



SUSTAINABILITY- LINKED BOND FRAMEWORK

May 2022



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L&T IN BRIEF

Lassila & Tikanoja (L&T) is a Finnish service company established in 1905 that is making the circular economy a reality. Together with its customers, L&T keeps materials and properties in productive use for as long as possible and increases the efficiency of the use of raw materials and energy. By investing in sustainable circular economy solutions, L&T creates value for its customers, personnel, the society in general and shareholders.

Sustainability is an integral element of L&T's strategy, business and day-to-day work. L&T is a leading circular economy operator in Finland. The Group's competitive advantage is based on strong presence in the different steps of the value chain of its customers' materials and constructed environment and its extensive circular economy service offering.

L&T's long-term strategic target is to grow its carbon handprint, which refers to the positive climate impact of L&T's operations, while reducing the carbon footprint of its operations.

The group bears social responsibility by looking after the work ability of its personnel, promoting diversity in working life and offering jobs to those who are struggling to find employment.

L&T's business operations are divided into four divisions: Environmental Services, Industrial Services, Facility Services Finland and Facility Services Sweden. L&T operates in Finland and Sweden.

More information about L&T is available at lt.fi/en





SUSTAINABILITY AT L&T

For L&T, sustainability means supporting its customers' sustainability efforts, reducing the environmental impacts of L&T's own operations, promoting employee well-being and diversity, and ensuring the sustainability of the company's value chain.

The most significant impacts of L&T's operations are reflected in the sustainability benefits the company creates for its customers. L&T has conducted an EU taxonomy assessment of net sales related to climate change mitigation or adaptation, and the proportion of net sales that is taxonomy eligible was 56% in 2021.

L&T continuously seeks better results in the utilisation of customer materials, reduction of emissions and energy consumption, and

development of circular economy solutions and services. Due to the nature and scale of L&T's operations, the company can have a significant impact on the mitigation of – and adaptation to – climate change. L&T systematically increases its carbon handprint while reducing the carbon footprint of its operations.

As a large employer and service company, L&T bears social responsibility by looking after the occupational well-being and work ability of its employees as well as ensuring equality and diversity. The company's sustainability efforts cover the entire value chain of its business. In its supply chain, L&T evaluates and monitors the responsibility of its suppliers and requires its partners to operate in accordance with L&T's sustainability principles.

L&T's sustainability programme

L&T's sustainability programme and its themes support the implementation of the company's mission – **We make the circular economy a reality** – and strategy. The programme takes into account the material aspects of sustainability and sets measurable targets.

The focal points of the sustainability programme are determined based on the impacts of L&T's operations, the expectations of the central stakeholders and the strategic priorities. L&T has also taken into account the special characteristics of the business and operating environment of a service company in the environmental sector, as well as the UN Sustainable Development Goals and the objectives of the Global Compact initiative. The key sustainability targets of the sustainability programme are included in the company's long-term strategic objectives, and L&T regularly reports its progress towards these targets in connection with L&T's interim reporting.

