SECOND PARTY OPINION (SPO)

Sustainability Quality of the Borrower and Sustainability-Linked Loan

Eesti Energia
24 January 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	▪ Sustainability-Linked Loan
Relevant standard(s)	▪ Sustainability-Linked Loan Principles, as administered by the LMA (as of March, 2022)
Scope of verification	▪ Eesti Energia Sustainability-Linked Loan
Lifecycle	▪ Pre- transaction verification
Validity	▪ Valid as long as the Loan characteristics (Annex 1) and benchmarks to the SPTs remain unchanged.

CONTENTS

SCOPE OF WORK

Eesti Energia ("Eesti" or ''the borrower'' or ''the company'') commissioned ISS Corporate Solutions (ICS) to assist with its Sustainability-Linked Loan by assessing three core elements to determine the sustainability quality of the instruments:

1. Eesti Energia's Sustainability-Linked Loan and structural components of the transaction – benchmarked against the Sustainability-Linked Loan Principles (SLLP), as administered by the Loan Market Association (LMA).
2. The sustainability credibility of the Key Performance Indicators (KPI) selected and Sustainability Performance Targets (SPT) calibrated – whether the KPI selected are core, relevant, material and strategically significant to the borrower's business model and industry, and whether the associated targets are ambitious.
3. Linking the transaction(s) to Eesti Energia's overall ESG profile – drawing on Eesti Energia's sustainability objectives.

EESTI ENERGIA BUSINESS OVERVIEW

Eesti Energia AS produces, sells and transmits electric and thermal power. It offers energy solutions from electricity, heat and fuel production to sales and customer service and many other energy services. The company was founded on May 8, 1939 and is headquartered in Tallinn, Estonia.

It is classified in the Multi-Utilities industry, as per ISS ESG's sector classification.

ASSESSMENT SUMMARY

EVALUATION SUMMARY[1]		
Alignment with the SLLP	**The loan is in line with the Sustainability-Linked Loan Principles (SLLP) administered by the LMA**	
KPI Selection	**KPI 1.** Carbon intensity of Scope 1, 2 and 3 emissions	**KPI 2.** Yearly addition of renewable energy capacity
Relevant	Relevant	Relevant
Core	Core	Core
Material	Moderately Material	Material
Assessment	**Aligned**	**Aligned**
SPT Calibration	**SPT 1.** 44% reduction of Scope 1, 2 and 3 CO_2 carbon intensity	**SPT 2.** Cumulative increase of 1673MW of Renewable Energy capacity until 2028
Against borrower's past performance	Ambitious, based on limited information	Ambitious, based on limited information
Against borrower's industry peer group	In line with peers	In line with peers
Against international targets	Limited information	Limited information
Level of ambition	**Good**	**Good**
Linking the transaction to Eesti Energia's overall ESG profile	**Consistent with borrower's sustainability strategy** The KPIs selected by the borrower are related to climate change and environmental impacts of the Multi-Utilities industry. Reduction of the intensity of energy capacity and promotion of renewable energy have been defined as key priorities of the borrower in terms of sustainability strategy and have been assessed as a material sustainability topic for the borrower. This issuance contributes to the borrower's sustainability strategy thanks to the KPI's clear link to one of the key sustainability priorities of the borrower and due to an ambitious SPT against company's past performance.	

[1] The evaluation is based on the engagement conducted in December 2022 and January 2023 , on Eesti's Sustainability-Linked Loan and on the ISS ESG Corporate Rating applicable at the SPO delivery date (as of January 1, 2023).

SPO ASSESSMENT

PART 1: ALIGNMENT WITH LMA SUSTAINABILITY-LINKED LOAN PRINCIPLES

This section evaluates the alignment of the Sustainability-Linked Loans proposed by Borrower with the Sustainability-Linked Loan Principles.

SLL PRINCIPLES	ASSESSMENT	OPINION
1. Selection of KPIs	A detailed analysis of the sustainability credibility of KPI selection has been conducted in Part 2 of this report.	
2. Calibration of SPTs	A detailed analysis of the sustainability credibility of SPT has been conducted in Part 2 of this report.	
3. Loan Characteristics	✓	The Sustainability-Linked Loan Characteristics description provided by the borrower is aligned with the SLLP. The Borrower gives description of the potential variation of the financial characteristics of the securities.
4. Reporting	✓	The Reporting description provided by the borrower is aligned with the SLLP. This will be made available annually to lenders and include valuable information. The reporting will be publicly available on borrower's website.
5. Verification	✓	The Verification description provided by the borrower is aligned with the SLLP. An SPO has been provided through this report. The performance of the SPTs against the KPIs will be externally verified annually until the maturity of the loan.

