

Graanul Invest Group

Type of Engagement: Sustainability Linked Bond Annual Review

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Introduction

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

In October 2021, Sustainalytics provided a Second-Party Opinion¹ on the Graanul Invest Group Sustainability-Linked Financing Framework (the “Framework”)² and assessed the selected KPIs as being relevant and material to the Group’s overall business and its sustainability objectives. Graanul Invest issued a Sustainability-Linked Bond (SLB) whose financial characteristics are tied to the achievement of a Sustainability Performance Target (SPT) that reflects the progress on a material sustainability-related issue for the Group. If the SPT is not achieved by the observation date outlined in the SLB’s documentation, an adjustment to the financial characteristics of the bond will be implemented. The final observation date of the issuance is 24 December 2024, and reporting occurs annually, not later than 30 June of each year.

In June 2024, Graanul Invest engaged Sustainalytics to review the progress on the achievement against the SPT at the end of 2023. This is Sustainalytics’ third annual review, following previous reviews in June 2022,³ and July 2023⁴.

Evaluation Criteria

Sustainalytics evaluated the alignment of the SLB with the following elements as mentioned in the Framework:

1. The progress towards achieving the SPT at the end of 2023;
2. Calculation and measurement of the KPI; and
3. The reporting practice of the issuer on the KPI.

Table 1: SPTs and KPIs

KPI	KPI Description	SPT (2024)	Baseline (2020)
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)	The KPI is defined as 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. Carbon emissions intensity is expressed as follows: gCO ₂ e/MJ	Reduce gCO ₂ e/MJ by 5% by 2024, compared to a 2020 baseline.	7.08

¹ Graanul Invest, “Second Party Opinion, Graanul Invest”, (2021), at: <https://graanulinvest.com/wp-content/uploads/2021/10/graanul-invest-group-sustainability-linked-financing-framework-second-party-opinion.pdf>

² Graanul Invest, “Sustainability-Linked Financing Framework, Graanul Invest”, (2021), at: <https://graanulinvest.com/wp-content/uploads/2021/10/graanul-invest-group-sustainability.pdf>

³ Graanul Invest, “Annual Review, Graanul Invest”, (2022), at: <https://graanulinvest.com/wp-content/uploads/2022/06/graanul-invest-sustainability-linked-bond-annual-review-2022.pdf>

⁴ Graanul Invest, “Annual Review, Graanul Invest”, (2023), at: https://graanulinvest.com/wp-content/uploads/2023/07/graanul_slb_annual_review_2022.pdf

Issuing Entity's Responsibility

Graanul Invest is responsible for providing accurate information and documentation relating to the details of the KPIs calculation and performance.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Graanul Invest's SLB. The work undertaken as part of this engagement included collection of documentation from Graanul Invest employees and review of documentation to confirm the conformance with the agreed upon details of the SLB.

Sustainalytics has relied on the information and the facts presented by Graanul Invest with respect to the KPI and SPT. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Graanul Invest.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Internal Review Committee to provide oversight over the assessment.

Conclusion

Based on the limited assurance procedures conducted,⁵ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, Graanul Invest measurement of and reporting on its progress toward achieving its SPT do not conform with its commitments in the Framework.

⁵ Sustainalytics' limited assurance process includes reviewing the documentation relating to the details of the KPIs and SPTs that have been agreed upon, including data on performance of the KPIs, KPI reporting, calculations and verification conducted for the baseline data. The Borrower is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Detailed Findings

Table 2: Detailed Findings

Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Sustainability Performance	Review of achieved performance on KPIs to determine if it is aligned with the SPT mentioned in the Framework as outlined in Table 1.	Graanul Invest is on track to achieve the SPT by reducing its scope 1, 2 and 3 GHG emissions per megajoule of green energy contained in the pellets produced (gCO ₂ e/MJ) and reaching an intensity of 7.03 gCO ₂ e/MJ at the end of 2023. Please see Appendix 1 for more details.	None
Calculation and measurement of KPI	Review of Calculation and methodology used for KPIs.	Graanul Invest's approach to measuring the KPI is clear and consistently applied across the years under observation and in Appendix 2.	None
Reporting	Review of the reporting practices to make and keep readily available up-to-date information relating to the SPT as mentioned in the Framework.	Graanul Invest has confirmed that reporting on its progress on the KPIs will be made publicly available in its annual sustainability report and the verification will be published on its website. ⁶ Reporting will include other 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.	None

