



# SUSTAINABILITY-LINKED BOND FRAMEWORK: Kährs Group

## PRE-ISSUANCE SECOND-PARTY OPINION

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<p>Questions regarding this document may be directed to <i>Kristian R. Andersen</i>,  or <i>Line Asker</i> of The Governance Group:  Website: <a href="http://www.thegovgroup.org">www.thegovgroup.org</a>  Office phone: +47 22 83 43 00</p>	

### The Issuer

Kährs Group – Kährs Holding AB – (“Kährs”, “the Group” or “the Company”) is a leading European manufacturer and distributor of premium flooring. Kährs’ products can be found in in homes, offices, shops, hotels, theatres, hospitals, and sports arenas in more than 70 countries around the world. Kährs is the wood flooring market leader in Sweden, Finland, and Russia, and holds strong positions in other key markets such as Norway, Switzerland, the UK, the United States, and Germany. Kährs intends to issue a Sustainability-Linked Bond (the “SLB” or “Bond”) in November 2021. The Company has commissioned The Governance Group to review the Sustainability-Linked Bond Framework (SLBF) and provide an opinion on the alignment of the framework with the ICMA Sustainability-Linked Bond Principles (SLBP).<sup>1</sup>

### The Reviewer

The Governance Group AS (TGG) is an independent analysis and advisory firm based in Oslo, Norway. TGG provides expertise on environmental, social and governance (ESG) risk and compliance. The firm applies leading global ESG standards when conducting Company assessments, benchmarking, and gap analysis.

TGG has worked with over 150 public and private entities across all industries, most notably the maritime sector, oil and gas, renewables, defence, real estate, technology, and financial services. TGG also serves as a trusted advisor to public institutions such as the United Nations, the World Bank, and governmental agencies, as well as various NGOs and foundations.

TGG is a member of the Marine Transportation Advisory Group of the Sustainability Accounting Standards Board (SASB)/Value Reporting Foundation, an accredited CDP provider and a Certified Training Partner of the GRI. TGG is a signatory to the principles of the International Capital Market Association (ICMA).<sup>2</sup> TGG applies the International Standard on Quality Control 1 (ISQC) framework required for e.g. ISAE 3000 assignments.



<sup>1</sup> Note that the ICMA SLBP and the Sustainability-Linked Loan Principles (SLLPs) established by the Loan Market Association ([LMA](https://www.lma.com)) in 2018 correspond.

<sup>2</sup> The Secretariat of the Green Bond Principles, International Capital Market Association, includes TGG in its [membership list](#) on the ICMA website.

## SUMMARY

This review was conducted in accordance with ICMA's external review guidelines<sup>3</sup> using publicly available documentation from Kährs Group as well as discussions with the Company's senior management. TGG confirms it has in place processes to safeguard professional integrity, objectivity, competence, behaviour and confidentiality.



*The Governance Group AS (TGG) is of the opinion that Kährs' Sustainability-Linked Bond Framework (SLBF) is **aligned** with the five core components of the ICMA Sustainability-Linked Bond Principles of June 2020<sup>4</sup> (SLBP).*

A

*TGG regards the Key Performance Indicators (KPIs) to have a **very high degree of relevance and materiality** to the Company's operations (score: 4). The Sustainability Performance Targets (SPTs) are deemed as being **highly ambitious** (score: 3.67). This constitutes an overall 'A' rating of the SLBF.*

TGG's opinion is based on the following:

### Principle One: Selection of Key Performance Indicators (KPIs)

The Company has selected three KPIs for its Sustainability-Linked Bond Framework (SLBF):

- CO<sub>2</sub>e<sup>5</sup> emissions from the Group's own operation and purchased energy (scope 1 and 2)
- Setting a Science Based Target ("SBT") for CO<sub>2</sub>e emission reduction in line with 1.5-degree scenario
- Sustainably sourced wood as a per cent of the Group's total purchased wood raw material

*TGG has assessed KPIs 1, 2 and 3 which can be regarded as highly relevant and material to the operational characteristics of the Company's business and the Company's environmental impact.*

### Principle Two: Calibration of Sustainability Performance Targets (SPTs)

*TGG considers that the SPTs support the Company's sustainability strategy. TGG regards the Company's selected SPTs to be related to its sustainability strategy and to be highly ambitious. Two of the SPTs are regarded as highly ambitious, and one of the SPTs as fairly ambitious.*

### Principle Three: Security Characteristics

The Company's Sustainability-Linked Bond contains the characteristics of a conventional bond but with a penalty provision attached.