PART 2: KPI SELECTION & SPT CALIBRATION

1. Selection of KPI 1

KPI 1 is defined as 'Carbon intensity of Scope 1, 2 and 3 emissions'	
Opinion	*The KPI selected is relevant, core and moderately material to the borrower's overall business, and of strategic significance to the borrower's current and/or future operation. The KPI is clearly defined with a baseline, is measurable and benchmarkable with limitations.*

Assessment	Not aligned	**Aligned**	Best Practice

KPI 1 **Characteristics and Features**	**Definition:**	Carbon intensity of Scope 1, 2 and 3 emissions (tCO_2/MWh)
	Scope/perimeter:	Scope 1 emissions covered by EU Emissions trading system (96% of the full Scope 1 emissions) – Electricity, heat and oil shale production + Scope 2 and Scope 3 as per the recommendations included in the GHG Protocol
	Measurability:	KPI 1 is calculated using the sum of total of scope 1, 2 & 3 emissions (with a 5% buffer on Scope 1 to cover unexpected increases – e.g. government mandate to supply energy) divided by the total energy output (measured in MWh) with scope 2 and 3 calculations as per GHG Protocol
	Baseline:	0,61 tCO_2/MWh in 2021
	Benchmarkable:	By referring to commonly acknowledged GHG accounting standards for Scope 1, 2 and 3 the KPI is comparable with the data reported by other companies. Benchmarking of the SPT in relation with this KPI has been analysed in section 2.

KPI 1 **Analysis**	The KPI on reduction of Scope 1, 2 and 3 emissions selected by the borrower is:

Relevant to Eesti Energia's business as its industry is exposed to climate change mitigation risks, as Promotion of a sustainable energy system and resource efficiency are considered key ESG issues faced by the Electric Utilities industry according to key ESG standards for reporting and ISS ESG assessment.

Core to the borrower's business as the KPI affects the company's key processes and operations and all the value chain and covers the entirety of the strategy laid out by the issuer. It is noted that in the immediate future the issuer will open a new plant for shale oil production, not to be used for power generation but for the sole production and commercialization of shale oil, which will increase the Scope 3 emissions by 60% according to company's projections. However, it is noted that the issuer has presented a strategy to transition this new plant from oil shale to a chemicals industry during the next two decades. In fact, this transition to a less carbon-intensive business will be necessary to stay in line with the company's targets.

During the timeline of the loan, the issuer also expects that waste plastic will be used in existing production facilities and that gasoline production units will be transitioned to chemicals. It is noted as well that, as per the company's shared projected numbers, the issuer expects a 57% increase in total energy output with a 10% decrease of the total absolute Scope emissions.

Moderately Material[2] to Eesti Energia as it covers the entirety of the issuer's emissions. However, it should be noted that because KPI 1 is an intensity target and there is no guarantee it will correspond to an absolute decrease. Nonetheless, it should also be noted that KPI 2 plans to increase the company's renewable energy capacity. While this does not guarantee an absolute decrease in CO2 emissions, the presence of this KPI strengthens the company's overall strategy to decarbonize its value chain

Strategic significance to Eesti Energia current and future operations as the KPI is consistent with the overall company's sustainability strategy and business model.

[2] ISS ESG bases this analysis on the Issuer's own emissions reporting and makes no comment on the quality or consistency of the Issuer's Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established norms for the Issuer's sector. ISS ESG notes that Scope 3 reporting may be different between companies in the same sector and does not undertake any benchmarking of an Issuer's reporting.

2. Calibration of SPT 1

SPT 1 is defined as '44% Reduction of Scope 1, 2 and 3 carbon intensity'

Opinion	*The SPT calibrated by the borrower* (i) is ambitious against the company's past performance based on limited evidence, (ii) is in line with industry peers, and (iii) is currently not benchmarkable against an international standard.

