

Second-Party Opinion

Lassila & Tikanoja Sustainability-Linked Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Lassila & Tikanoja Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020. This assessment is based on the following:

- Selection of Key Performance Indicators** The L&T Sustainability-Linked Bond Framework includes two KPIs: (i) scopes 1 and 2 emissions intensity (km driven), and (ii) absolute scope 3 emissions (from contractor fuel consumption) (see Table 1). Sustainalytics considers the two KPIs to be strong.
- Calibration of Sustainability Performance Targets** Sustainalytics considers the SPTs to be aligned with L&T's sustainability strategy. Sustainalytics further considers the SPTs to be ambitious.
- Bond Characteristics** L&T will link the bond characteristics to the achievement of the SPTs at the target observation date. Both SPTs need to be met to avoid penalty. The change in financial characteristics may include an adjustment to the bond coupon or an increased redemption price.
- Reporting** L&T commits to report on its performance on the KPIs on an annual basis in its Sustainability Report or in a separate Sustainability-Linked Progress Report. L&T also commits to disclose relevant information that may affect the KPI or enable investors to monitor the progress of the selected KPIs and SPTs. The reporting commitments are aligned with the Sustainability-Linked Bond Principles.
- Verification** L&T commits to having external limited assurance conducted against each SPT for each KPI at least once a year, which is aligned with market expectations.

| | |
|------------------------|-------------------|
| Evaluation Date | May 3, 2022 |
| Issuer Location | Helsinki, Finland |

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

| KPI | Baseline | SPT | Strength of KPI | Ambitiousness of SPT |
|---|----------|--|-----------------|----------------------|
| Scopes 1 and 2 GHG emissions intensity (gCO ₂ e/km driven) | 2018 | Achieve a 37.5% reduction in scopes 1 and 2 GHG emissions (gCO ₂ e/km driven) by the end of 2027 | Strong | Ambitious |
| Absolute scope 3 emissions (from contractor fuel consumption) | 2020 | Achieve a 21% reduction of scope 3 emissions (tCO ₂ e) from contractor fuel consumption for transportation by the end of 2027 | Strong | Ambitious |

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Scope of Work and Limitations

Lassila & Tikanoja Oyj (L&T or the Company) has engaged Sustainalytics to review the Lassila & Tikanoja Sustainability-Linked Bond Framework dated May 2022 (the “Framework”) and provide an opinion on its alignment with the Sustainability-Linked Bond Principles 2020 (SLBP).¹

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent² opinion on the alignment of the Framework with the SLBP, as administered by ICMA.

As part of this engagement, Sustainalytics exchanged information with various members of L&T’s management team to understand the sustainability impact of their business processes and SPTs, as well as the reporting and verification processes of aspects of the Framework. L& T’s representatives have confirmed that:

- (1) They understand it is the sole responsibility of the issuer to ensure that the information provided is complete, accurate or up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any material information provided 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 the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and L&T. Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated SPTs of KPIs but does not measure KPI performance.³ The measurement and reporting of the KPIs is the responsibility of the issuer. 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 L&T has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months 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 a material M&A or change in business activity) that has a bearing on the achievement of the SPTs or the materiality of the KPIs.

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

² 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.

³ Sustainalytics has provided an opinion based on the understanding that the financial characteristics of instruments issued under this Framework will be tied to the achievement of SPTs corresponding to each of the KPIs included in the Framework.

⁴ Benchmarks refers to science based benchmarks

Introduction

Lassila & Tikanoja Oyj (“L&T” or the “Company”) offers environmental management and maintenance services including waste management and recycling, industrial cleaning, and sewer services. Headquartered in Helsinki, Finland, L&T has over 8,000 employees, and operates in Finland and Sweden.

L&T intends to issue sustainability-linked bonds whose coupon rate or redemption price is tied to the achievement of sustainability performance targets for two KPIs. Both KPIs are related to GHG emissions and cover scopes 1 and 2 as well as scope 3 (from contractors’ fuel consumption for transportation).

L&T has engaged Sustainalytics to review the Framework and provide an opinion on the alignment of the Framework with the Sustainability-Linked Bond Principles 2020.