L&T leads the way in mitigating climate change

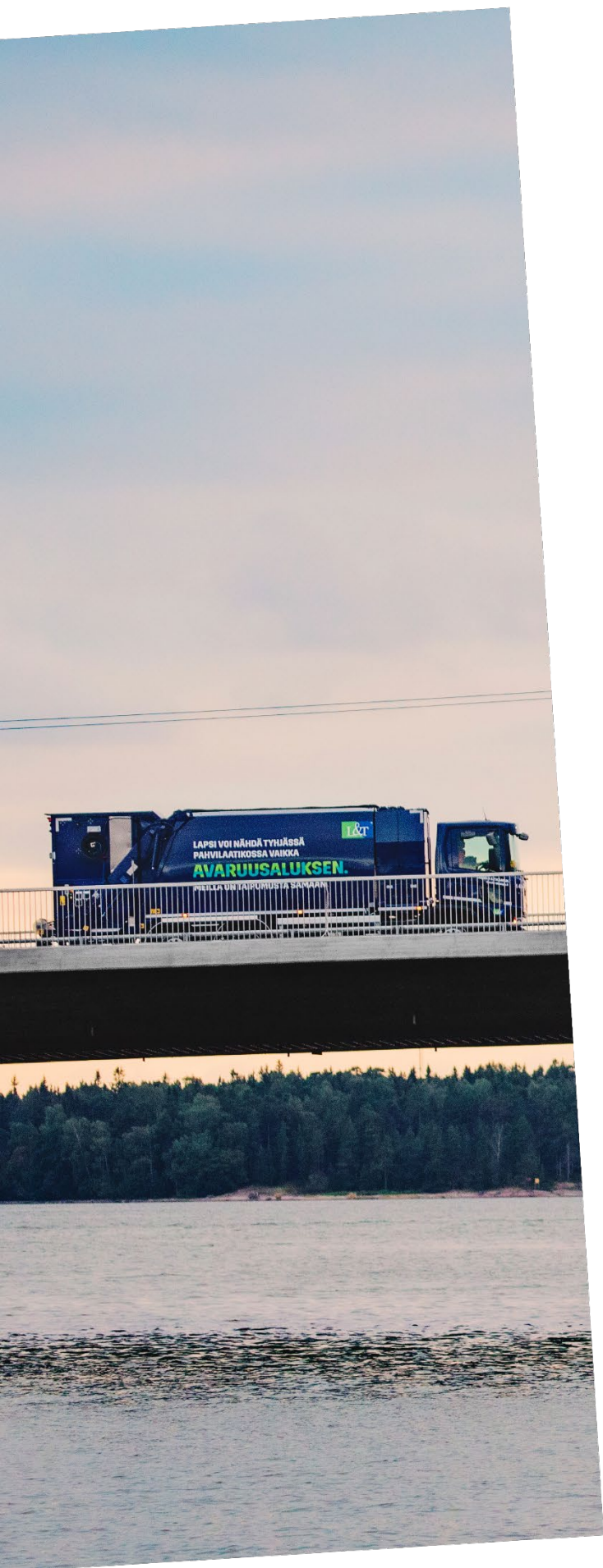
L&T aims to mitigate climate change and to be a leader of the regenerative society. We realise our environmental responsibility particularly by increasing our carbon handprint.

Environmental responsibility and sustainable development are the starting point for L&T's business. The services that L&T produces for its customers reduce emissions. This constitutes L&T's carbon handprint, and increasing it is one of L&T's strategic long-term objectives.

In addition to focusing on positive climate impacts, L&T also mitigates climate change by reducing the greenhouse gas emissions of its own operations. L&T's emission reduction targets are validated by the Science Based Target Initiative.

L&T is also active in its efforts to promote the necessary operating conditions for the circular economy. L&T's business has a large carbon handprint. L&T's services generate significant emission reductions for customers. These reductions arise from customers replacing virgin raw materials with recycled raw materials, and fossil fuels with bio- and solid recovered fuels, for example.





A diverse and healthy workplace

As a major employer, the focus of L&T's social sustainability is on the L&T employees. L&T focuses on developing the employee experience, diversity, employee well-being and maintaining the work ability of its personnel. L&T wants to offer jobs also to groups for whom it is difficult to find employment in the current labour market.

L&T is committed to continuously improving occupational safety to reach zero accidents. The company's efforts in the area of occupational safety are aimed at preventing and minimising accidents, occupational diseases, and other hazards to physical and mental health arising from work and the working environment.

In 2021, L&T's Executive Board updated the sustainability targets for the 2022-2026 strategy period, and Total Recordable Injury Frequency (TRIF) was adopted as the main indicator for occupational safety.

Sustainability commitments and indices

L&T is committed to supporting key declarations and agreements, such as the UN Sustainable Development Goals since 2018, the Global Compact principles since 2018 and the ILO Declaration on Fundamental Principles and Rights at Work.

The company has set scientific climate targets approved by the Science Based Targets initiative. L&T is also committed to reporting on the climate impacts of our operations in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

SUSTAINABILITY-LINKED BOND FRAMEWORK

By setting up this document (the “Sustainability-Linked Bond Framework” or “Framework”), L&T intends to link its funding with key objectives that are material for its long-term sustainability performance. The objectives will be achieved through an ambitious timeline, the Key Performance Indicators (KPI), and the Sustainability Performance Targets (SPT). The Framework is developed to align with the Sustainability-Linked Bond Principles (SLBP) published in June 2020 by the International Capital Market Association (ICMA).