Level of Ambition	No Evidence	Limited	**Good**	Robust

SPT 1 **Characteristics and Features**	**Timeline** (Baseline, Target observation date, Trigger event):	**Baseline:** intensity of energy production in 2021 (0,61 MW). **Target observation date:** rolling observation date from 2022 until the target year on 31st December 2028. **Trigger event:** discount/penalty mechanism applied at every target observation date
	Target performance	Intensity of energy production compared to baseline performance (0,61 tCO_2/MWh in 2021): • 18% increase in 2022, or 0.69 tCO_2/MWh intensity of energy production • 13% increase in 2023, or 0.66 tCO_2/MWh intensity of energy production • 17% decrease in 2024, or 0.49 tCO_2/MWh intensity of energy production • 33% decrease in 2025, or 0.39 tCO_2/MWh intensity of energy production • 37% decrease in 2026, or 0.37 tCO_2/MWh intensity of energy production • 38% decrease in 2027, or 0.37 tCO_2/MWh intensity of energy production • 43% decrease in 2028, or 0.33 tCO_2/MWh intensity of energy production
	Strategy and action plan to reach the target:	Eesti plans to achieve this target by increasing the usage of renewable energy in their energy productions, by building solar parks and onshore and offshore wind farms along with the development of storage systems. Is also planning to end the electricity production from oil shale by 2035 and transition from liquid fuels production to a chemical industry based on circular economy, by transitioning the new plant from oil shale production to chemicals industry and use of waste plastic in production facilities.
	Key factors/risks beyond the borrower's direct control that may affect the achievement of the SPTs:	Eesti Energia has a security of supply requirement by the government. This means that in the case of an energy crisis, they still have to produce energy, even if it's from their most inefficient power plants, meaning that the scope 1 emissions will be higher than they would anticipate in usual market circumstances.

	Historical data verified:	Historical data has not been externally verified. The issuer has made the commitment that limited assurance will happen in the future.
	SPT set with borrower/lender group:	The KPIs and SPTs have been determined and set between the borrower and the lender for each transaction.
	Recalculations or pro-forma adjustments of baselines	N/A

SPT 1 **Analysis**	The level of ambition of the SPT has been assessed as follows:

(i) Against past performance:

Table 1	2018	2019	2020	2021 - Baseline
Carbon intensity Scope 1, 2 and 3 (t CO2/MWh)	0.91	0.69	0.57	0.61
CAGR (2018-2021)		-24%	-21%	-13%

Besides the baseline year, the issuer has provided 3 years of relevant historical data. From 2018 to 2021 there has been a significant decrease of the intensity of energy production from 0.87 to 0.61, or a 35% reduction. Based on the Compound Annual Growth Rate (CAGR), it was higher in the 2019 and decreased until 2021, reaching -13%.

Table 2	2021 - Baseline	2022	2023	2024	2025	2026	2027	2028
Carbon intensity Scope 1, 2 and 3 (t CO2/MWh)	0.61	0.72	0.69	0.5	0.41	0.39	0.38	0.35
CAGR (2021-2028)		+18%	+6%	-6%	-9%	-9%	-8%	-8%

From 2021 to the target date in 2028, an increase is expected for 2022 and 2023, due to the reasons stated above (energy crisis, security of supply and high energy prices). Because of this, some older power plants were reactivated which increase the carbon intensity of Eesti's operations. These plants were in reserve and are less effective and more pollutant. As soon as the prices stabilize, the company aims to shut down the old plants. From 2024 onwards a consistent decrease is targeted by the company, with similar decreases expected from 2025 to 2028, albeit never reaching the rate levels verified before the baseline year. With a CAGR of -8% expected for the 2021-2028 period, as verified in Table 2, this rate is lower than the one observed for the 2017-2021 period.

In order to achieve this target, along with the shutdown of the old power plants reactivated during the energy crisis, the company is relying on the use of biomass to lower the intensity of energy production. However, further increasing the amount of biomass the plants can burn will be incrementally difficult and require higher investments. Another key factor to consider here is the availability and price of the biomass, as currently there is a shortage of biomass on the market. Therefore, the effort required to achieve this target is higher than the

one required between 2017-2021. As such, the SPT is qualitatively ambitious against past performance. However, this conclusion is limited by the fact that the historical data has not been externally verified.

(ii) Against peers:

A peer group of 17 companies (Eesti included) with NACE code 35.11 (Production of electricity) and operating in Estonia, Lithuania, Latvia, Poland, Czech Republic and Russia was selected by ISS ESG.

Six companies (top 35% of the peer group) have set CO_2 emissions reduction targets, but they are not comparable with KPI 1 in terms of scope. Only one of those companies has set a target for the reduction of Scope 1, 2 and 3 emissions, however it is the absolute emissions and not the carbon intensity.

Nonetheless, on the basis of setting a target, Eesti is in line with industry peers.