L&T has defined the following KPIs and SPTs:

Table 1: KPI Definitions

| KPI | Definition |
|--|--|
| KPI 1: Scopes 1 and 2 GHG emissions intensity (gCO ₂ e/km driven) | This KPI measures scopes 1 and 2 emissions intensity (per km driven) from L&T’s landfill operations, heavy vehicles, fuel consumed by production vehicles and company cars (scope 1) as well as electricity consumption in Finland and Sweden and consumption of district heating in Finland (scope 2). This KPI will be measured based on the kilometres driven of L&T’s vehicle fleet. The KPI is calculated following the GHG Protocol’s Corporate Reporting Standard and is measured in gCO ₂ e/km driven. |
| KPI 2: Absolute scope 3 emissions (from contractor fuel consumption) | This KPI measures absolute emissions (tCO ₂ e) from fuels resulting from contracted work, which is calculated based on transport volumes and estimated fuel consumption. The KPI is calculated following the GHG Protocol’s Corporate Reporting Standard and is measured in tCO ₂ e. |

Table 2: SPTs and Past Performance

| SPT | 2018 | 2019 | 2020 | 2021 | SPT 2027 |
|--|-------------------|------|--------------------|------|----------|
| Achieve a 37.5% reduction in scopes 1 and 2 GHG emissions intensity (gCO ₂ e/km driven) by the end of 2027 | 952 (baseline) | 867 | 818 | 771 | 595 |
| Achieve a 21% reduction of scope 3 emissions (tCO ₂ e) from contractor fuel consumption for transportation by the end of 2027 | 15.3 | 14.3 | 16.6 (baseline) | 16.7 | 13.11 |

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of the Lassila & Tikanoja Sustainability-Linked Bond Framework with the Sustainability-Linked Bond Principles

Sustainalytics is of the opinion that the Lassila & Tikanoja Sustainability-Linked Bond Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2020.



Selection of Key Performance Indicators

Relevance and Materiality of KPIs

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

KPI 1 – scopes 1 and 2 GHG emissions intensity (gCO₂e/km driven) and KPI 2 – absolute scope 3 emissions (from contractor fuel consumption)

Sustainalytics considers the KPIs to be material and relevant given the following:

- The Sustainable Accounting Standards Board (SASB) identifies GHG Emissions as a material topic for L&T and the Waste Management industry overall. Fleet fuel management constitutes one of the disclosure topics acknowledging that operators within the industry have large vehicle fleets for waste collection and transfer. In addition to that, landfill gas, which is captured under L&T's scope 1 emissions, is also a significant contributor to GHG emissions of the Waste Management industry and is, hence, material to L&T's business. As L&T's business operations are similar to those of a logistics provider, Sustainalytics notes that GHG emissions have also been identified as a material topic for the Air Freight & Logistics industry.
- L&T's materiality assessment is based on a stakeholder survey conducted in 2018 by which GHG emissions has been identified as a material issue. The Company's fleet of heavy vehicles is the largest source of direct GHG emissions, according to L&T.
- Contractors account for approximately 15-25% of L&T's total transportation operations.
- Furthermore, Sustainalytics notes that KPI 1 addresses approximately 24.5% of L&T's total carbon footprint through its coverage of scopes 1 and 2 GHG emissions. Sustainalytics further notes that KPI 2 addresses approximately 10% of L&T's total carbon footprint. As both SPTs have to be met in order to avoid penalty, Sustainalytics considers a combined scope of applicability towards rating KPIs 1 and 2.

KPI Characteristics

In its assessment of the characteristics of the KPIs, Sustainalytics considers whether: i) they use a clear and consistent methodology, ii) they follow an externally recognized definition, iii) the KPIs are a direct measure of the issuer's performance on the material environmental or social issue, and iv) the methodology can be benchmarked against an external contextual benchmark, if applicable.⁵

Sustainalytics considers L&T's definition and methodology to calculate KPIs 1 and 2 to be clear and consistent with historical disclosure. Sustainalytics considers both KPIs to be directly linked to the Issuer's performance, given the direct impact on L&T's sustainability targets set for scope 1, 2 and 3 emissions. In addition, both KPIs are based on an external recognized methodology, namely the guidelines from the GHG Protocol's Corporate Reporting Standard. Regarding the KPIs' ability to be benchmarked, Sustainalytics notes that: (i) SPT 1 has been validated by SBTi which makes KPI 1 consistent with an external science-based contextual benchmark, and (ii)

⁵ External contextual benchmarks provide guidance on alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

KPI 2, as an absolute emissions metric is well suited to be benchmarked against science-based global decarbonization pathways, such as SBTi’s Absolute Contraction Approach.