The five core components of the SLBP are:

- 1 Selection of the Key Performance Indicators (KPI)
- 2 Calibration of Sustainability Performance Targets (SPT)
- 3 Bond Characteristics
- 4 Reporting
- 5 Verification



SELECTION OF THE KEY PERFORMANCE INDICATORS

The selection of the KPIs has been made after consideration of which topics are relevant, core and material to L&T's operations.

KPI 1: Scopes 1 and 2 GHG emissions (gCO₂e/km driven)

KPI 2: Scope 3 GHG emissions (from contractor fuel consumption)

The KPIs refer to the EU environmental objective "Climate Change Mitigation", as well as the United Nations Sustainable Development Goal 13 "Climate Action".

Methodology

KPI 1 Carbon footprint intensity defines L&T's scope 1 and 2 GHG emissions in relation to kilometres driven while KPI 2 refers to L&T's scope 3 emissions from fuel used during contract work. Contract work is typically used in waste management operations and property maintenance operations. The emissions for both KPIs have been calculated based on the international Green house Gas Protocol reporting standard and emission calculation model, utilising, for example, the Statistics Finland database.

In accordance with the calculation model, emissions are defined as:

- 1 Scope 1:** Direct GHG emissions
Landfill operations, L&T's heavy vehicles, fuel consumed by production vehicles and company cars
- 2 Scope 2:** Indirect GHG emissions from purchased energy
L&T's electricity consumption in Finland and Sweden, as well as district heat consumption in Finland
- 3 Scope 3:** Other significant indirect GHG emissions.
Fuel-related emissions resulting from contracted work have been calculated based on transport volumes and estimated fuel consumption

Emissions caused by our own operations

Carbon footprint, i.e. emissions generated by the Group's own operations

37.8

thousand tonnes CO₂-eq (36.7)

OUR STRATEGIC GOAL:

The emissions generated by our own operations will be reduced by

-50%

per kilometre driven by 2030 (compared to 2018).

| 36.5 | TRANSPORT, PRODUCTION VEHICLES, WORK MACHINES | 0.004 | PURCHASED ELECTRICITY | 1.3 | DISTRICT HEATING | 1.1 | WORK-RELATED TRAVEL |
|------|---|-------|-----------------------|-----|------------------|-----|---------------------|
| 16.7 | CONTRACTOR FUEL CONSUMPTION | | | | | | |

thousand tonnes CO₂-eq



Emissions from L&T's fleet of heavy vehicles are the most significant source of direct greenhouse gas emissions. In 2021, L&T reported 55,600 CO₂-equivalent tonnes of emissions, of which 36,500 CO₂-equivalent tonnes were L&T's own direct emissions (Scope 1) from transport and production vehicles and machinery


Materiality and rationale behind the KPIs

The material aspects of L&T's sustainability programme are based on the key impacts of L&T's operations and the expectations of its stakeholders. The materiality assessment is based on an extensive stakeholder survey conducted in 2018, as well as regular stakeholder-specific surveys and dialogue. L&T's operations have both environmental impacts and social impacts.

L&T's environmental impacts are created particularly through the services the company produces for its customers. L&T increases its customers' material reuse and recycling, processes materials into secondary raw materials for the needs of industry and replaces fossil fuels with biofuels and solid recovered fuels. This way, L&T mitigates climate change and preserves natural resources. L&T is a significant logistics operator, and the company focuses particularly on reducing the emissions caused by collection and transport services including both direct and indirect emissions.

L&T's strategic objective is to halve the carbon footprint of its own operations (Scope 1 and 2) per kilometre driven by 2030, compared to 2018, as well as to reduce other indirect emissions (Scope 3) attributable to its supply chain by having 70 per cent of the company's largest suppliers and subcontractors set their own emissions targets by the end of 2024.

These targets have been validated as science-based targets for emission reductions by the Science Based Targets initiative (SBTi), which aims for the global reduction of greenhouse gas emissions. L&T's emission targets correspond to the Paris Agreement goal of limiting the warming of the climate to well below 2°C.



Our emission targets correspond to the Paris Agreement goal of limiting the warming of the climate to well below 2°C.

CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS

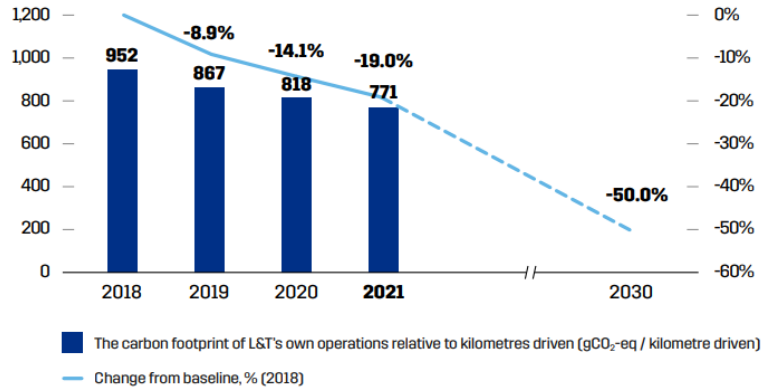
SPT 1: Reduce scope 1 and 2 GHG emissions by 37.5% per km by the end of 2027 from the base year 2018

SPT 2: Reduce fuel emissions from contracted work related transportation by 21% by end of 2027 from a 2020 baseline

Benchmark SPT 1

The scope 1 and 2 reduction target is a linear interim target of L&T's 2030 emission reduction ambition, which has been validated by the SBTi and is aligned with reductions required to keep global warming well below 2°C.

L&T's scope 1 and 2 emissions (gCO₂-eq./kilometre driven) are presented in the graph to the right.



Strategy to achieve SPT 1

Emissions from L&T's fleet of heavy vehicles are the most significant source of the company's direct greenhouse gas emissions. To achieve the target, L&T will adopt zero-emission technologies and fossil-free fuels in transport operations and switch to renewable energy in the heating of its properties. L&T will also engage its supply chain to commit to sustainability objectives. Actions to be taken to achieve the objectives include:

- Continue monitoring driving style for vehicles in the Environmental Services and Industrial Services divisions. In addition to monitoring, L&T develops its drivers' driving style through training and unit-specific action plans.
- Reduce the environmental impact of L&T's fleet by increasing utilisation rates and optimising routes. Effective optimisation reduces fleet requirements and kilometres driven while also reducing stops and visits to yard areas.
- Increase the number of low-emission vehicles in operation, including biogas-powered heavy vehicles and vans, as well as electric vehicles. L&T deployed its first electric waste compactor vehicle in spring 2022.
- Move consumption from fossil diesel to renewable diesel. The renewable diesel that L&T uses is produced from waste and scraps. L&T's biogas use tripled in 2021 compared to the previous year. Using renewable fuels enables L&T to reduce transport-related greenhouse gas emissions and other emissions that diminish air quality. It also represents an example of how L&T puts the circular economy into practice: L&T transports waste using fuel made from waste.
- Continue developing the energy efficiency of industrial process cleaning methods.
- Invest in the vehicle charging infrastructure.

Benchmark SPT 2

The Scope 3 emissions (from contractor fuel consumption) target is a linear interim target of L&T's 2030 emission reduction ambition of 30%.

Emissions from contract work transportation (1,000 tCO₂-eq) and historical performance are presented in the table below.

| Year | Emissions from outsourced transportation 1,000 tCO ₂ -eq. |
|------|--|
| 2018 | 15.3 |
| 2019 | 14.3 |
| 2020 | 16.6 (Baseline) |
| 2021 | 16.7 |

Traffic accounts for a significant share of total CO₂ emissions in Finland and Sweden. L&T is one of the largest commercial transport operators especially in Finland, and therefore L&T's efforts to reduce total traffic emissions throughout the transportation chain are meaningful. In 2020, L&T's operations accounted for 1.3% of total emissions from Finnish traffic (trucks and vans). The share of contracting is about 15–25% of L&T's total transportation, depending on annual circumstances.

So far, logistics companies have set very moderate emission reduction targets in Finland, and the few other initiatives in the industry normally only address a company's own emissions rather than subcontracting. Some benchmarking can be done by comparing SPT 2 to targets set by national and international postal companies in Europe. From that benchmark, one company commits to reducing absolute scope 3 GHG emissions from upstream transportation and distribution by 20% by 2030 from the base-year 2017. This is an SBTi-validated target.

There are also companies that have set SBTi emission targets for total emissions (Scope 1-3). In these cases, the short-term emission reduction targets range from 14% to 50%.