(iii) Against international targets:

The company's target is not currently benchmarkable against any international targets. The IEA scenarios are not relevant benchmarks as they map out an absolute reduction path and this is an intensity target. The TPI Pathway cannot be used because it includes all three scopes.

As such, there is limited information to evaluate the level of the SPT's ambition against international standards.

Consistency with the borrower sustainability strategy: This target aligns with the overall strategy of the company to decarbonize its value chain, which targets the exit from shale oil as a main fuel for energy production and aims to increase the use of biomass and waste wood.

1. Selection of KPI 2

KPI 2 is defined as 'Yearly addition of renewable energy capacity'			
Opinion	*The KPI selected is relevant, core and material to the borrower's overall business, and of strategic significance to the borrower's current and future operation. The KPI is clearly defined with a baseline, is measurable and benchmarkable with limitations.*		
Assessment	Not aligned	**Aligned**	Best Practice

KPI 2 Characteristics and Features	**Definition:**	Yearly addition of renewable energy capacity in MW
	Scope/perimeter:	RE includes 100% of new renewable photovoltaic and wind power capacity created and developed by Eesti.
	Measurability:	The issuer calculates the total MW of Renewable Energy capacity added to the grid
	Baseline:	0 MW in 2021
	Benchmarkable:	The KPI is benchmarkable to data reported by other companies. However, there are limitations to benchmarking this KPI, namely because its target is absolute, refers to energy capacity created (as opposed to energy capacity generated) and is cumulative over a number of years. These limitations are not attributed to the issuer.

KPI 2 Analysis	The KPI on addition of renewable energy capacity selected by the borrower is:

Relevant to Eesti Energia's business as its industry is highly GHG-emitting, being one of the key issues of the sector: Promotion of a sustainable energy system and resource efficiency. By adding Renewable Energy capacity to its grid, it will reduce the usage of fossil fuels, in line with the company's ambition to have 100% of its energy production from renewable energy by 2035.

Core to the borrower's business as climate change mitigation reduction measures affects key processes and operations that are core to the business model of the borrower. However, the issuer plans to open a new plant for the production of oil shale which will impact the overall GHG emissions and harm the transition to a sustainable business by the issuer. Energy production accounts for ca 78% of the company's revenues, meaning that any change on the source of such electricity production is considered to be core to the company's business. In line with the company's sustainability strategy to have 100% of its energy production from renewable energy sources by 2035 and all production to be carbon neutral by 2045, the addition of renewable energy capacity cumulatively in the next upcoming years will contribute to the transition of the company's energy mix.

Material to Eesti from an ESG perspective as the company can have material impact on the promotion of a sustainable energy system by increasing the capacity[3] of the international RE market. With this KPI, Eesti can enlarge the amount of RE on the European grid and, if fossil fuel energy sources reduce or, at least, remain the same, enlarge the share of RE power capacity and generation in the issuer's portfolio.

Strategic significance to Eesti Energia current and future operations as the KPI is consistent with the overall company's sustainability strategy and business model.

[3] It is worth noting that the capacity target reflects the maximum possible generation of renewable electricity of the power plant. For wind and photovoltaic power plants, that would mean perfect (weather) conditions. Therefore, the amount of capacity and generation of those plants could significantly differ

2. Calibration of SPT 2

SPT 2 is defined as 'Cumulative increase of 1673MW of Renewable Energy capacity by 2028'	
Opinion	*The SPT calibrated by the borrower (i) is ambitious against the company's past performance based on limited evidence, (ii) is in line with industry peers, and (iii) is currently not benchmarkable against an international standard*

Level of Ambition	No Evidence	Limited	**Good**	Robust

SPT 2 **Characteristics and Features**	**Timeline** (Baseline, Target observation date, Trigger event):	**Baseline:** 0 MW of renewable energy capacity added in 2021 **Target observation date:** rolling observation date from 2022 until the target year on 31st December 2028. **Trigger event:** discount/penalty mechanism applied at every target observation date
	Target performance	Renewable Energy capacity to be added per year: • 23MW in 2022 • 250MW in 2023 • 450MW in 2024 • 370MW in 2025 • 260MW in 2026 • 160MW in 2027 • 160MW in 2028
	Strategy and action plan to reach the target:	Eesti plans to more than double the renewable energy production capacity by 2025, with the action plan being implemented by the Group's subsidiary Enefit Green, which was listed on the Nasdaq Tallin stock exchange in October 2021. In 2021, wind farms began to be built in Lithuania, Finland and a solar farm in Poland, which will all be ready by 2023, putting in practice the company's strategy. These renewable energy farms will have a capacity of close to 200 MW, which accounts for 1/3 of the growth plan for the coming years.
	Key factors/risks beyond the borrower's direct control that may affect the achievement of the SPTs:	No risks were identified by the company
	Historical data verified:	Historical data has not been externally verified. The issuer has committed that limited assurance will happen in the future.
	SPT set with borrower/lender group:	The KPIs and SPTs have been determined and set between the borrower and the lender for each transaction.