Overall Assessment

Sustainalytics considers KPIs 1 and 2 to be strong, given that: (i) they are direct measures of L&T’s emissions, (ii) they speak to a material environmental issue for the Company, (iii) they follow a clear and consistent methodology and (iv) they follow an externally defined methodology. In addition to that, KPI 1 is consistent with an external reference and KPI 2 can be benchmarked against external science-based contextual benchmarks.

| | | | | |
|---|-------------|----------|---------------|-------------|
| KPI 1: Scopes 1 and 2 GHG emissions intensity (gCO₂e/km driven) | Not Aligned | Adequate | Strong | Very Strong |
| KPI 2: Absolute scope 3 emissions (from contractor fuel consumption) | Not Aligned | Adequate | Strong | Very Strong |



Calibration of Sustainability Performance Targets

Alignment with L&T’s Sustainability Strategy

L&T has set the following SPTs for its KPIs:

- Achieve a 37.5% reduction in scopes 1 and 2 GHG emissions intensity (gCO₂e/km driven) by 37.5% per km by the end of 2027 from a 2018 baseline;
- Achieve a 21% reduction of scope 3 emissions (tCO₂e) from contractor fuel consumption for transportation by the end of 2027 from a 2020 baseline.

Sustainalytics considers the SPTs to be aligned with L&T’s sustainability strategy. Please refer to Section 2 for an analysis of the credibility of L&T’s sustainability strategy.

- Regarding SPT 1, L&T’s strategic objective is to halve the carbon footprint of its operations (scopes 1 and 2) per kilometre driven by 2030 from a 2018 baseline. Hence, SPT 1 is an interim target of L&T’s 2030 emission reduction ambitions. Furthermore, L&T aims to improve the energy efficiency of the Company’s properties by 7.5% by 2025, with a 2020 baseline, across all of its operations.
- Regarding SPT 2, L&T has set a target to that 70% of L&T’s largest suppliers and subcontractors will have set their own emission targets by the end of 2024. This is part of L&T’s ambition to reduce scope 3 (indirect) emissions within the Company’s supply chain. L&T further emphasizes that the Company’s responsibility spans the entire value chain and therefore it requires its partners and suppliers to manage environmental issues responsibly. This includes requirements to proactively to set GHG emission reduction targets. Within its procurement strategy, L&T requires its suppliers to complete a self-assessment, using a survey-based supplier tool which covers topics including climate targets, energy efficiency and environmental management practices amongst others.

Strategy to Achieve the SPTs

L&T intends to achieve the SPT 1 through the following strategy:

- L&T will adopt zero-emission technologies and fossil-free fuels in transport operations. L&T aims to increase the number of low-emission vehicles, such as electric vehicles and gas-powered heavy vehicles and vans. In 2021, the number of low-emission vehicles increased fivefold compared to 2020. Furthermore, L&T will move its fossil diesel consumption towards renewable diesel, mainly HVO (hydrotreated vegetable oil), which is made from waste and scraps. In 2021, L&T quadrupled the use of renewable diesel compared to 2020.
- L&T will increase the utilization rate of its collection vehicles, optimize transport routes and monitor the driving styles for the vehicles in two of its business divisions (Environmental Services and Industrial Services). This will be done through additional measurement devices for vehicles and data collected on the fuel purchases. These measures are also complemented by training and action plans to improve fuel efficiency such as drivers’ driving styles. In addition, L&T is looking to improve the efficiency of its industrial cleaning methods by exploring the electrification.

- L&T will switch to renewable energy in the heating of its properties, improve its existing vehicle charging infrastructure, and expand it in order to support the electrification of its vehicle fleet.

