank or higher out of the CASBEE</p>	We implement as appropriate measures to reduce their environmental impact following acquisition, including by obtaining such as DBJ’s Green Building certification, BELS, CASBEE, LEED or WELL.

					ranking system featuring Rank S (excellent), Rank A (very good), Rank B+ (good), Rank B- (slightly inferior) and Rank C (inferior).	
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Table 2
Additional climate and other environment-related indicators

SRE does not invest in investee companies, but invests in real estate. As additional climate and other environment-related indicators 1-17 as contained in Table 2 of Annex 1 of the draft Delegated Regulation pertain to investee companies, these are not included in this PAI statement, which pertains to real estate investments.

Adverse sustainability impact	Adverse sustainability impact (qualitative or quantitative)	Metric																				
Indicators applicable to investments in real estate assets																						
Greenhouse gas emissions	18. GHG emissions	Scope 1 GHG emissions generated by real estate assets																				
	<table border="1"> <thead> <tr> <th>GHG emissions (Unit)</th> <th>FY2023</th> <th>FY2022</th> <th>FY2021</th> </tr> </thead> <tbody> <tr> <td>Scope 1 (t-CO2)</td> <td align="right">669.10</td> <td align="right">570.56</td> <td align="right">530.64</td> </tr> <tr> <td>Scope 2 (t-CO2)</td> <td align="right">2,371.91</td> <td align="right">3,053.32</td> <td align="right">2,567.75</td> </tr> <tr> <td>Scope 3 (t-CO2)</td> <td align="right">5,084.17</td> <td align="right">5,466.45</td> <td align="right">4,301.23</td> </tr> <tr> <td>Total (t-CO2)</td> <td align="right">8,125.18</td> <td align="right">9,090.32</td> <td align="right">7,399.62</td> </tr> </tbody> </table>	GHG emissions (Unit)	FY2023	FY2022	FY2021	Scope 1 (t-CO2)	669.10	570.56	530.64	Scope 2 (t-CO2)	2,371.91	3,053.32	2,567.75	Scope 3 (t-CO2)	5,084.17	5,466.45	4,301.23	Total (t-CO2)	8,125.18	9,090.32	7,399.62	Scope 2 GHG emissions generated by real estate assets
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		Scope 3 GHG emissions generated by real estate assets																				
		Total GHG emissions generated by real estate assets																				
	We aim to reduce GHG emissions by 5% from 2021 to 2025 with 2019 as the base year in Scope 1 and Scope 2 and by 1% from 2021 to 2025 with 2019 as the base year in Scope 3 for intensities of energy-originated GHG emissions.																					
Energy consumption	19. Energy consumption intensity	Energy consumption in kWh of owned real estate assets per square meter																				
	Energy use intensity Unit: kWh/m²																					
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	We aim to reduce energy consumption as below: 1% from 2021 to 2025 with 2019 as the base year, for intensities of energy consumption. (i) 5% reduction in energy consumption between 2021 and 2025 with 2019 as the base year in areas within our portfolio where the Asset Managers can manage energy consumption (ii) 1% reduction in energy consumption between 2021 and 2025 with 2019 as the base year in areas used by tenants where the Asset Managers cannot manage energy consumption.																					

	As of December 31, 2023, we have installed the following equipment in some of our properties: LED lighting; light control systems with daylight sensors; and low emissivity glass coated with special metal films, which reflects sunlight in the summer to reduce the heat effect and absorbs heat in the winter for improved heating efficiency.	
Waste	20. Waste production in operations Although we separate waste at all of our properties, none of our properties are equipped with facilities for waste sorting or covered by a waste recovery or recycling contract.	Share of real estate assets not equipped with facilities for waste sorting and not covered by a waste recovery or recycling contract

Table 3

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

SRE has no employees in accordance with the prohibition on having employees under the Act on Investment Trusts and Investment Corporations of Japan, and relies on the Asset Manager to manage and operate the properties in our portfolio. Accordingly, additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters in this PAI statement pertain to the Asset Manager and the tenants of the properties in our portfolio, to the extent available.

SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Adverse sustainability impact	Adverse sustainability impact (qualitative or quantitative)	Metric
Indicators applicable to investments to the Asset Manager or tenants		
Social and employee matters	4. Lack of a supplier code of conduct We execute lease agreements with tenants pursuant to which (i) they confirm that they do not fall into any category of anti-social forces or groups which conduct dangerous or unlawful acts, and (ii) they agree not to sub-lease properties to those who fall into any such category.	Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labor and forced labor) As of December 31, 2023, none of our tenants are anti-social forces or groups.
	5. Lack of grievance/complaints handling mechanism related to employee matters We have established a grievance/complaints handling mechanism for our employees, which give them access to our human resource division and give feedback to harassment surveys conducted by a third-party service provider. Our human resource division interviewed all of our employees during the period from August to September, 2023 and we conducted an annual harassment survey.	Share of investments in investee companies without any grievance/complaints handling mechanism related to employee matters The Asset Manager has a grievance/complaints handling mechanism for all of its officers and employees.
	6. Insufficient whistleblower protection	Share of investments in entities without policies on