	Recalculations or pro-forma adjustments of baselines	N/A

SPT 2 **Analysis**	The level of ambition of the SPT has been assessed as follows:

(i) Against past performance:

Table 3	2017	2018	2019	2020	2021 - Baseline
The addition of renewable energy capacity (MW)			18.2	6.2	0.0
Cumulative total (2017-2021)			18.2	24.4	24.4

The KPI defined by Eesti is the absolute RE capacity added annually until 2028, starting from the baseline in 2021, during which 0MW of Renewable Energy capacity was added. Up until 2021, Eesti added a cumulative total of 24,4MW of RE capacity, has verified in 2021.

Table 4	2021 - Baseline	2022	2023	2024	2025	2026	2027	2028
The addition of renewable energy capacity (MW)	0.0	23.2	250.0	450.0	370.0	260.0	160.0	160.0
Cumulative total (2021-2028)		23.2	273.2	700.0	1070.0	1330.0	1490.0	1650.0

Compared to the current performance so far (2017-2021) the amounts targeted from 2022 onwards are significantly higher than the performance so far by the company. A peak should be observed in 2024 and 2025, which combined will add 820MW of RE capacity, accounting for 49% of the total amount of RE capacity to be added throughout the KPI timeline.

As such, the KPI is ambitious against the past performance. However, this conclusion is based in limited evidence by the fact that the historical data has not been externally verified.

(ii) Against peers: A peer group of 17 companies (Eesti included) with NACE code 35.11 (Production of electricity) and operating in Estonia, Lithuania, Latvia, Poland, Czech Republic and Russia was selected by ISS ESG.

The fact that Eesti's SPT refers to cumulative energy capacity it creates over a period of several years and the two other companies from the peer group that have set targets for total RE capacity at one point in time, makes direct comparison not meaningful.

However, six companies (top 35% of the total peer group) have set sustainability targets, including Eesti. Lastly, the fact that Eesti has set an absolute target (as opposed to a target relative to its total created energy capacity) sets limitations.

Nonetheless, on the basis of setting a target, Eesti is in line with industry peers.

(iii) Against international targets:

Eesti has set this SPT as a cumulative increase of RE capacity from plants created and developed in Lithuania, Finland and Poland. All of these being EU member states, the additional RE capacity anticipated as part of this KPI, assuming the non-renewable energy capacity stays the same, can be considered to contribute to the EU's

overarching aim of achieving at least 32% of RE generated by 2030[4]. More particularly, the additional capacity also contributes to national goals of increasing the share of RE in the respective countries' energy mix (e.g., Poland 65% increase by 2024, Lithuania 100% in 2050, etc.)

However, there are limitations to use these targets for benchmarking against the issuer's SPT (e.g., the SPT is calibrated as an absolute cumulative figure while the EU target is a relative target, and the SPT targets RE capacity[5] added while the EU target focuses on generated RE).

Therefore, ISS ESG concludes that there is limited information to assess the level of ambition of the SPT against (inter)national targets.

Consistency with the borrower sustainability strategy: Eesti's sustainable strategy is based in 3 pillars: offering environmentally sustainable end-to-end solutions, building solar and wind farms and transitioning from the use of oil shale for electricity generation to circular economy-based chemicals industry. The company has set goals to achieve 100% of energy production from renewables in 2035 and all production operations to be carbon neutral by 2045.

The KPI is consistent with Eesti's sustainability strategy.

[4] European Commission, 2021, Renewable Energy Directive, Renewable energy directive (europa.eu)
[5] It is worth noting that the capacity target reflects the maximum possible generation of renewable electricity of the power plant. For wind and photovoltaic power plants, that would mean perfect (weather) conditions. Therefore, the amount of capacity and generation of those plants could significantly differ

PART 3: LINKING THE TRANSACTION(S) TO EESTI ENERGIA'S ESG PROFILE

This section aims to provide an overall level of information on the ESG risks to which the borrower is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG performance of the borrower

Leveraging ISS ESG's Corporate Rating research, further information about the borrower's ESG performance can be found on ISS ESG Gateway at: https://www.issgovernance.com/esg/iss-esg-gateway/.