L&T intends to achieve the SPT 2 through the following strategy:

- L&T will explore changes to its current procurement practices, such as developing measurement and improving the quality of its data, as well as possibly changing its contract practices.
- L&T requires its suppliers and subcontractors to comply with its code of conduct in across its operations. This includes the encouragement to monitor developments in the areas of environmental responsibility and to reduce the negative environmental impacts of its operations. The code of conduct includes a section dedicated to reducing environmental and climate impacts, stating that suppliers must address energy efficiency and reduce emissions, among other things. It also encourages them to monitor developments in this space and recommends setting GHG emission reduction targets for their operations.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers: i) whether the SPTs go beyond a business-as-usual trajectory, ii) how the SPTs compare to targets set by peers, and iii) how the SPTs compare with science.⁶

L&T has set the baselines for the SPT 1 and SPT 2 at 2018 and 2020, respectively, as they best represent its measurement history and operational stability. With regards to SPT 1, 2018 has been chosen as baseline for consistency purposes with the target validated by the SBTi.

SPT 1: Sustainalytics was able to use past performance, peer performance, and science-based trajectories to assess the ambitiousness of the target.

L&T decreased its scopes 1 and 2 emissions by an average annual rate of approximately 6.8% between 2018 and 2021 and, in order to achieve its target, L&T needs to reduce emissions by 3.8% per year until 2027. Hence, SPT 1 exhibits a decrease compared to the past performance. Based on a comparative assessment of seven peer companies, only one peer was found to have stronger targets, while one other peer’s targets were aligned with those of L&T. For the five other peer companies, no targets could be identified. Sustainalytics, therefore, considers the SPT to be above its peers’ performance. For comparison with recognized decarbonization trajectories, Sustainalytics notes that SPT 1 is validated by the SBTi and aligns with its well below 2°C scenario.

SPT 2: Sustainalytics was able to use past performance, peer performance and science-based trajectories to assess the ambitiousness of the target.

L&T increased its emissions from contractor fuels by an average annual rate of approximately 3% between 2018 and 2021 and, in order to achieve its target, L&T needs to reduce the respective emissions by 3.6% per year by 2027. Hence, SPT 2 exhibits a significant improvement compared to its past performance. Based on a comparative assessment of seven peer companies, only one peer was found to have stronger targets, while one other peers’ targets were aligned with those of L&T. For the five other peer companies, no targets could be identified. Sustainalytics, therefore, considers the SPT to be above its peers’ performance. However, the alignment with science cannot be determined.

Overall Assessment

Sustainalytics considers SPT 1 to align with L&T’s sustainability strategy and to be ambitious given that: (i) it is above L&T’s industry peers and (ii) has been verified to align with science-based targets of well below 2°C. However, the SPT exhibits a decrease compared to the Company’s historical performance.

Sustainalytics considers SPT 2 to align with L&T’s sustainability strategy and to be ambitious given that: (i) it presents a material improvement compared to past performance and (ii) it is above L&T’s industry peers, but its alignment with science cannot be determined.

| | | | | |
|---|-------------|----------------------|-----------|------------------|
| SPT1: Achieve a 37.5% reduction in scopes 1 and 2 GHG emissions (gCO2e/km driven) by the end of 2027 from a 2018 baseline | Not Aligned | Moderately Ambitious | Ambitious | Highly Ambitious |
| SPT2: Achieve a 21% reduction of scope 3 emissions from contractor fuel consumption for transportation by the end of 2027 from a 2020 baseline | Not Aligned | Moderately Ambitious | Ambitious | Highly Ambitious |

⁶ We refer here to contextual benchmarks that indicate the alignment of targets with ecosystem boundaries.



Bond Characteristics

L&T will link the bond characteristics to the achievement of the SPTs at the target observation date of 31 December 2027. Both KPIs need to be met to avoid penalty. The change in financial characteristics may include adjustment to the bond coupon or an increased redemption price.



Reporting

L&T commits to report, on an annual basis, on its progress on the KPIs, and it expects to include the relevant figures in the Company's Sustainability Report or in a separate Sustainability-Linked Progress Report, which is aligned with the SLBP. L&T further commits to disclose relevant information about potential recalculation of baselines or updates to L&T's sustainability strategy and governance with an impact on the KPIs and SPTs.