Strategy to achieve SPT 2

L&T wants to contribute to solving the major issues related to climate change and the sustainable economy and to comply with the principles of responsible business practice in all its operations.

L&T requires its suppliers and subcontractors to comply with L&T's code of conduct in all their operations. Therefore, suppliers must familiarise themselves with the document and comply with it. The suppliers must also continuously develop their operations according to the instructions.

L&T's instructions require suppliers to take the initiative to promote environmental responsibility, for example reducing emissions from fuel consumption. L&T also encourages its suppliers to monitor developments in the area of environmental responsibility and to reduce the negative environmental impacts of their operations. Furthermore, L&T seeks new climate mitigation actions together with its suppliers.

In addition to this, L&T recommends its suppliers to set greenhouse gas emission reduction targets for their own operations. To facilitate emission reductions across the full value chain L&T will look into possible changes to the current procurement practices and continue to develop supplier engagement in order to promote the use of low-emission technology and fuels.



BOND CHARACTERISTICS

The characteristics outlined in this Framework are applicable to Sustainability-Linked Bonds issued under it. The proceeds from Sustainability-Linked Bonds will be used for general corporate purposes.

Depending on L&T's performance versus the applicable SPTs as per the target observation date, 31 December 2027, the financial characteristics of the Sustainability-Linked Bond may change. The change in financial characteristics may include adjustment to the coupon, from the first coupon date after the target observation date, or an increased redemption price. Regardless of the financial characteristic selected, the scale of the impact aims to be meaningful and commensurate. The financial characteristics selected for each Sustainability-Linked Bond will be specified in the transaction-specific documentation.

In addition, should L&T fail to provide relevant reporting or verification, in line with this

Framework, the financial characteristics will change as outlined in the transaction-specific documentation.

The KPI and SPT set out in this Framework will remain applicable throughout the tenor of any bond issued under the Framework, regardless of any changes to L&T's sustainability strategy. This includes any changes relating to the company's general sustainability targets and ambitions or changes in applicable benchmarks or industry standards. However, any changes to L&T's organisational structure, the calculation methodology for a KPI, or significant changes in data due to better data accessibility that lead to an impact on the baseline equal to, or above, 5 per cent, will result in a change in the baseline. Any new or updated framework, in relation to any subsequent securities issuance, shall not have any implications on the securities issued under this Framework.

REPORTING

To ensure investors and other stakeholders have updated and adequate information about L&T's sustainability strategy and the progress on the KPIs in relation to the respective SPT, the progress will be reported annually in L&T's Sustainability Report, published on L&T's website. L&T may also choose to report on the information outlined below in a separate Sustainability-Linked Progress Report.

In the case that L&T would have Sustainability-Linked Debt other than bonds outstanding, the company may choose to report, in relation to these other financial instruments, directly and non-publicly, to the lenders or counterparts.

The reporting will include the following points:

- The performance of the KPI and related SPT, as per the relevant reporting period and when applicable, including the calculation methodology and baselines when relevant,
- Information about potential recalculations of baselines,
- Information on any relevant updates to L&T's sustainability strategy and/or governance with an impact on the KPI and SPT

Where feasible and possible, the reporting will also include:

- Qualitative and/or quantitative explanations of the contribution of the main factors, including M&A activities, behind the evolution of the performance of the KPI on an annual basis,
- Illustration of the positive sustainability impacts of the performance improvement,
- Updates on new or proposed regulations from regulatory bodies relevant to the KPI and the SPT





VERIFICATION

Second-party opinion

Sustainalytics has provided a Second-Party Opinion to this Framework assessing the relevance, robustness, reliability and ambition level of the selected KPIs and SPTs, and confirming its alignment with the five core components of the SLBP dated June 2020.

Post Issuance Verification

L&T will seek independent and external verification of the company's performance of its KPIs against the SPTs on an annual basis or in relation to any target observation date until the last reporting date. The verification will be performed by a qualified external reviewer with relevant expertise, such as an auditor or an environmental consultant. Failure to provide the ex-post verification before the reporting end date, as specified in the transaction specific documentation, will result in an automatic adjustment in the financial characteristics.

Publicly available documents

The Framework and the second-party opinion will be publicly available on L&T's website together with the annual reporting and verification, once published.

**The verification will
be performed by
a qualified external
reviewer with
relevant expertise**



LASSILA & TIKANOJA OYJ

Helsinki

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