

Second-Party Opinion

Graanul Invest Group Sustainability-Linked Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Graanul Invest Group Sustainability-Linked Financing Framework aligns with the Sustainability-Linked Bond Principles 2020 and Sustainability-Linked Loan Principles 2021 (the “Sustainability-Linked Principles”). This assessment is based on the following:

- Selection of Key Performance Indicators (KPIs)** The Graanul Invest Group Sustainability-Linked Financing Framework includes one KPI: Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced (see Table 1). Sustainalytics considers the KPI chosen to be strong given that it is a direct measure of Graanul Invest’s performance on a material environmental issue for the forestry industry. The selected KPI is also based on a clear and consistent methodology.
- Calibration of Sustainability Performance Targets (SPT)** Graanul Invest Group has set an SPT to reduce carbon emissions intensity of its pellet production operations by 5% by 2024, compared to a 2020 baseline. Sustainalytics considers the SPT to be aligned with Graanul Invest’s sustainability strategy. Sustainalytics further considers the SPT to be moderately ambitious as it is aligned with Graanul Invest’s historical emissions intensity performance and above peer performance.
- Sustainability-Linked Instruments Characteristics** Graanul Invest Group will link the financial characteristics of the instruments issued under the Framework to the achievement of the SPT at the target observation date in 2024. The financial characteristics may include a step-up in the coupon rate, margin adjustment or premium payment amount.
- Reporting** Graanul Invest Group commits to report on an annual basis on its performance on the KPI in a separate report, which will be available on its website. The reporting commitments are aligned with the Sustainability-Linked Bond Principles.
- Verification** Graanul Invest Group commits to have external limited assurance conducted on its KPI performance at the communicated SPT deadline, which is aligned with market expectations.

Evaluation Date	October 01, 2021
Issuer Location	Tallinn, Estonia

The SPT contributes to the following SDGs:



Overview of KPI and SPT

KPI	Baseline	SPT	Strength of the KPI	Ambitiousness of SPT
Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced (gCO ₂ e/MJ)	2020	Reduce gCO ₂ e/MJ by 5% by 2024, compared to a 2020 baseline	Strong	Moderately Ambitious

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Scope of Work and Limitations

Graanul Invest Group has engaged Sustainalytics to review the Sustainability-Linked Financing Framework, dated October 2021, (the "Framework") and provide an opinion on the alignment of the notes with the Sustainability-Linked Bond Principles (SLBP)¹ and the Sustainability-Linked Loan Principles (SLLP)². Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent³ opinion on the alignment of the reviewed Framework with the Sustainability-Linked Bond Principles 2020, as administered by ICMA, and the Sustainability-Linked Loan Principles 2021, as administered by LMA, APLMA and LSTA. As part of this engagement, Sustainalytics exchanged information with various members of Graanul Invest Group's management team to understand the sustainability impact of its business processes and the SPT, as well as the reporting and verification processes of aspects of the Framework. Graanul Invest Group's representatives have confirmed that:

- (1) They understand it is their sole responsibility of Graanul Invest Group to ensure that the information provided is complete, accurate and up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) 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 Graanul Invest Group. Sustainalytics' Second-Party Opinion reflects on the alignment of the Framework with market standards, but provides no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated SPT of the KPI but does not measure the KPI's performance. The measurement and reporting of the KPI is the responsibility of Graanul Invest Group. 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 Graanul Invest Group has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the Framework for up to 24 months from the date of the Second-Party Opinion or until one of the following occurs:

- (1) A material change to the external benchmarks⁴ against which targets were set;
- (2) A material corporate action (such as material M&A or change in business activity) which has a bearing on the achievement of the SPT or the materiality of the KPI.

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¹ The Sustainability-Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-100620.pdf>

² The Sustainability-Linked Loan Principles (SLLP) are jointly administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association. These principles and their guidelines and handbook are available at: https://www.lsta.org/content/?_industry_sector=guidelines-memos-primary-market

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.

⁴ Benchmarks refers to science based benchmarks

Introduction

Graanul Invest Group (“Graanul Invest” or the “Group”) is a producer of wood-based biomass pellets made from raw materials, such as dry sawdust, wood shavings, wet sawdust, wood bark, woodchips, and low-quality stemwood. The Group operates through a network of twelve pellet production plants globally (11 in the Baltics and 1 in the US) and has approximately 500 employees. Graanul Invest was founded in 2003 and is headquartered in Tallinn, Estonia.

Graanul Invest intends to issue sustainability-linked bonds and loans whose financial characteristics (such as coupon rate, margin adjustment or redemption price) are tied to the achievement of the SPT for one KPI which measures the reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced at Graanul Invest.

Graanul Invest has engaged Sustainalytics to review the Sustainability-Linked Financing Framework and provide an opinion on the alignment of the Framework with the Sustainability-Linked Bond Principles and the Sustainability-Linked Loan Principles.

Tables 1 and 2 below define the KPI and SPT used by Graanul Invest.

Table 1: KPI Definitions

KPI	Definition
Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced	<p>The KPI is defined as the annual carbon emissions across Graanul Invest’s supply, production and sourcing chains (scope 1, 2 and 3) divided by the total energy (in megajoules) contained in the pellets produced</p> <p>Carbon emissions intensity is calculated as follows: gCO_2e/MJ</p>

Table 2: SPT and Past Performance

KPI	2018	2019	2020 (baseline)	2025 SPT
Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced (gCO_2e/MJ)	7.70	7.45	7.08	Reduce gCO_2e/MJ by 5% by 2024, compared to a 2020 baseline

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of Graanul Invest Group Sustainability-Linked Financing Framework with the Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles

Sustainalytics is of the opinion that the Sustainability-Linked Financing Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2020 and the Sustainability-Linked Loan Principles 2021.



Selection of Key Performance Indicator

Relevance and Materiality of KPI

In its assessment of materiality and relevance, Sustainalytics considers: i) whether an indicator speaks to a material impact of the issuer business on environmental or social issues, and ii) to what portion of impact the KPI is applicable.

Sustainalytics considers the KPI – reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced – to be material and relevant to the forestry industry.⁵ Graanul Invest has identified reduction in carbon emissions to be a material environmental issue for the Group and a focal point of its sustainability strategy.

In terms of applicability, the KPI covers carbon emissions (scope 1, 2 and 3) from all of Graanul Invest's 12 pellet production facilities in the Baltics and the US, their feedstock supply chains and transportation of product. As such, the KPI accounted for almost 99% of Graanul Invest's total scope 1, 2 and 3 carbon emissions from pellet production, forest management and the Group's combined heat and power (CHP) plants in the baseline 2020. On this basis, Sustainalytics considers the applicability of the KPI to Graanul Invest's overall pellet production operations as significant and highly material.

KPI Characteristics

In its assessment of the KPI characteristics, Sustainalytics considers: i) whether a clear and consistent methodology is used; ii) whether the issuer follows an externally recognized definition; iii) whether the KPIs are a direct measure of the performance of the issuer on the material environmental or social issue; and iv) if applicable, whether the methodology can be benchmarked to an external contextual benchmark.⁶

Sustainalytics considers Graanul Invest's definition and methodology to calculate KPI performance to be clear, and consistently applied and reported on by the Group historically. The methodology used is also aligned with the approach used by the Renewable Energy Directive (RED II).⁷ The KPI relates to carbon emissions across Graanul Invest's supply, production and sourcing chains, and is therefore directly related to the Group's sustainability performance on a material environmental issue. Sustainalytics notes that there is no external benchmark available to enable comparison against performance on this KPI.

Overall Assessment

Sustainalytics overall considers the KPI – reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced – to be strong given that it speaks to a material environmental issue for the forestry industry and is a direct measure of Graanul Invest's performance on the issue. Additionally, the KPI covers almost 99% of the total carbon emissions that arise from Graanul Invest's operations.

⁵ Sustainalytics' ESG Risk Ratings identify "Carbon – Own Operations" as a material ESG issue for the forestry industry. Carbon - Own Operations refers primarily to a company's management of risks related to its own operational energy use and GHG emissions (scope 1 and 2).

⁶ External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

⁷ EU, "Renewable Energy Directive – Recast to 2030 (RED II)", (2021), at: <https://ec.europa.eu/jrc/en/jec/renewable-energy-recast-2030-red-ii>

The KPI also has a clear and consistent methodology that is aligned with the approach suggested by the EU's Renewable Energy Directive.

Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced	Not Aligned	Adequate	Strong	Very strong
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Calibration of Sustainability Performance Target

Alignment with Graanul Invest's Sustainability Strategy

Graanul Invest has set the following SPT for its KPI:

- Reduce gCO₂e/MJ by 5% by 2024, compared to a 2020 baseline.

Sustainalytics considers the SPT to be aligned with Graanul Invest's sustainability strategy (please refer to Section 2 for an analysis of the credibility of the Group's sustainability strategy).

Strategy to Achieve the SPT

Graanul Invest intends to achieve the SPT through the following strategy:

- Focus on increasing the share of renewable electricity used by the Group. As of 2020, 10 of Graanul Invest's 12 pellet production facilities were completely reliant on renewable power generated from combined heat and power plants (CHP) owned by the Group. Graanul Invest now aims to convert the two remaining carbon intensive production plants to be powered by renewable energy to achieve its emissions intensity reduction target.
- Graanul Invest will further invest in enhancing the energy efficiency of its assets, upgrading existing assets and installing state-of-the-art emissions controls to reduce volatile organic compounds. The Group is also committed to promoting and supporting the use of renewable fuels and achieving high fuel efficiencies.
- The Group collaborates with its suppliers to reduce their carbon footprint resulting from production. Graanul Invest also continues to focus its efforts on achieving operational efficiencies, such as: (i) the development of pellet production plants close to the source of raw material to reduce emissions resulting from transportation, and monitoring that the average sourcing distances and fuel consumption do not exceed historic levels; and (ii) maintaining high feedstock load packing efficiencies.
- Graanul Invest is working in partnership with its suppliers to increase its use of transport modes that allow the movement of higher volumes with lower carbon footprints, such as rail transport. Rail freight accounts for about one-third of the Group's raw material supply and has a lower carbon footprint per tonne-kilometre than road freight.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPT, Sustainalytics considers: i) whether the SPT goes beyond business-as-usual trajectory, ii) how the SPT compares to targets set by peers, iii) and how the SPT compares with science.⁸

Graanul Invest has set 2020 as the baseline for the SPT to reflect the latest data available, with an ambition to achieve a 5% reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced by 2024.

Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance and peer performance. The carbon emissions intensity from Graanul Invest's total scope 1, 2 and 3 emissions declined at an average annual rate of around 4% between 2018 and 2020. Achieving the SPT would imply an average annual reduction of approximately 1.25% per year between 2020 and 2025. Sustainalytics acknowledges that the Group

⁸ We refer here to contextual benchmarks that indicate the alignment of targets with ecosystem boundaries.

already has a significant share of renewables in its energy mix and is therefore building on an existing strong base. Sustainalytics notes that the SPT is aligned with the downward trend observed in the Group’s historical performance, albeit the indicated rate of reduction for the period between 2020 and 2025 is lower than the reduction achieved between 2018 and 2020.

With regards to comparison against peer performance, Graanul Invest’s carbon emissions intensity stood at 7.08 gCO₂e/MJ as of 2020, which is considerably lower than all peers in its peer group.⁹ Additionally, the Group is committed to reducing its emissions intensity further by achieving the target set in the Framework. Therefore, Sustainalytics considers Graanul Invest’s emissions intensity performance on the KPI to be above peer performance.

Overall Assessment

Sustainalytics considers the SPT to align with Graanul Invest’s sustainability strategy. Sustainalytics further considers Graanul Invest’s SPT to be moderately ambitious given that it represents a continued reduction relative to past performance, although the rate of reduction is slower than historical performance. Additionally, the Group’s performance on carbon emissions intensity is lower than all peers within its peer group.

Reduce gCO ₂ e/MJ by 5% by 2024, compared to a 2020 baseline (Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced)	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
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Sustainability-Linked Instruments Characteristics

Graanul Invest has disclosed that it will link the financial characteristics of all sustainability-linked instruments issued under the Framework to achievement of the SPT. The financial characteristics may include a step-up in the coupon rate, margin adjustment or premium payment amount, as applicable, if the Group fails to meet the stated SPT at the target observation date in 2024. The exact value of adjustments in the financial characteristics selected for each financial instrument will be specified in their respective documentation. Sustainalytics does not opine on the adequacy of the penalty imposed for not achieving the set SPT.



Reporting

Graanul Invest commits to report on an annual basis on its performance on the KPI and to publish the relevant figures on its website. The Group also commits to disclose other relevant information, such as an illustration of the positive impact of performance improvement, an explanation of key contributing factors and any reassessment of the KPI or restatement of the SPT, chosen baseline or scope of the KPI. Graanul Invest’s reporting commitments are aligned with the recommendations of the SLBP and the SLLP.



Verification

Graanul Invest commits to having an external verifier provide limited assurance on the published KPI performance figures for each fiscal year and in relation to any target observation date of the SPT, which is aligned with the SLBP on verification. The verification will be made publicly available on Graanul Invest’s website.

⁹ The peer group considered for comparison included Enviva and Drax. However, as Drax’s power generation operations also include the use of coal, Sustainalytics considers Enviva to be a suitable peer for comparison.

Section 2: Assessment of Graanul Invest's Sustainability Strategy

Credibility of Graanul Invest's Sustainability Strategy

Graanul Invest began disclosing its sustainability performance in 2017 and has identified reducing its carbon footprint and enabling sustainable forestry as key focus areas for the Group. Graanul Invest has also published audited carbon balance data for its operations since 2018 as part of its sustainability reporting efforts.

According to its Sustainability Report 2020,¹⁰ the carbon intensity of the Group's total pellet production reduced by 8% from 7.7 gCO₂e/MJ in 2018 to 7.08 gCO₂e/MJ in 2020. This reduction was largely driven by increased adoption of renewable heat and electricity produced using CHP plants owned by the Group. Drying of raw materials used in pellet production is an important step in increasing the energy content of the final product and is, therefore, also energy intensive. In order to meet its heat energy requirements, Graanul Invest relies on renewable heat generated from biomass furnaces or CHP plants which are operated using low-quality biomass that is unsuitable for pellet production. In 2020, Graanul Invest's facilities produced 869 GWh of heat in biomass furnaces and 919 GWh in CHPs.¹¹ Sustainalytics views that such practices offer an environmentally friendly alternative route for biomass drying and improve Graanul Invest's overall resource efficiency.

Graanul Invest relies on rail transportation for approximately one-third of its raw material supply, as rail transport enables the movement of higher volumes with lower carbon footprint relative to other transportation modes, such as trucks. Another key focus area for the Group to reduce its carbon footprint has been the optimization of supply chains by locating its pellet production plants as close as possible to the source of raw material, thereby reducing the emissions from raw material transportation.¹⁰ In addition, Graanul Invest has adopted strategies to support sustainable forestry by increasing forest reserves through afforestation, which enables carbon sequestration. In 2020, the Group afforested 139 hectares of arable and grassland and generated 795 hectares of new forest generation.¹²

Sustainalytics considers Graanul Invest to have a strong sustainability strategy and considers that the financing instruments eventually issued or obtained under the Framework will further support Graanul Invest's sustainability efforts.

Graanul Invest's Environmental and Social Risk Management

Sustainalytics recognizes that Graanul Invest's defined targets are impactful but acknowledges that achieving the SPT bears environmental and social risks related to land use and biodiversity, carbon emissions from own operations, occupational health and safety and supply chain risks.

Sustainalytics comments below on specific aspects of Graanul Invest's ability to mitigate such potential risks.

- To ensure responsible sourcing across Graanul Invest's supply chain, the Group remains compliant with globally recognized certificates focused on sustainable forest management practices. All the pellet production plants owned by Graanul Invest have been Sustainable Biomass Program (SBP) certified since 2019,¹³ and the raw materials required for pellet production are procured from suppliers that are certified under the Forest Stewardship Council (FSC)¹⁴ or Programme for the Endorsement of Forest Certification (PEFC).¹⁵ Sustainalytics views that such certifications ensure sufficient mitigation of environmental and social risks associated with sourcing of raw materials, such as traceability and safe and fair working conditions for labour in forests. For Sustainalytics' assessment of these forestry certification schemes, please refer to Appendix 1.
- With regards to emissions, the Group monitors and measures its performance on carbon emissions intensity across its supply chain. The Group's operations are certified with the ISO 14001:2015 standard, indicating the presence of environmental management systems to mitigate adverse environmental impact and to communicate with associated stakeholders regarding information on environmental management.¹⁶

¹⁰ Graanul Invest, "Sustainability report 2020", at: https://graanulinvest.com/wp-content/uploads/2021/06/graanul_invest_aruane_2020_en_screen_spreads.pdf

¹¹ *Ibid.*

¹² *Ibid.*

¹³ Sustainable Biomass Program, "Graanul Invest SBP Certificate", at: <https://sbp-cert.org/certificate-holders/graanul-invest-uab-sbp-07-19/>

¹⁴ Forest Stewardship Council, "Graanul Invest FSC Certificate", at: <https://info.fsc.org/details.php?id=a0240000006tyzdAAA&type=certificate&return=certificate.php>

¹⁵ Programme for the Endorsement of Forest Certification (PEFC), "Certified Companies", at: <https://www.pefc.org/>

¹⁶ Graanul Invest, "Sustainability report 2020", at: https://graanulinvest.com/wp-content/uploads/2021/06/graanul_invest_aruane_2020_en_screen_spreads.pdf

- Regarding worker health and safety, Graanul Invest adheres to the ISO 45001:2018 Occupational Health and Safety Management standard.¹⁷ The Group has developed a software application to improve occupational safety monitoring by detecting irregularities or anomalies in plants, leading to reduced events of accidents, increased occupational safety, and improved awareness.¹⁸ In addition, the EU Directive on Worker Health and Safety ensures minimum safety and health requirements throughout Europe. Employers must “ensure the safety and health of workers in every aspect related to the work,” and implement measures for the “prevention of occupational risks and provision of information and training, as well as provision of the necessary organization and means.”¹⁹
- The Group’s governance guidelines include an anti-corruption policy that aligns with applicable anti-bribery and anti-corruption laws in all jurisdictions where it operates. This ensures that all of its suppliers also comply with the applicable anti-bribery and anti-corruption legislations.²⁰
- The countries where Graanul Invest operates are classified as Designated Countries under the Equator Principles, implying the presence of environment and social governance systems, legislation and institutional capacity designed to protect the local environment and communities.²¹

Sustainalytics notes that it has not found evidence of significant environmental or social controversies related to Graanul Invest. Overall, Sustainalytics considers that Graanul Invest has strong management programmes and policies to mitigate risks that could arise from the Group’s operations.

Section 3: Impact of the SPT Chosen

Importance of reducing carbon footprint from pellet production

The European Union is the largest producer of wood pellets globally and currently uses 74% of its capacity to produce approximately 25 million tonnes of wood pellets.²² The EU is also the world’s largest consumer of wood pellets, representing approximately 75% of the global pellet demand.²³ Despite the magnitude of its pellet production capacity, EU demand for wood pellets exceeds production, with the remainder being fulfilled by imports largely from the US.²⁴ In the EU, where the energy sector accounts for 75% of GHG emissions, bioenergy (including from wood pellets) is expected to play a crucial role in achieving the current GHG emissions reduction targets of at least 55% by 2030 (compared to 1990 levels) and increasing renewable energy use to at least 32% of the total energy consumption by 2030.²⁵ This scenario has contributed to an increase in demand for wood pellets in Europe, which is expected to continue further by 30-40% between 2021 and 2026.²⁶

Although forestry companies involved in wood pellet production contribute to climate change mitigation, this growing industry could also generate significant level of carbon emissions. Life cycle assessment²⁷ studies show that along the whole wood pellet value chain, some processes are emission hotspots and are areas of concerns.²⁸ Transportation and distribution of forest products are a major source of greenhouse gas emissions and many of the industry’s manufacturing facilities continue to rely on

¹⁷ Graanul Invest, “Certificates”, at: <https://graanulinvest.com/certificates/>

¹⁸ Graanul Invest, “Sustainability report 2020”, at: https://graanulinvest.com/wp-content/uploads/2021/06/graanul_invest_aruanne_2020_en_screen_spreads.pdf

¹⁹ EU, “Directive 89/391/EEC 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=FR>

²⁰ Graanul Invest, “Anti-Corruption Policy”, at: https://graanulinvest.com/wp-content/uploads/2021/07/korruptsioonivastane_juhend_eng-2.pdf

²¹ The Equator Principles, “Designated Countries”, at: <https://equator-principles.com/designated-countries/>

²² Businesswire, “Global Wood Pellet Market (2021 -2026), at: [https://www.businesswire.com/news/home/20210702005362/en/Global-Wood-Pellet-Market-2021-to-2026--Growth-Trends-COVID-19-Impact-and-Forecasts--ResearchAndMarkets.com#:~:text=Europe's%20demand%20for%20wood%20pellet,and%20power%20plants%20\(10%25\)](https://www.businesswire.com/news/home/20210702005362/en/Global-Wood-Pellet-Market-2021-to-2026--Growth-Trends-COVID-19-Impact-and-Forecasts--ResearchAndMarkets.com#:~:text=Europe's%20demand%20for%20wood%20pellet,and%20power%20plants%20(10%25))

²³ *Ibid.*

²⁴ Graanul Invest, “Sustainability report 2020”, at: https://graanulinvest.com/wp-content/uploads/2021/06/graanul_invest_aruanne_2020_en_screen_spreads.pdf

²⁵ MDPI, “Comparative Life Cycle Assessment of Bioenergy Production from Different Wood Pellet Supply Chains” (2020), at: <https://www.mdpi.com/1999-4907/11/11/1127/htm>

²⁶ Businesswire, “Global Wood Pellet Market (2021 -2026), at: [https://www.businesswire.com/news/home/20210702005362/en/Global-Wood-Pellet-Market-2021-to-2026--Growth-Trends-COVID-19-Impact-and-Forecasts--ResearchAndMarkets.com#:~:text=Europe's%20demand%20for%20wood%20pellet,and%20power%20plants%20\(10%25\)](https://www.businesswire.com/news/home/20210702005362/en/Global-Wood-Pellet-Market-2021-to-2026--Growth-Trends-COVID-19-Impact-and-Forecasts--ResearchAndMarkets.com#:~:text=Europe's%20demand%20for%20wood%20pellet,and%20power%20plants%20(10%25))

²⁷ The life cycle assessment or LCA methodology is internationally recognized as a valuable tool for the evaluation of the environmental burdens associated with bioenergy production, by identifying energy and materials used, as well as waste and emissions released into the environment.

²⁸ Graanul Invest, “Sustainability report 2020”, at: https://graanulinvest.com/wp-content/uploads/2021/06/graanul_invest_aruanne_2020_en_screen_spreads.pdf

fossil fuels for production processes.^{29,30} Consequently, the unsustainable production and the industry’s supply chains, which contribute to environmental degradation,³¹ offer at the same time the potential to reduce manufacturing related emissions through improved efficiencies.^{32,33}

Based on the above context, Graanul Invest’s efforts to increase its use of renewable energy and reduce the carbon emissions intensity across its value chain are expected to contribute towards the EU’s decarbonization targets.

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 sustainability-linked bonds advance the following SDG goals and targets:

KPI	SDG	SDG Target
Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
	12. Responsible Consumption and Production	7.3 By 2030, double the global rate of improvement in energy efficiency
		12.2 By 2030, achieve the sustainable management and efficient use of natural resources

Conclusion

Graanul Invest Group intends to issue sustainability-linked bonds and loans, tying their financial characteristics (such as coupon rate, margin or premium payment amount) to the achievement of the following SPT:

- (1) Reduce grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced by 5% by 2024, compared to a 2020 baseline.

Sustainalytics considers the KPI chosen – Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced – to be strong because: i) it is a direct measure of Graanul Invest’s performance on a material environmental issue for the forestry industry; ii) it is applicable to approximately 99% of the Group’s total scope 1, 2 and 3 emissions; and iii) it uses a clear and consistent methodology. The SPT is considered moderately ambitious as it is aligned with Graanul Invest’s historical emissions intensity performance but above peer performance. Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers Graanul Invest Group’s Financing Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and Sustainability-Linked Loan Principles 2021 and the prospective achievement of the SPT to be impactful.

²⁹ *Ibid.*

³⁰ Food and Agricultural Organization of the United Nation, “Impact of the global forest industry on atmospheric greenhouse gases”, (2010), at: <http://www.fao.org/3/i1580e/i1580e00.pdf>

³¹ Climate Disclosure Project, “Our Forests Work”, at: <https://www.cdp.net/en/forests#commodities>

³² Graanul Invest, “Sustainability report 2020”, at: https://graanulinvest.com/wp-content/uploads/2021/06/graanul_invest_aruanne_2020_en_screen_spreads.pdf

³³ Science Direct, “Evaluation of Biomass Production and Utilization Systems”, (2014), accessed on 21 September 2021, at: <https://www.sciencedirect.com/topics/engineering/wood-pellet>

Appendix 1: Assessment of forestry certification schemes

	Programme for the Endorsement of Forest Certification (PEFC) ³⁴	Forest Stewardship Council (FSC) ³⁵
Background	<p>Founded in 1999, the Programme for the Endorsement of Forest Certification (PEFC) is a non-profit organization that promotes sustainable forest management through independent third-party certification, this includes assessments, endorsements and recognition of national forest certification systems. PEFC was created in response to the specific requirements of small- and family forest owners as an international umbrella organization.</p>	<p>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.</p>
Basic Principles	<ul style="list-style-type: none"> ● Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle ● Maintenance and enhancement of forest ecosystem health and vitality ● Maintenance and encouragement of productive functions of forests (wood and no-wood) ● Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems ● Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water) ● Maintenance of socioeconomic functions and conditions ● Compliance with legal requirements 	<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

³⁴ PEFC, Standards and Implementation: <https://www.pefc.org/standards-implementation>

³⁵ Forest Stewardship Council, FSC Principles and Criteria for Forest Stewardship: <https://ca.fsc.org/preview.principles-criteria-v5.a-1112.pdf>

<p>Types of standards/benchmarks</p>	<ul style="list-style-type: none"> • Sustainable Forest Management benchmark – international requirements for sustainable forest management. National forest management standards must meet these requirements in order to obtain PEFC endorsement • Group Forest Management Certification – outlines the requirements for national forest certification systems who have group forest management certification • Standard Setting – covers the processes that must be adhered to during the development, review and revision of national forest management standards • Chain of Custody – outlines the conditions for obtaining CoC certification for forest-based products • PEFC logo Usage Rules – outlines the requirements entities must abide by when using the PEFC logo • Endorsement of National Systems – outlines the process that national systems must go through to achieve PEFC endorsement 	<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)
<p>Governance</p>	<p>PEFC’s governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders. In general, PEFC’s governance structure is more representative of industry and government stakeholders than of social or environmental groups. Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.</p>	<p>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.</p>
<p>Scope</p>	<p>Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five years. The</p>	<p>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.</p>

	<p>PEFC Standard Setting standard is based on ISO/IEC Code for good practice for standardization (Guide 59)³⁶ and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p>	<p>Economic, social, and environmental interests have equal weight in the standard setting process. FSC follows the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p>
<p>Chain-of-Custody</p>	<ul style="list-style-type: none"> ● Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used to implement the minimum requirements for chain-of-custody management systems required by PEFC ● Only accredited certification bodies can undertake certification ● CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content. ● The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials ● The CoC standard includes specifications for the physical separation of certified and non-certified wood ● The CoC standard includes specifications about procedures for dealing with complains related to participant’s 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
<p>Non-certified wood sources</p>	<p>The PEFC’s Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ol style="list-style-type: none"> a. forest management activities that do not comply with local, national or international laws related to: <ul style="list-style-type: none"> - operations and harvesting, including land use conversion, 	<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

³⁶ ISO, ISO/IEC Guide 59:2019: <https://www.iso.org/standard/23390.html>

	<ul style="list-style-type: none"> - management of areas with designated high environmental and cultural values, - protected and endangered species, including CITES species, - health and labour issues, - indigenous peoples' property, tenure and use rights, - payment of royalties and taxes. <p>b. genetically modified organisms,</p> <p>c. forest conversion, including conversion of primary forests to forest plantations.</p>	<p>mechanisms, in violation of CITES requirements, and others,</p> <p>b. Wood harvested in violation of traditional and civil rights,</p> <p>c. Wood harvested in forests where high conservation values are threatened by management activities,</p> <p>d. Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses,</p> <p>e. Wood from management units in which genetically modified trees are planted.</p>
<p>Accreditation/verification</p>	<p>Accreditation is carried out by an accreditation body (AB). In the same way that a certification body checks that a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process, PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.</p> <p>PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.</p>	<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>
<p>Qualitative considerations</p>	<p>Sustainalytics views both FSC and PEFC as being robust, credible standards that are based on comprehensive principles and criteria that are aligned with ISO. Both schemes have received</p>	

	<p>praise for their contribution to sustainable forest management practices³⁷ and both have also faced criticism from civil society actors.^{38,39} In certain instances, these standards go above and beyond national regulation and are capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standards are similar or equal to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by either scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p>
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Appendix 2: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

<p>Issuer name: Graanul Invest Group</p> <p>Sustainability-Linked Bond ISIN:</p> <p>Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3): Sustainalytics</p> <p>Completion date of second party opinion pre-issuance: October 01, 2021</p> <p>Independent External Review provider's name for post-issuance verification (section 4): not known at the time of publication</p> <p>Completion date of post issuance verification: not known at the time of publication</p>

At the launch of the bond, the structure is:

- a step-up structure a variable redemption structure

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

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

The review:

- assessed all the following elements (complete review) only some of them (partial review):
- Selection of Key Performance Indicators (KPIs) Bond characteristics (acknowledgment of)

³⁷ FESPA, FSC, PEFC and ISO 38200: <https://www.fespa.com/en/news-media/blog/fsc-pefc-and-iso-38200>

³⁸ Yale Environment 360, Greenwashed Timber: How Sustainable Forest Certification Has Failed: <https://e360.yale.edu/features/greenwashed-timber-how-sustainable-forest-certification-has-failed>

³⁹ EIA, PEFC: A Fig Leaf for Stolen Timber: <https://eia-global.org/blog-posts/PEFC-fig-leaf-for-stolen-timber>

- | | |
|--|---|
| <input checked="" type="checkbox"/> Calibration of Sustainability Performance Targets (SPTs) | <input checked="" type="checkbox"/> Reporting |
| <input checked="" type="checkbox"/> Verification | |
| <input checked="" type="checkbox"/> and confirmed their alignment with the SLBP and SLLP | |

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |

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

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Graanul Invest Group intends to issue sustainability-linked bonds and loans which will tie the financial characteristics of the instruments (such as coupon rate, margin or premium payment amount) to the achievement of the following SPT:
 - Reduce grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced by 5% by 2024, compared to a 2020 baseline.
 Sustainalytics considers the KPI chosen – Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced – to be strong as it is a direct measure of Graanul Invest’s performance on a material environmental issue for the forestry industry, is applicable to around 99% of the Group’s total scope 1, 2 and 3 emissions, and utilizes a clear and consistent methodology. The SPT is considered moderately ambitious as it is aligned with Graanul Invest’s historical emissions intensity performance but above peer performance. Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.
 Based on the above, Sustainalytics considers Graanul Invest Group’s Financing Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and Sustainability-Linked Loan Principles 2021 and the prospective of achievement of the SPT to be impactful.