*TGG notes that the penalty structure is to be in line with comparable sustainability-linked securities in the market.*

### Principle Four: Reporting

The Company commits to report on an annual basis on its performance of the KPIs against the SPTs. The Company will publish information regarding the development of the SPTs in the Group's annual sustainability report or sustainability progress report.

*TGG views this to be in line with the ICMA SLBP.*

### Principle Five: Verification

*TGG is of the opinion that the Company's verification scheme is in line with the requirements outlined by ICMA in that the Company will commission competent and independent third parties to conduct the assurance.*

<sup>3</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/Guidelines-for-GreenSocialSustainability-and-Sustainability-Linked-Bonds-External-Reviews-February-2021-170221.pdf>

<sup>4</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf>

<sup>5</sup> CO<sub>2</sub>e refers to "Carbon Dioxide Equivalent" which includes CO<sub>2</sub> and other greenhouse gases

## 1. Methodology and rating scale

### Scope of review and responsibilities

This Second-Party Opinion (SPO) reflects TGG's independent opinion on the alignment of the reviewed SLBF framework with the Sustainability-Linked Bond Principles. TGG confirms that it has:

- expertise in SLBF framework requirements;
- assessed the potential sustainability impacts targeted by the SLBF;
- reviewed the Company's alignment with the five core components of the ICMA Principles; and
- evaluated the potential material environmental risks associated with the project identified by the Company.

TGG has relied on information provided by the Company's management team to understand the sustainability impact of their business strategy and SPTs, and the reporting and verification procedures applicable to the SLBF. The Company's representatives have confirmed that:

- 1) They understand it is the sole responsibility of the Company to ensure that the information provided is complete, accurate and up to date.
- 2) They have provided TGG with all relevant information.
- 3) The provided material information has been duly disclosed in a timely manner.

TGG received information through discussions with the Company and reviewed relevant documents published by the Company<sup>6</sup> as well as non-public information to prepare this report<sup>7</sup>. The opinion should be read in conjunction with the Sustainability-Linked Bond Framework<sup>8</sup> and other Bond Documents. TGG's SPO reflects TGG's opinion of the Bond's alignment with current market standards. As such, this SPO is no guarantee of alignment with future versions of relevant market standards. TGG's SPO addresses the defined SPT(s) of the KPI(s) but does not measure the KPI(s). The measurement and reporting of the KPI(s) are the sole responsibility of the Issuer.

No information provided by TGG under the present SPO shall be considered as being a statement, representation, warrant or argument either in favour or against the truthfulness or completeness of any facts or statements and related surrounding circumstances that the Company has made available to TGG for the purpose of this SPO.

### Alignment and rating scale

#### Alignment

When conducting a SPO review, TGG assesses whether the proposed framework can be said to be *aligned* or *not aligned* with the Sustainability-Linked Bond Principles issued by International Capital Market Association (ICMA). Where evidence is found that the said principles are covered, TGG deems a framework to be *aligned*.

#### Materiality and relevance

When reviewing the materiality and relevance of the Key Performance Indicator(s) (KPI(s)), TGG applies the following ratings, where the Issuer:

Rationale	Degree of materiality	Score
Has applied a recognized and quantifiable method of identifying KPIs material to the business model and sustainability effects.	Very high degree of relevance and materiality	4
Has employed a structured approach when identifying KPIs material to the Company.	High degree of relevance and materiality	3
Explains with limited quantifiable evidence the materiality of its KPIs.	Medium degree of relevance and materiality	2
Has insufficient explanation of the materiality of its KPIs.	Low level of relevance and materiality	1
Has no explanation of the materiality of its KPIs.	Clearly lacking relevance and materiality.	0

<sup>6</sup> E.g. Kährs [Environmental Policy](#), Environment & sustainability EMAS [2019](#), Kährs [Code of Conduct](#), Kährs Group UK [Modern Slavery Act Statement](#) and Kährs statement on California Transparency in [Supply Chain Act](#)

<sup>7</sup> E.g. Kährs competitor analysis (confidential and not published)

<sup>8</sup> Kährs, Sustainability-Linked Bond Framework, 31 October 2021

### Level of ambition

When reviewing the ambition level of the Sustainability Performance Targets (SPTs), TGG has applied the following ratings, where the Issuer:

Rationale	Degree of ambition	Score
Provides an absolute and a relative benchmark of sustainability impact.	Highly ambitious	4
Provides evidence that the sustainability impact is material to society at large.	Fairly ambitious	3
Describes how the target is important to the sustainable operation of the Company, but not the effect on its surroundings.	To some degree ambitious	2
Provides insufficient description and evidence of the sustainability impact.	Low level of ambition	1
Provides no description and/or evidence of the sustainability impact.	Lacking ambition	0

### Overall rating

By combining the scores on materiality and level of ambition, TGG arrives at an overall score ranging from E (lowest rating) to A (highest rating). Generally, a 'D' or 'E' rating indicates that the issuer should refrain from using the term sustainability-linked. A 'C' rating means that the basic requirements for a sustainability-linked framework have been met. The two top level ratings (A and B) indicate that the issuer has a sustainability-linked framework that is fairly or highly material and ambitious.

For the Company and its Sustainability-Linked Bond Framework, TGG assessed the KPIs to have a *very high degree of relevance and materiality* (score: 4) to the Company and the SPTs as being *highly ambitious* (score: 3.67). This constitutes an overall 'A' rating of the instrument.

Combined score	Rating
8	A
7	B+
6	B
5	C+
4	C
3	D
2	D-
0-1	E

## 2. Alignment with core principles

TGG is of the opinion that the Company's Sustainability-Linked Bond Framework is *aligned* with the five core elements of the Sustainability-Linked Bond Principles (SLBP) of June 2020. The KPIs and SPTs employed by the Company are described in Table 1 and Table 2 below.

**Table 1: KPI definition**

<b>Key Performance Indicators</b>	<b>Definition</b>
<b>KPI 1: CO2e emissions from the Group's own operation and purchased energy (scope 1 and 2)</b>	Scope 1 and 2 emissions are calculated in accordance with the GHG Protocol. <sup>9</sup> Scope 1 emissions include fuel used at Kährs' production sites and warehouses as well as the use of own produced energy. Scope 2 emissions include purchased electricity and heat used at Kährs controlled production sites and warehouses.
<b>KPI 2: Setting a Science Based Target ("SBT") for CO2e emission reduction in line with 1.5 degree scenario</b>	The Science-Based Target Initiative (SBTi) is a recognized verifier of climate targets. <sup>10</sup>
<b>KPI 3: Sustainably sourced wood as a per cent of the Group's total purchased wood raw material</b>	Sustainably sourced wood is here defined as FSC <sup>11</sup> certified or controlled wood as well as PEFC <sup>12</sup> certified or from controlled sources.

**Table 2: SPT**

<b>Sustainability Performance Targets</b>	<b>Details</b>
<b>SPT 1: Reduction in Scope 1 and 2 CO2 e emissions</b>	An 8 per cent annual reduction of Scope 1 and Scope 2 CO2e emissions leading to a 40 per cent reduction by year end 2025 against base year 2020.
<b>SPT 2: SBT to be validated by the Science Based Target Initiative (SBTi)</b>	The CO2e emission reduction targets to be validated by SBTi by 2023. The SPT will be aligned with the SBTi targets (as a sub-target) for 2025.
<b>SPT 3: Increase the share of sustainably sourced wood</b>	From the 2020 baseline, an annual 1.4 percentage point improvement in sustainably sourced wood raw material leading to a performance target of 87 per cent in 2025.

<sup>9</sup> Any gaps between Kährs' actual climate footprint in Scope 1 and 2 are mainly due to rental contracts in specific countries in which there are no clear divisions between total electricity and heat emissions. Kährs estimates that more than 95 per cent of Scope 1 and 2 emissions are currently accounted for.

<sup>10</sup> SBTi is a partnership between The World Resource Institute, the UN Global Compact and World Wildlife Fund. The approval process is based on data from the Intergovernmental Panel on Climate Change (IPCC).

<sup>11</sup> FSC: Forest Stewardship Council

<sup>12</sup> PEFC: The Programme for the Endorsement of Forest Certification

## Principle One

### Selection of Key Performance Indicators (KPIs)

#### Definition and methodology

The Company's Sustainability-Linked Bond Framework includes three KPIs:

#### **KPI 1:** *CO<sub>2</sub>e emissions from the Group's own operation and purchased energy (scope 1 and 2)*

The Company's scope 1 and 2 emissions are calculated in accordance with the GHG Protocol with some minor limitations. Scope 1 emissions include fuel used at Kährs' production sites and warehouses as well as the use of own produced energy. Scope 2 emissions include purchased electricity and heat used at Kährs controlled production sites and warehouses. Kährs estimates that more than 95 per cent of Scope 1 and 2 emissions are currently accounted for.

TGG is of the view that Scope 1 and Scope 2 emissions as defined by the GHG Protocol<sup>13</sup> are internationally accepted as the standard approach to account for and report on corporate CO<sub>2</sub> emissions.