	<p>We have a whistleblower protection system that our employees may use to report a compliance violation to by phone, email, web site access and sealed letter. An outside consulting firm receives the report, and the compliance division of the Sankei Building Group initiates investigation and implements appropriate measures. All of our employees are informed of this system through our internal portal.</p>	<p>the protection of whistleblowers</p> <p>All of the Asset Manager's officers and employees are provided whistleblower protection.</p>
Anti-corruption and anti-bribery	<p>16. Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery</p> <p>We specify rules of anti-corruption and anti-bribery including punishment against breaches of rules in work regulations and manage such rules. Under the rules, our employees are prohibited from (i) utilizing our assets without our approval, (ii) receiving any personal profit for our business without our approval or (iii) obtaining any personal profit through private transactions by abusing their employee status. If an employee violates these rules, we may discipline the employee.</p>	<p>Share of investments in investee companies with identified insufficiencies in actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery</p> <p>During January 1, 2023 to December 31, 2023, there was no case of insufficient action taken to address breaches of rules of anti-corruption and anti-bribery.</p>
	<p>17. Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws</p> <p>We have established Compliance Regulations, a Compliance Manual, Labor Regulations and Reward and Punishment Regulations and follow the Compliance Handbook established by Sankei group. We use these to monitor compliance with anti-corruption and anti-bribery laws to prevent breaches of such anti-corruption and anti-bribery laws. We also conduct an annual internal audit to confirm if there is any breach of the rules. In addition, we have the right to terminate our lease agreement with a tenant in a case where the tenant commits any crime, including any violation of anti-corruption and anti-bribery laws.</p>	<p>Numbers of convictions and amount of fines for violations of anti-corruption and anti-bribery laws by investee companies</p> <p>During January 1, 2023 to December 31, 2023, there was no conviction or violation of anti-corruption and anti-bribery law committed within the Asset Manager or by our tenants.</p>

For descriptions of actions which SRE takes and will take with respect to the PAI indicators, please refer to the sustainability page on SRE's website: <https://www.s-reit.co.jp/en/sustainability/>

3. Description of policies to identify and prioritize principal adverse sustainability impacts

Subject to data availability, we monitor the selected PAI indicators for the existing properties in our portfolio.

Prior to our investment in a property, we conduct due diligence review of the property, including not only profitability, but also environmental features, which includes selected PAI indicators. The due diligence findings related to selected PAI indicators are reported and reviewed prior to the investment decision.

The Asset Manager established the Energy Conservation Policy and the GHG Emission Reduction Policy in March 2021. Based on such policies, we continually track energy and GHG emission at our properties, and the Asset Manager's Sustainability Promotion Committee uses the data to assess progress made against targets for energy consumption and GHG emission. If we fail to achieve any target, the Asset Manager investigates the cause and considers necessary action plans.

For further information, please refer to our ESG website: <https://www.s-reit.co.jp/en/sustainability/>

4. Engagement policies

Due diligence and screening

Prior to our investment in a property, the Asset Manager conducts due diligence review of the property, including environment assessment and evaluation of risks related to building safety, natural disasters, future prospects, and location. As a result of due diligence review, if there is a risk of a negative environmental impact, such as due to soil contaminants or other harmful substances or noncompliance with law aimed at reducing energy consumption or greenhouse gas emissions, we will take measures to avoid or mitigate the risk by ceasing the acquisition of the property or requiring the seller to undertake improvement.

To ensure the efficacy of its sustainability initiatives, the Asset Manager has established a Sustainability Promotion Committee, which generally meets every quarter, to consider and propose objectives, policies and measures related to sustainability. The decisions made at the Sustainability Promotion Committee are reflected in SRE's investment guidelines as appropriate and we follow the policies and consider the factors that the Sustainability Promotion Committee agreed upon in making our investment decisions as appropriate. The Sustainability Promotion Committee consists of the Asset Manager's Vice President, who serves as the Sustainability Chief Executive Officer, the Asset Manager's President, the General Manager of the Asset Manager's Sustainability Promotion Office, who serves as the Sustainability Executive Officer, and the general manager of each department excluding the Fund Management Department (which is in charge of private funds) and the internal audit office. The chair of the Sustainability Promotion Committee is the Sustainability Chief Executive Officer, who is authorized to adopt objectives, policies and measures proposed by the Sustainability Promotion Committee.

At the properties we operate, we set numerical targets for our entire facilities and monitor the amount of energy consumption, water consumption as well as the amount of GHG emissions of common areas of our properties in order to reduce our environmental burden. Based on this, we have selected PAI indicators GHG emissions, energy consumption intensity and waste production in operations as our PAI indicators in Table 2 above.

Because any transaction with an anti-social force or other group that commits dangerous or unlawful acts carries significant risks to us, including that it could prevent our lawful transactions with stakeholders, we have selected lack of a supplier code of conduct as our PAI indicator in Table 3 above. We have selected lack of grievance/complaints handling mechanism related to employee matters, and insufficient whistleblower protection as our PAI indicators in Table 3 above because prompt identification and prevention of breach of applicable laws, regulations and internal rules are important. We have selected cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery and number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws as our PAI indicators in Table 3 above, which are consistent with our brief that any criminal act by our employee or tenant would destroy our stakeholders' trust in us.

Engagement

The Asset Manager established the Procurement Policy in March 2021 for selecting and evaluating products and services we purchase and their suppliers. When we select a supplier, we review its sustainability efforts and cooperation in implementing our Sustainability Policy. We conduct an annual review to monitor its performance in such a way as either of questionnaire survey, training or check at our regular meetings.

5. References to international standards

We follow the United Nations' 17 Sustainability Development Goals, a reference framework adopted at the United Nations Summit held in September 2015. We also respect the Universal Declaration of Human Rights in the International Bill of Human Rights, international labor standards such as the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights.