

Graanul Invest Group

Sustainability-Linked Financing

Framework

September 2021

I. Introduction

1. About Graanul Invest Group

Graanul Invest Group (“Graanul Invest” or the “Group”) is a world leading biomass and bioenergy producer. Graanul Invest has been developing the bioenergy field for over 18 years, leading the industry with some of the most advanced processes and technologies. Our global footprint is composed of twelve wood pellet plants in the Baltics and the US as well as six combined heat-and-power plants in Estonia and Latvia. We believe that our leadership in biomass is key to meeting global climate challenges, acting against carbon emissions, and providing viable solutions.

Wood pellets are a renewable heating material with a high energy content that can replace gas, oil, coal or oil shale. Wood pellets are an environmentally friendly biofuel sourced from the production residues of the wood industries (saw dust, wood chips) and low-quality roundwood that is not suitable for producing sawn timber and other wood products. Burning fossil fuels releases new carbon from the earth into the atmosphere and boosts anthropogenic climate change. Replacing fossil fuels with bioenergy like wood pellets is an important step in addressing climate challenges.

2. Graanul Invest’s Sustainability Strategy

Graanul Invest operating policy is focused on the quality of the product and service, ensuring that this is achieved with minimal environmental impact. All our business and operational activities are dedicated to developing a globally sustainable renewable energy system to replace fossil emissions.

Our business aims are based on the following principles:

- highest quality product
- minimum environmental impact
- best energy performance in production
- safest labour environment
- biggest GHG savings potential

We regularly monitor our environmental emissions, energy, and resource efficiency to improve our Group's ecological footprint. We constantly improve performance and ensure sufficient information and resources to reach our targets. Upon making new decisions, we continuously evaluate their immediate and long-term impacts on our workers, clients, stakeholders, environment, efficiency and business.

3. Our Focus on the Environment

Graanul Invest's environmental focus¹ is evident across its entire value chain, including sourcing, production, transportation / distribution, and heat and power production.

Sourcing: Graanul Invest utilizes five categories of raw materials: dry sawdust and wood shavings, wet sawdust, wood bark, woodchips, and low-quality stemwood. The materials are typically by-products of other raw material uses, damaged or rotted wood, or surplus materials – pushing raw materials down the value chain for use in wood pellets is key to supporting a circular economy. All raw materials come through either FSC® or PEFC certified supply chains. For more information on guidelines and certification, please see “6. Managing our Sustainability and ESG Risks.”

Production: Graanul Invest carefully monitors the efficiency of its production processes, measuring electricity consumption, heat, and water consumption. Graanul Invest is focused on utilizing renewable energy to power its production processes and also relies on 100% renewable thermal energy (produced by Graanul Invest). Although wood pellet production is not water intensive, Graanul Invest reduced specific water consumption by 7.6% from 2019 to 2020 and continues to look for efficiencies in its facilities

Transportation / Distribution: in order to minimize the impact that the movement of raw materials has on its carbon footprint, Graanul Invest optimizes the movement of raw materials from source-to-plant. In addition, almost a third of raw materials is transported via rail, far more efficient than other alternatives. In locations where rail is not feasible, the Group is upgrading its fleet of vehicles, with goals to improve fuel efficiency over the near-term and convert to renewable fuels in the mid-term.

Heat and Power Production: Graanul Invest's combined heat and power plants generate renewable resources consumed by the Group as well as local economies. Acknowledging the

¹ <https://graanulinvest.com/responsibility/#environmental-policies>

carbon footprint of these facilities is important for further optimizing the Group's overall carbon footprint

Graanul Invest evaluates its overall environmental benefits on a lifecycle basis. Although wood pellets make it possible for energy products to prevent more than 90% of fossil emissions without compromising energy production output, a fully transparent value chain can lead to additional efficiencies and continue to support global climate challenges.

4. Social Initiatives

Graanul Invest's social initiatives include creating socioeconomic benefits in rural areas, ensuring worker safety, establishing reliable partners, and giving back to society largely through supporting youth education and recreation.

Socioeconomic Benefits in Rural Areas: Graanul Invest's wood pellet plants are located away from major cities and are important employers in rural areas. Seizing regional opportunities and providing people with jobs close to home contributes to regional development and supports sustainable living in the countryside. Our goal is to support local communities and actively contribute to the development of life in the area

Ensuring Worker Safety²: Graanul Invest has developed an application that aims to improve occupational safety monitoring. This interactive software makes it easy to detect irregularities or anomalies in plants, thereby reducing accidents, increasing occupational safety, and significantly improving awareness. Graanul Invest's commitment also includes quarterly audits. Graanul Invest also relies on the requirements of the International Organization for Standardization (ISO) to help ensure safe and efficient workplaces

Establishing Reliable Partners³: We cooperate only with such partners that operate according to the same quality, environment, energy performance and labour safety principles as we do. We only use suppliers who comply with the sustainable forestry standards and supply conforming products. Through contractual relations, raising awareness, electronic payments, and constant auditing, we have achieved a due diligence system that leaves no room for unethical conduct in our value chain

Giving Back to Society: Graanul Invest's business is focused on creating forward-looking solutions to support young people, and those efforts are supported by contributions to the development of youth sports, education, and research.

² <https://graanulinvest.com/responsibility/#environmental-policies>

³ https://graanulinvest.com/wp-content/uploads/2021/06/graanul_invest_aruanne_2020_en_screen_spreads.pdf

Graanul Invest has also been active in creating parks and other green spaces in local communities and supporting the broader development of the Estonian forest and wood industry. In addition, Graanul Invest stood ready to support employees and local communities with food, donations, and other support during the COVID-19 crisis.

5. Our Commitment to Good Governance

Our business aims are based on the following principles:

- highest quality product
- minimum environmental impact
- best energy performance in production
- safest labour environment
- biggest GHG savings potential

The oversight of the Group's ESG strategy implementation and performance is carried out by the Head of Quality and Certification Systems. The management board is responsible for following the ESG strategy and meeting ESG targets on quarterly level. The supervisory board evaluates the relevance of the strategies and KPIs and verifies the annual performance against annual targets.

ESG KPIs are integrated into main performance targets and are reviewed on a quarterly level with equal priority. ESG KPIs and projects receive similar resources and priority as key engineering/development projects. ESG KPIs are linked with production level as well as management board level bonus systems.

The ESG strategies and KPIs are transparently published in annual sustainability reports. Each key ESG category is also third party audited on an annual level to verify the accuracy and relevance of the ESG targets.

We participate in working groups and committees of relevant sustainability standards and ESG policies to be up to speed with global developments, changing requirements and direct as well as indirect stakeholder expectations. We encourage and carefully consider stakeholder input in our feedstock sourcing procedures as well as ESG strategies.

6. Managing our Sustainability and ESG Risks

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The Group operates a risk/opportunity severity and likelihood matrix which takes into account internal and external factors of the value chain. The only factors that are evaluated to need more attention on top of today's policies are occupational HS due to the changing conditions of Covid-19 and ENGO complaints. Both are addressed with new mitigative actions plans.

- Covid-19: employee vaccination incentives, contactless and paperless communication within production facilities and the value chain, reassessment of job level HSE risk-assessments and training materials.
- ENGO: increased participation in local and international multi-stakeholder working groups, increased evidence collection and field inspections of contentious topics, increased support of sustainability promotion campaigns and educational tours to our supply and production chains.
- Certification: International certificates hold an important position in timber and energy industry. They help to improve environmental, quality and social aspects of our entire value chain and keep the company one step ahead of the market requirements. FSC and PEFC certificates are of crucial importance to the supply of our forest management and timber supply chain and guarantee compliance with the EU Timber Regulation and other international and regional guidelines. Graanul Invest holds both sustainable forestry certificates. The raw material used in our production of wood pellets comes from wood industry waste (dry sawdust, wood shaving, wet sawdust, wood bark, woodchips) and low quality stemwood. We undertake 100% certified sustainable sourcing of raw materials from the surplus of the local forest and wood industries located in the regions in which we operate our pellet production facilities. Broader guidelines are guided by RED II ("Renewable Energy Directive"), with local specifics important for sourcing and certification. In addition, Graanul Invest closely follows any and all land-use, land-use change and forestry criteria ("LULUCF") as determined by international and local standards.

7. Our Contribution to the UN Sustainable Development Goals (UN SDGs)



8. Rationale for establishing a Sustainability-Linked Financing Framework

Graanul Invest believes embedding sustainability throughout the organisation protects and creates long-term value for stakeholders, both internal and external, and will secure the long-term future of the Group.

As part of our effort to fight climate change and protect biodiversity, sustainability-linked instruments will enable the Group to commit to specific sustainability and environmental outcomes. The instruments will leverage ambitious timelines to achieve sustainability and environmental performance that is relevant, core and material to its business. Aligning financing to Graanul Invest's sustainability performance signals a strong commitment to implement the Group's sustainability agenda.

Graanul Invest has thus decided to establish a Sustainability-Linked Financing Framework (the "Framework"). Graanul Invest's instruments under this Framework will be focused on contributing to SDG 12 (responsible consumption and production) and SDG 13⁴ (Take urgent action to combat climate change and its impacts), relating to climate change or environmental degradation.

Graanul Invest wishes to participate to the development of best market practices and presents a unified and coherent suite of Sustainability-Linked Financing instruments to the market. The approach adopted consists in linking Graanul Invest's sustainability strategy with its funding policy, by incentivizing the achievement of pre-determined, relevant Sustainability Performance Targets (SPTs).

This Framework provides a high-level approach to Graanul Invest's Sustainability-Linked Financings and investors should refer to the relevant documentation of each transaction for further details.

⁴ United Nations Department of Economic and Social Affairs, Sustainable Development, Goal 13

II. Sustainability-Linked Financing Framework

The Framework has been established in accordance with the recommendations of the Sustainability-Linked Bond Principles (SLBP), as administered by the International Capital Markets Association (ICMA) in June 2020⁵ and Sustainability-Linked Loan Principles (SLLP)⁶. Graanul Invest has also taken note of the European Leveraged Finance Association's (ELFA) Best Practice Guide to Sustainability-Linked Leveraged Loans, published in July, 2021 when preparing this framework.⁷

The issuer may under this Sustainability-Linked Financing Framework issue debt securities including Sustainability-Linked Bonds (SLB) and Loans (SLL).

In alignment with the core components of the SLBP as administered by ICMA and the SLLP, the following sections contain a discussion of the main components of this Sustainability-Linked Financing Framework:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

Through the instruments issued under this Framework, Graanul Invest will be able to align its financing with its broader sustainability targets and ambitions. The Framework and any potential issuance will underline Graanul Invest's commitment to these objectives and engage existing and future stakeholders on its path towards a more sustainable future



⁵ <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slb/>

⁶ <https://www.lma.eu.com/documents-guidelines/documents/category/green--sustainable-finance#sustainability-linked-loan-principles140>

⁷ https://www.lma.eu.com/application/files/5416/2745/5555/LMA_ELFA_Best_Practice_Guide_to_Sustainability_Linked_Leveraged_Loans.pdf

1. Selection of Key Performance Indicators (KPIs)

Graanul Invest has selected the following KPI, which is core, relevant and material to its business and measures the sustainability improvements of our Group.

Key Performance Indicator: Carbon Intensity (Scope 1, 2 & 3)				
	<p>Definition of the metric: Carbon emissions across Graanul Invest's supply, production and sourcing chains (Scope 1, 2 & 3) vs the total energy contained in the pellets produced</p>			
	<p>Unit: grams of carbon dioxide equivalents per megajoule of green energy contained in the pellets (gCO₂-eq/MJ)</p>			
	<p>Perimeter: Graanul Invest's 12 pellet production facilities, their feedstock supply chains and transportation of product (for the avoidance of doubt, that also includes the extraction of stemwood).</p>			
	<p>Methodology: Carbon balance of each plant calculated based on audited data and in accordance with the requirements of the Renewable Energy Directive (RED II):</p> <ul style="list-style-type: none"> • Calculations consistent with the requirements of RED recast (RED II) using emission factors from: <ul style="list-style-type: none"> ○ JRC Science for Policy Report, 2017, Solid and gaseous bioenergy pathways: input values and GHG emissions, and/or ○ Biograce GHG calculation tool. 			
	<p>No offsets are applied for the achievement of this KPI</p>			
	<p>Historical evolution</p>			
	(gCO ₂ -eq/MJ)	2018	2019	2020
	Carbon Intensity	7.70	7.45	7.08
	% decrease	n/a	-3.2%	-4.9%

	<p>Rationale: In bioenergy and biomass production, Graanul Invest leads the way in terms of these parameters and makes an important contribution towards resolving the environmental crisis. That is why the Group is focused in improving the net balance of energy produced with its pellets.</p> <p>The KPI is material to Graanul Invest's business as it clearly ties into our strategy to improve the carbon intensity of our products.</p> <p>For the purpose of this framework, Graanul Invest has chosen to focus on relative Scope 1, 2 and 3 emissions in order to demonstrate the Group's very high ambitions.</p>
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2. Calibration of Sustainability Performance Targets (SPTs)

SPT: Reduce Carbon Intensity (Scope 1, 2 & 3) by 5% by 2024

SPT: reduce grams of carbon dioxide equivalents per megajoule of green energy contained in the pellets (gCO₂-eq/MJ) by 5% by 2024

The SPT represents a material improvement and goes beyond the business-as-usual trajectory as Graanul Invest has already made material efforts and investments to reach a “best in class” carbon footprint in its peer group.

Because of its very carbon-efficient profile, the marginal incremental improvements are getting more and more difficult and costly – explaining the reason for the lower improvement vs. previous years.

Baseline: 7.08 gCO₂-eq/MJ in 2020 split between: 0.79 gCO₂-eq/MJ linked to the sourcing chain, 3.5 gCO₂-eq/MJ linked to the production chain and 2.79 gCO₂-eq/MJ linked to the supply chain.

Action Plan related to the reduction of the carbon intensity ratio:

- i. **Sourcing chain** – Working in partnership with our supplies to optimise the production phase to improve their overall carbon footprint – monitoring the weighted average sourcing distances would not exceed historic levels, monitoring that feedstock transportation fuel consumption would not increase and that feedstock load packing efficiencies remain high.
- ii. **Production chain** – Increasing the share of renewable electricity used by the Group and improve the energy efficiency of the assets, upgrade and installation of state-of-the-art emissions controls to reduce volatile organic compounds
- iii. **Supply chain** – Working in partnership with our supplies to increase the use of large volume bulk carrier vessels with lower footprint per ton kilometre
- iv. **Value chain** – Actively promote and support the use of higher fuel efficiency and seek ways to convert to renewable fuels

The inability to achieve a decoupling of business growth from emissions required to meet the SPT may result from:

- Inability to source sufficient renewable energy to power Graanul Invest’s operations
- Regulatory or criteria changes
- Climate change supply / sourcing chains issues

3. Financing characteristics

- The financial characteristics of the instrument will be impacted depending on the achievement or failure of the SPT indicated in the previous section of this Framework. Performance against the SPT, representing the instrument's trigger events, will be observed at each observation date
- The exact mechanism and impacts of the achievement or failure to reach the pre-defined SPT will be detailed for each financing in the pre-issuance template

The proceeds of the issuer's Sustainability-Linked Financing will be used for general corporate purposes. The issuer's Sustainability-Linked Financing instruments have a sustainability-linked feature that will result in a coupon adjustment, or a premium payment as the case may be, if the issuer's performance does not achieve the stated SPT. The relevant KPI, SPT, coupon step-up amount, step-up margin amount or the premium payment amount, and any potential for material adjustments to the KPI and/or SPT, as applicable, will be specified in the relevant documentation of the specific transaction (e.g. Final Terms of the relevant instrument).

The issuer will notify the investors of the achievement or not of the SPT as soon as possible (as defined in the instrument's documentation) / and in any event within [●] days after the deadline specified in last day of the relevant bond documentation (the "Step Up Notification Deadline"). If, for any reason, the KPI cannot be calculated, observed or reported in a timely and satisfactory manner (as defined in the instrument's documentation), the defined financing characteristic change will be triggered as if the target was not met (with effective dates aligned with the original SPT).

4. Reporting

Annually, and in any case for any date/period relevant for assessing the trigger of the SPT performance leading to potential adjustments, such as a coupon step-up or premium payment of an instrument issued under the Sustainability-Linked Financing Framework, the issuer will publish and keep readily available and easily accessible on the issuer's website

(<https://graanulinvest.com/responsibility/>):

- Up-to-date information on the performance of the selected KPI, including the baseline where relevant
- a verification assurance statement ("Limited Assurance") relative to the SPT outlining the performance of the KPI against the SPT; and any other relevant information which may enable investors to monitor the progress of the selected KPI

Information may also include when feasible and possible:

- a qualitative or quantitative explanation of the contribution of the main factors, the evolution of the performance/KPI on an annual basis;
- illustration of the positive sustainability impacts of the performance improvement; and/or
- any re-assessments of KPIs and/or restatement of the SPT and/or adjustments of baselines or KPI scope, where applicable

5. Verification

Annually, and in any case for any date/ period relevant for assessing the KPI performance against the SPT leading to a potential financial adjustment, such as a step-up coupon or a premium payment on the instrument, until after the KPI trigger event of a bond has been reached, the issuer will seek independent and external verification of the performance level for the stated KPI by the Assurance Provider.

The Assurance Provider will always be a leading qualified / competent provider of third party assurance or attestation services appointed by the issuer, who will provide a verification assurance report in the form of a "Limited Assurance". The verification of the performance of the KPI, along with the Assurance Provider's verification statement, will be made publicly available on the issuer's website (<https://graanulinvest.com/responsibility/>).

External Review

This Sustainability-Linked Financing Framework has been reviewed by Sustainalytics in the form of a Second Party Opinion. The objective of the Second Party Opinion is to provide an independent assessment of the Sustainability-Linked Financing Framework's transparency and governance as well as its alignment with the Sustainability-linked Bond Principles 2020, published by ICMA, and Sustainability-Linked Loan Principles.

The Second Party Opinion is published on the website of the issuer (<https://graanulinvest.com/responsibility/>).

Amendments to this Framework

Graanul Invest will review the contents of this Framework from time to time, including its alignment to updated versions of the relevant principles as and when they are released, with the aim of adhering to best practices in the market. Over time, additional KPIs/SPTs may be added and new SPTs for the KPI may be proposed.

Graanul Invest will also review this Framework in case of significant changes affecting the calculation and observation of the KPIs and the SPTs, driven by significant or structural changes to the business model of Graanul Invest.

Any future updated version of this Framework that may exist will either keep or improve the current levels of ambition, transparency and reporting disclosures, including the corresponding review by an external verifier. The updated Framework, if any, will be published on Graanul Invest's website (<https://graanulinvest.com/responsibility/>).