⁶ Graanul Invest, "Responsibility" at: <https://graanulinvest.com/responsibility/>

Appendix 1: Target Setting Milestones and Sustainalytics' Findings

Table 3: Progress towards the Sustainability Performance Target

KPI	Baseline (2020)	Performance (2021)	Performance (2022)	Performance (2023)	SPT (2024)
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)	7.08	6.63	6.83 ⁷	7.03 ⁸	6.73 ⁹
Percentage improvement	-	6.35%	3.53%	0.71%	5%

Table 4: Details of the year-on-year sustainability performance

Factory	Production (t) 2020	GHG Emissions intensity (gCO ₂ e/MJ) 2020	Production (t) 2021	GHG Emissions intensity (gCO ₂ e/MJ) 2021	Production (t) 2022	GHG Emissions intensity (gCO ₂ e/MJ) 2022	Production (t) 2023	GHG Emissions intensity (gCO ₂ e/MJ) 2023
Imavere	3,10,763	4.64	3,13,732	4.45	3,05,420	4.58	2,75,809	4.58
Ebavere	1,09,756	14.46	1,01,269	4.76	1,12,090	5.05	1,07,675	5.17
Helme	2,05,195	4.32	2,07,186	4.08	1,91,141	4.43	1,82,702	4.16
Osula	3,66,672	5.97	3,34,250	5.48	3,12,312	5.01	2,94,779	5.29
Launkalne	2,68,680	5.9	2,75,251	5.61	2,36,312	5.62	2,34,095	6.26
Incukalns	3,29,716	5.32	2,96,039	5.81	2,60,879	5.42	2,56,813	4.97
Gulbene	1,82,462	5.95	1,88,469	6.05	1,52,751	5.96	1,68,207	5.44
Jaunjelgava	92,385	5.44	90,104	6.13	84,120	6.34	85,748	6.54
Jekabpils	1,90,730	5.79	1,71,668	6.13	1,47,230	6.12	1,74,749	6.33
Kraslava	1,84,451	5.64	1,72,988	6.28	1,32,039	6.09	1,68,776	6.44
Alytus	97,580	8.09	84,104	8.25	88,371	7.85	31,179	7.92
Woodville	3,13,324	15.31	2,70,083	15.78	3,05,146	16.19	3,15,417	16.93
Weighted Average GHG Emissions¹⁰ (gCO₂e)	-	7.08	-	6.63	-	6.83	-	7.03

⁷ The GHG emissions intensity in 2022 increased as compared to 2021, due to lower production levels in 2022. Given the correlation between production parameters, volume and the production footprint, lower production levels in 2022 resulted in a proportional increase of the production footprint, a decrease in efficiency of production, and an increase in GHG emissions intensity.

⁸ Graanul Invest has communicated to Sustainalytics that the feedstock mix changed last year, and both processing energy demand and sourcing distances increased due to the economic challenges in the sawmill sector in 2023, which resulted in a drop in sawmill production capacities and decreased availability of secondary feedstock (sawdust, chips) to Graanul Invest AS.

⁹ Graanul Invest has communicated to Sustainalytics that they cannot control or expect the feedstock mix to return to historic patterns and are planning to increase renewable energy consumption in their US operations (high carbon intensity) to achieve the SPT target for 2024.

¹⁰ Weighted average GHG emissions are calculated by multiplying the annual production of each site by the GHG footprint of each site divided by the total annual production.

Appendix 2: KPI calculation methodology details

The following is a summary excerpt of the carbon intensity assessment methodology included in the Graanul Invest Group Sustainability-Linked Financing Framework and provided by Graanul Invest to Sustainalytics:

Graanul Invest's 12 factories undergo an annual sustainable biomass partnership audit to verify their annual value chain GHG emissions input data. A third party then calculates the carbon balance of each factory based on the verified input data, in accordance with the requirements of the EU Renewable Energy Directive (RED II).¹¹ The total weighted average GHG emissions intensity is then calculated by Graanul Invest using the GHG emissions data and the respective annual production volumes from each factory.

¹¹ European Commission, "Renewable Energy Directive", at: https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-directive_en

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