Please note that the consistency between the issuance subject to this report and the borrower's sustainability strategy is further detailed in Part 3.B of this report.

ESG risks associated with the borrower's sector

The borrower is classified in the Multi-Utilities, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this sector are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE SECTOR
Worker safety and accident prevention
Protection of human rights and community outreach
Accessibility and reliability of energy and water supply
Promotion of a sustainable energy system and resource efficiency
Environmentally safe operation of plants and infrastructure

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, the contribution of the borrower's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs) has been assessed as per the table below. This analysis is limited to the evaluation of final product characteristics and does not include practices along the borrower's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE[6]	DIRECTION OF IMPACT	UN SDGS

[6] Percentages presented in this table are not cumulative.

Energy supply to residential customer	16%	CONTRIBUTION	
Energy generation based on solar and wind	11,2%	CONTRIBUTION	
Energy generation based on oil and/or diesel, crude oil from conventional sources	38,3%	OBSTRUCTION	

Breaches of international norms and ESG controversies

At borrower level

At the date of publication and leveraging ISS ESG's Research, no severe controversy in which the borrower would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Multi-Utilities sector are as follows: Failure to assess environmental impacts, to mitigate climate change impacts and to respect indigenous rights.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

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ANNEX 1: ISS ESG Corporate Rating

ISS ESG Corporate Rating provides relevant and forward-looking environmental, social, and governance (ESG) data and performance assessments.

For more information, please visit:

https://www.issgovernance.com/file/publications/methodology/Corporate-Rating-Methodology.pdf

ANNEX 2: Methodology

Alignment of the concept set for transactions against the Sustainability-Linked Loan Principles, as administered by LMA

The Sustainability-Linked Loan of Eesti Energia, as well as the concept and processes for issuance have been reviewed against the Sustainability-Linked Loan Principles administered by the LMA. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Loan market by clarifying the approach for issuance.

Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Loan Principles (SLLP), an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT has been conducted.

The analysis has determined whether the KPI selected is core, relevant and material to the borrower's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. The analysis also reviewed whether the KPI is appropriately measurable by referring to key reporting standards and against acknowledged benchmarks. Based on the factors derived from the SLLP and using a proprietary methodology, the KPI selection assessment is classified on a 3-level scale:

Not Aligned	Aligned	Best Practice
The KPI is not aligned if one of the core requirement from the SLLP selection of KPIs section is not satisfied.	The KPI is aligned if all the core requirements from the SLLP selection of KPIs section are satisfied.	The KPI follows Best Practices if all the core requirements from the SLLP selection of KPIs section are satisfied and if the KPI is fully material and follows best-market practices in terms of benchmarkability.

The ambition of the SPT has been analysed against Eesti Energia's own past performance (according to Eesti Energia's reported data), against Eesti Energia's Industry peers (as per ISS ESG Peer Universe and data), and against international benchmarks such as the Paris agreement (based on data from the Transition Pathway Initiative). Finally, the measurability and comparability of the SPT, and the supporting strategy and action plan of Eesti Energia have been evaluated. Based on the factors derived from the SLLP and using a proprietary methodology, the SPT selection assessment is classified on a 4-level scale:

No Evidence	Limited	Good	Robust
If none of the three dimensions (past performance, industry peers and international benchmarks) are positively assessed.	If the SPT is ambitious against only one of the three dimensions.	If the SPT is ambitious against two of the three dimensions.	If the SPT is ambitious against all the dimensions.

ANNEX 3: Quality management processes

SCOPE

Eesti Energia commissioned ICS to compile a Sustainability-Linked Loan SPO. The Second Party Opinion process includes verifying whether the loan aligns with the LMA Sustainability-Linked Loan Principles and to assess the sustainability credentials of its Sustainability-Linked Loan, as well as the borrower's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion:

- LMA Sustainability-Linked Loan Principles

BORROWER'S RESPONSIBILITY

Eesti Energia's responsibility was to provide information and documentation on loan sustainability credentials.

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Sustainability-Linked Loan to be issued by Eesti Energia has been conducted based on a proprietary methodology and in line with the LMA Sustainability-Linked Loan Principles.

The engagement with Eesti Energia took place in December 2022 and January 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the LMA Sustainability-Linked Loan Principles), analyse the sustainability quality of the assets and review the sustainability performance of the borrower themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/

For information about SPO services, please contact: SPOsales@isscorporatesolutions.com

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