Section 3. Detailed pre-issuance 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.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

Overall comment on the section (if applicable): Sustainalytics overall considers the KPI, reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced, to be adequate given that it speaks to a material environmental issue for the forestry industry and is a direct measure of Graanul Invest’s performance on the issue. Additionally, the KPI covers almost 99% of the total carbon emissions that arise from Graanul Invest’s operations. The KPI also has a clear and consistent methodology that is aligned with the approach suggested by the Renewable Energy Directive.

List of selected KPIs:

- Reduction in grams of carbon dioxide emissions (scope 1, 2 and 3) per megajoule of green energy contained in the pellets produced

Definition, Scope, and parameters

- | | |
|--|---|
| <input checked="" type="checkbox"/> Clear definition of each selected KPIs | <input checked="" type="checkbox"/> Clear calculation methodology |
| <input type="checkbox"/> Other (please specify): | |

Relevance, robustness, and reliability of the selected KPIs

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials that the selected KPIs are relevant, core and material to the issuer’s sustainability and business strategy. | <input type="checkbox"/> Evidence that the KPIs are externally verifiable |
| <input checked="" type="checkbox"/> Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis | <input type="checkbox"/> Evidence that the KPIs can be benchmarked |
| | <input type="checkbox"/> Other (please specify): |

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (if applicable): Sustainalytics considers the SPT to align with Graanul Invest’s sustainability strategy. Sustainalytics further considers Graanul Invest’s SPT to be moderately ambitious given that it represents a continued reduction relative to past performance although the rate of reduction is slower compared to historical performance. Additionally, the Group’s performance on carbon emissions intensity is above its peers.

Rationale and level of ambition

- | | |
|--|---|
| <input checked="" type="checkbox"/> Evidence that the SPTs represent a material improvement | <input checked="" type="checkbox"/> Credentials on the relevance and reliability of selected benchmarks and baselines |
| <input checked="" type="checkbox"/> Evidence that SPTs are consistent with the issuer’s sustainability and business strategy | <input checked="" type="checkbox"/> Credentials that the SPTs are determined on a predefined timeline |
| | <input type="checkbox"/> Other (please specify): |

Benchmarking approach

- | | |
|--|--|
| <input checked="" type="checkbox"/> Issuer own performance | <input checked="" type="checkbox"/> Issuer’s peers |
| <input type="checkbox"/> reference to the science | <input type="checkbox"/> Other (please specify): |

Additional disclosure

- | | |
|---|--|
| <input type="checkbox"/> potential recalculations or adjustments description | <input checked="" type="checkbox"/> issuer’s strategy to achieve description |
| <input checked="" type="checkbox"/> identification of key factors that may affect the achievement of the SPTs | <input type="checkbox"/> Other (please specify): |

3-3 BOND CHARACTERISTICS

Overall comment on the section (if applicable): Graanul Invest will link the financial characteristics of all sustainability-linked instruments issued under the Framework to achievement of the SPT. The financial characteristics may include a step-up in the coupon rate, margin adjustment or premium payment amount as applicable if the Group fails to meet the stated SPT at the target observation date in 2024. The exact value of adjustments in the financial characteristics selected for each financial

instrument will be specified in their respective documentation. Sustainalytics does not opine on the adequacy of the penalty imposed for not achieving the set SPT.

Financial impact:

- variation of the coupon
- margin adjustment
- Other (*please specify*): premium payment

Structural characteristic:

- ...
- ...
- Other (*please specify*):

3-4 REPORTING

Overall comment on the section (*if applicable*): Graanul Invest commits to report on an annual basis on its performance on the KPI and to publish the relevant figures on its website. The Group also commits to disclose other relevant information, such as an illustration of the positive impact of performance improvement, an explanation of key contributing factors and any reassessment of the KPI or restatement of the SPT, chosen baseline and the scope of the KPI. Graanul Invest's reporting commitments are aligned with the recommendations of the SLBP and the SLLP.

Information reported:

- performance of the selected KPIs
- level of ambition of the SPTs
- verification assurance report
- Other (*please specify*):

Frequency:

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

Means of Disclosure

- Information published in financial report
- Information published in ad hoc documents
- Reporting reviewed (*if yes, please specify which parts of the reporting are subject to external review*):
- Information published in sustainability report
- Other (please specify): Graanul Invest Group's website

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

Level of Assurance on Reporting

- limited assurance
- reasonable assurance

- Other (please specify):

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

Section 4. Post-issuance verification

Overall comment on the section (if applicable):

Information reported:

- limited assurance
- reasonable assurance
- Other (please specify):

Frequency:

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

Material change:

- Perimeter
- KPI methodology
- SPTs calibration

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

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