Verification

L&T commits to having an external verifier provide limited assurance against each SPT for each KPI at least once a year, which is aligned with the SLBP on verification.

Section 2: Assessment of L&T's Sustainability Strategy

Credibility of L&T's sustainability strategy

According to Sustainalytics' ESG Risk Rating, L&T's management of ESG issues is strong.⁷ L&T has established a team dedicated to sustainability, headed by the Board of Directors, which confirms and approves the Company's sustainability programme and sets long-term objectives.⁸

L&T's sustainability strategy is defined in L&T's sustainability programme 2019-2024, which prioritizes four key pillars: (i) circular economy and climate change mitigation; (ii) a healthy, diverse and productive workplace community; (iii) sustainable industry and cities; and (iv) ensuring regulatory compliance for its business.⁹ As part of L&T's commitment to a circular economy and climate change mitigation, the Company focuses on providing services that reduce GHG emissions, such as assisting customers in replacing virgin raw materials with recycled materials, and fossil fuels with biofuels and solid recovered fuels. In doing so, L&T expects to be able to reduce its operational and indirect emissions. The Company aims to increase customers' circularity rate and energy efficiency. It does this by actively searching for new material streams where the rate of reuse and recycling could increase. Examples of these activities include: reusing pallets; recycling fibres, plastic and metal; energy recovery from waste, in the shape of waste-derived fuel or incineration of mixed waste; recycling hazardous waste; and reusing waste oil. L&T improves customers' energy efficiency through energy services, which include creating a comprehensive energy management and monitoring system for properties, providing training on energy management, and planning and reporting on emission reductions and cost savings. L&T also aims to help cities and industrial operators to contribute to improving the environment by increasing the recovery of side streams and contaminated land, and by reducing the use of toxic chemicals and increasing the share of ecological cleaning products to prevent further pollution and GHG emissions.

Sustainalytics considers L&T's sustainability strategy to be strong. Given the Company's long history of sustainability practices and setting quantitative targets, Sustainalytics is of the view that the SLBs will further support the Company's advancement of its sustainability strategy and help it meet its climate targets.

L&T's environmental and social risk management

Sustainalytics acknowledges that while L&T's defined targets are impactful, achieving the SPTs bears environmental and social risks related to: its Own Operations' Carbon; Emissions, Effluents and Waste; and Community Relations. Sustainalytics comments below on L&T's ability to mitigate such potential risks.

- L&T acknowledges the importance of the transition to a low-carbon circular economy and commits to increasing the share of reuse and recycling of collected waste from customers.¹⁰ Also, the Company approaches reducing its own operations' carbon emissions through the targets already in place and encompassed in SPT 1.¹¹
- To manage operational risks, L&T has a code of conduct in place that applies to employees and business partners. The code emphasises the responsibilities that the Company and its partners have towards the environment, and sets operational standards.¹²
- The Company also addresses its ESG risks through its risk management policy, which aims to identify, assess and report on L&T's climate risks as an integrated part of the Company's whole risk. The risks' materiality is assessed using an internal risk matrix.¹³
- Regarding the management of Emissions, Effluents and Waste, L&T has in place its Environmental Policy to mitigate any negative impacts that its operations may have on the environment. The policy encourages the recovery, reuse and recycling of materials to prevent waste and replacing fossil fuels with bio-based materials to further maximize the operating conditions for a circular economy.¹⁴ Furthermore, it takes into consideration ISO 14001, an environmental management framework that integrates social and economic needs.

⁷ This assessment has been derived from Sustainalytics' ESG Rating.

⁸ L&T, "Managing sustainability", at: <https://www.lt.fi/en/responsibility/managing-sustainability>

⁹ L&T, "Annual review 2021", at: <https://vuosikertomus.lt.fi/wp-content/uploads/2022/02/lassila-tikanoja-annual-report-2021-annual-review.pdf>

¹⁰ On pages 37 and 38 of its Annual Review 2021, L&T outlines the impacts that climate change has on its operations.

¹¹ L&T, "Annual review 2021", at: <https://vuosikertomus.lt.fi/wp-content/uploads/2022/02/lassila-tikanoja-annual-report-2021-annual-review.pdf>

¹² L&T, "Code of Conduct", at: <https://www.lt.fi/en/responsibility/code-of-conduct>

¹³ L&T, "Risk Management", at: <https://www.lt.fi/en/investors/corporate-governance/risk-management>

¹⁴ L&T, "Environmental Policy", at: <https://www.lt.fi/en/responsibility/code-of-conduct/environmental-policy>



- To mitigate any potential risks related to Community Relations, L&T has implemented a Communications Policy, which defines the Company's communications principles, channels and responsibilities to build and maintain good relations with its stakeholders. These focus on openness, transparency and bilateral interaction in decision processes related to the operations.¹⁵ Moreover, in 2018, L&T conducted an extensive stakeholder survey to assess its stakeholders' expectations regarding the Company's operations. The survey resulted in a guide on the material aspects of L&T's sustainability. This materiality assessment considers the UN SDGs and the UN Global Compact Principles.¹⁶

Sustainalytics notes that there is no evidence of any major controversies associated with L&T as of April 2022. Overall, Sustainalytics considers L&T to have strong management programmes and policies to mitigate the above risks.

Section 3: Impact of the SPTs

Importance of reducing GHG emissions from the transport and logistics industry

The transport industry accounts for 24% of global CO₂ emissions, with road vehicles making up nearly 75% of transport related GHG emissions.¹⁷ The transport sector is heavily reliant on fossil fuels, which accounted for more than 90% of the sector's total energy use in 2019.¹⁸ Between 2000 and 2018, transport related GHG emissions grew by 40% due to increased passenger and freight volumes and a limited use of alternative fuels.¹⁹ According to the International Transport Forum, freight and passenger transport volumes will double by 2050, compared to 2015.²⁰ In the absence of mitigation measures, transport related GHG emissions are expected to increase by 60% by 2050 from a 2015 baseline level.²¹ Studies show that the use of electric vehicles and fuel efficiency improvements can help decarbonize the transport sector.^{22, 23} However, achieving the goal of the Paris Agreement to limit global warming to 1.5°C will require more ambitious policies to reduce transport related GHG emissions by 70% by 2050, compared to 2015.²⁴

Given the importance of reducing road transport emissions, the EU member states have put comprehensive policies in place primarily directed at the supply side.^{25, 26} Although GHG emissions declined by 22.5% between 1990 and 2018 in the EU, transport related GHG emissions grew by more than 23% during the same period.²⁷ The transport sector was responsible for 27% of the EU's total GHG emissions in 2017.²⁸ To reduce GHG emissions from the sector, the European Commission introduced emission performance standards for light and heavy-duty vehicles in 2019.²⁹ In addition, the EU has set a target to reduce GHG emissions from the transport sector by 30% by 2030, compared to a 2005 baseline.³⁰ The EU is also making efforts to increase the share of renewable energy sources in the energy use of the transport sector. In 2018, renewable energy sources accounted for 8% of the

¹⁵ L&T, "Communications Policy", at: <https://www.lt.fi/en/responsibility/code-of-conduct/communications-policy>

¹⁶ L&T, "Annual Review 2020", at: <https://vuosikertomus.lt.fi/wp-content/uploads/2021/02/lassila-tikanoja-annual-report-2020-annual-review.pdf#page=36>

¹⁷ IEA, "Tracking Transport 2020", at: <https://www.iea.org/reports/tracking-transport-2020>

¹⁸ IEA, "World Energy Outlook 2021", at: <https://iea.blob.core.windows.net/assets/88dec0c7-3a11-4d3b-99dc-8323ebfb388b/WorldEnergyOutlook2021.pdf>

¹⁹ IEA, "Transport", (2020), at: <https://www.iea.org/topics/transport>

²⁰ International Transport Forum, "Transport Outlook 2021", at: <https://www.itf-oecd.org/sites/default/files/transport-outlook-executive-summary-2021-english.pdf>

²¹ Planete Energies, "The Global Transportation Sector: CO₂ Emissions on the Rise", at: <https://www.planete-energies.com/en/medias/close/global-transportation-sector-co2-emissions-rise>

²² Resources for the Future, "Progress and Potential for Electric Vehicles to Reduce Carbon Emissions", at: <https://www.rff.org/publications/reports/potential-role-and-impact-evs-us-decarbonization-strategies/>

²³ European Commission, "Transport in the European Union- Current Trends and Issues", at: <https://ec.europa.eu/transport/sites/default/files/2019-transport-in-the-eu-current-trends-and-issues.pdf>

²⁴ International Transport Forum, "Transport Outlook 2021", at: <https://www.itf-oecd.org/sites/default/files/transport-outlook-executive-summary-2021-english.pdf>

²⁵ Enzmann, J. et al., "Reducing Road Transport Emissions in Europe: Investigating A Demand Side Driven Approach", MDPI, at: <https://www.mdpi.com/2071-1050/12/18/7594>

²⁶ Ibid.

²⁷ Enzmann, J. et al., "Reducing Road Transport Emissions in Europe: Investigating A Demand Side Driven Approach", MDPI, at: <https://www.mdpi.com/2071-1050/12/18/7594>

²⁸ European Environmental Agency, "Greenhouse gas emissions from transport in Europe", at: <https://www.eea.europa.eu/data-and-maps/indicators/transport-emissions-of-greenhouse-gases/transport-emissions-of-greenhouse-gases-12>

²⁹ European Commission, "Road transport: Reducing CO₂ emissions from vehicles", at: https://ec.europa.eu/clima/eu-action/transport-emissions/road-transport-reducing-co2-emissions-vehicles_en

³⁰ ICCT, "2020–2030 CO₂ standards for new cars and light-commercial vehicles in the European Union", at: https://theicct.org/sites/default/files/publications/ICCT_EU-CO2-stds_2020-30_brief_nov2016.pdf

sector’s total energy use.³¹ In 2021, the European Parliament amended the Renewable Energy Directive to set a target to increase the share of renewable energy sources in the energy use of the transport sector by 14% by 2030.³²

Sustainalytics, therefore, notes that L&T’s investments in reducing scope 1 and 2 GHG emissions and fuel emissions from contracted work-related transportation have the potential to significantly reduce the Company’s carbon footprint and contribute to the decarbonization of the transport and logistics sector.

Alignment with/contribution to SDGs

The Sustainable Development Goals were adopted by the United Nations General Assembly in September 2015 and form part of an agenda for achieving sustainable development by the year 2030. The sustainability-linked bonds issued under the Framework are expected to help advance the following SDG goals and targets:

| KPI | SDG | SDG Target |
|---|--|---|
| Scopes 1 and 2 GHG emissions intensity (gCO ₂ e/km driven) | 9. Industry, Innovation and Infrastructure | 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities |
| Absolute scope 3 emissions (from contractor fuel consumption) | 11. Sustainable cities and communities | 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons |

Conclusion

L&T intends to issue sustainability-linked bonds tying the coupon rate or redemption price to achieve the following SPTs:

- (1) Reduce scopes 1 and 2 GHG emissions intensity by 37.5% per km by the end of 2027 from a 2018 baseline;
- (2) Reduce absolute fuel emissions from contracted work-related transportation by 21% by the end of 2027 from a 2020 baseline.

Sustainalytics considers the KPIs chosen to be strong, given that (i) they are a direct measure of L&T’s emissions, (ii) they reflect a material environmental issue for the Company, (iii) they follow a clear and consistent methodology and (iv) they follow an externally defined methodology. In addition to that, KPI 1 is consistent with an external reference and KPI 2 can be measured against external science-based contextual benchmarks. Sustainalytics considers the SPTs to be aligned with L&T’s sustainability strategy. Furthermore, Sustainalytics considers the SPTs to be ambitious given that (i) they are above L&T’s industry peers, (ii) SPT 1 has been verified to align with science-based targets of well below 2°C and (iii) SPT 2 presents a material improvement compared to past performance. Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers the Lassila & Tikanoja Sustainability-Linked Bond Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the prospective achievement of the SPTs to be impactful.

³¹ European Environmental Agency, “Use of renewable energy for transport in Europe”, at: <https://www.eea.europa.eu/data-and-maps/indicators/use-of-cleaner-and-alternative-fuels-2/assessment>

³² European Commission, “Renewable energy directive”, at: https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-directive_en

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Lassila & Tikanoja Oyj

Sustainability-Linked Bond ISIN: not known at time of publication

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3): Sustainalytics

Completion date of second party opinion pre-issuance: May 3, 2022

Independent External Review provider's name for post-issuance verification (section 4): not known at time of publication

Completion date of post issuance verification:

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 summarise 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)
 - Calibration of Sustainability Performance Targets (SPTs) Reporting
 - Verification
- and confirmed their alignment with the SLBP.

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

- Second Party Opinion Certification
- Verification 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)

L&T intends to issue sustainability-linked bonds tying the coupon rate or redemption price to achievement of the following SPTs:

- (1) Reduce scope 1 and 2 GHG emissions intensity by 37.5% per km by end of 2027 from a 2018 baseline.

- (2) Achieve a 21% reduction of scope 3 emissions (tCO₂e) from contractor fuel consumption for transportation by the end of 2027 from a 2020 baseline.

Sustainalytics considers the KPIs chosen to be strong given that (i) it is a direct measure of L&T’s emissions, (ii) it speaks to a material environmental issue for the Company, (iii) it follows a clear and consistent methodology and (iv) it follows an externally defined methodology. In addition to that, KPI 1 is consistent with an external reference and KPI 2 can be benchmarked against external science-based contextual benchmarks. Sustainalytics considers the SPTs to be aligned with L&T’s sustainability strategy. Furthermore, Sustainalytics considers the SPTs to be ambitious given that (i) they are above L&T’s industry peers, (ii) SPT 1 has been verified to align with science-based targets of well below 2°C and (iii) SPT 2 presents a material improvement compared to past performance. Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers the Lassila & Tikanoja Sustainability-Linked Bond Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the prospective achievement of the SPTs 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): The L&T Sustainability-Linked Bond Framework includes two KPIs: scopes 1 and 2 emissions (km driven) and scope 3 emissions (from contractor fuel consumption) (see Table 1). Sustainalytics considers the two KPIs to be strong.

List of selected KPIs:

- Scopes 1 and 2 GHG emissions intensity (gCO₂e/km driven) Emissions from contractor fuel consumption
- Absolute scope 3 emissions (from contractor fuel consumption)

Definition, Scope, and parameters

- Clear definition of each selected KPIs
- Clear calculation methodology
- Other (please specify):

Relevance, robustness, and reliability of the selected KPIs

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

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (if applicable): Sustainalytics considers the SPTs to be aligned with L&T’s sustainability strategy. Sustainalytics further considers the SPTs to be ambitious.

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 checked="" type="checkbox"/> reference to the science | <input type="checkbox"/> Other (please specify): |

Additional disclosure

- | | |
|--|---|
| <input type="checkbox"/> potential recalculations or adjustments description | <input type="checkbox"/> issuer’s strategy to achieve description |
| <input 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): L&T will link the bond characteristics to the achievement of the SPTs at the target observation date. Both KPIs need to be met to avoid penalty. The change in financial characteristics may include adjustment to the bond coupon or an increased redemption price.

Financial impact:

- variation of the coupon
- increased redemption price
- Other (please specify):

Structural characteristic:

- Other (please specify):

3-4 REPORTING

Overall comment on the section (if applicable): L&T commits to report on its performance on the KPIs on an annual basis in its Sustainability Report or in a separate Sustainability-Linked Progress Report. L&T also commits to disclose relevant information that may affect the KPI or enable investors to monitor the progress and ambition of the selected KPIs and SPTs. The reporting commitments are aligned with the Sustainability-Linked Bond Principles.

Information reported:

- | | |
|--|---|
| <input checked="" type="checkbox"/> performance of the selected KPIs | <input checked="" type="checkbox"/> verification assurance report |
|--|---|

- level of ambition of the SPTs Other (*please specify*):

Frequency:

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

Means of Disclosure

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

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
- SPTs calibration
- KPI methodology

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