#### **KPI 2:** *Setting a Science Based Target ("SBT") for CO<sub>2</sub>e emission reduction in line with 1.5 degree scenario*

The Company is intensifying its work related to climate mitigation and is currently in the process of deepening its understanding of emissions from Scope 3. In the Company's current emission accounting, inbound delivery and outbound delivery are included. By setting a 1.5-degree compliant science-based target (SBT) the Company will develop a full emission calculation for scope 3.

In TGG's opinion, setting a SBT which in addition to Scope 1 and Scope 2 also takes into account Scope 3 emissions in line with the GHG Protocol is an internationally accepted approach to establish emission reduction targets.

#### **KPI 3:** *Sustainably sourced wood as a per cent of the Group's total purchased wood raw material*

The Company has defined 'Sustainably sourced wood' as FSC certified or controlled wood as well as PEFC certified or from controlled sources.

TGG is of the opinion that the KPI is clearly defined and aligned with targets set in Sustainable Development Goal (SDG) 15.2: Support progress towards sustainable forest management.

#### Relevance and materiality of KPIs

In 2019, the Company conducted a materiality mapping, based on internal and external stakeholders' perspectives of relevant sustainability issues to the sector. The following stakeholders were included in the materiality mapping: Employees; Customers; Suppliers; Partners; Owners; Suppliers. The Company was supported by a Big Four audit firm to conduct the initial materiality screening. Following the first materiality mapping, additional topics have been included due to input from key stakeholders and Kährs management.

The materiality mapping identified a number of issues, the top three being:

- Durable products
- Climate footprint
- Biodiversity and deforestation

Kährs operates within what the Sustainability Accounting Standards Board (SASB) has defined as the 'Building Products & Furnishings Industry'. SASB has included energy usage and the source of energy as material to companies within the industry, as well as wood supply chain management.

In conclusion, TGG is of the view that including GHG emissions and sustainably sourced wood is to be deemed to be of very high materiality and relevance to the sector in which the Company operates.

#### **KPI 1:** *CO<sub>2</sub>e emissions from the Group's own operation and purchased energy (scope 1 and 2)*

The Company aims to reduce CO<sub>2</sub>e emissions until the Company is climate positive, which means that they aim to reduce more GHG emissions than their value chain emits.

<sup>13</sup> The Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard, Revised Edition, WBCSD and WRI  
Second Party Opinion – Kährs SLBF 2021



In TGG's opinion, given the outcome of the materiality mapping, that energy usage and source of energy are defined as material for the sector in which the Company operates, and that Scope 1 and Scope 2 emissions are tracked and managed by several of the Company's peers, the KPI is deemed to be of a *very high degree of relevance and materiality*.

**KPI 2: Setting a Science Based Target ("SBT") for CO<sub>2</sub>e emission reduction in line with 1.5-degree scenario**

Scope 3 emissions account for more than 2/3 of Kährs' CO<sub>2</sub>e emissions. The Company's Scope 3 emissions derive from its upstream and downstream activities, e.g. purchased goods, waste generated, fuel and energy related activities, and upstream and downstream transportation. Kährs' supply chain includes over 3 000 timber suppliers from approximately 10 countries in Europe and Asia.

To address the Company's Scope 1-3 emissions in a structured way, Kährs is committing to the Science Based Targets Initiative (SBTi). By doing this, Kährs will calculate its emissions according to the Science Based Target criteria and will set ambitious targets in line with the Paris Agreement (1.5 C) and get the targets validated by the SBTi. A deeper understanding of scope 3 GHG emissions will enable Kährs to create a clear roadmap for how to reach substantial GHG emission reductions in line with the 1.5 C target.

In TGG's opinion considering the Company's business model and the outcome of the materiality mapping of Scope 3 emissions, which includes the Company's supply chain emissions, are of a *very high degree of relevance and materiality* to the Company. Defining CO<sub>2</sub> reduction targets in line with SBTi and the Paris Agreement (1.5 C) and getting these targets validated by the SBTi is the most ambitious and reliable way to create a clear roadmap for how to reach substantial GHG emission reductions in line with the 1.5 C target.

**KPI 3: Sustainably sourced wood as a per cent of the Group's total purchased wood raw material**

In 2020, approximately 70 per cent of Kährs' net sales were related to internally produced wood floors. The wood floors that Kährs manufactures are 98 per cent made of wood material. Kährs' largest impact on deforestation and biological diversity is linked to the extraction of wood raw materials.

TGG is of the view that increasing the proportion of certified wood material is of a *very high degree of relevance and materiality* to the Company's sustainability efforts. SASB has included wood supply chain management as a material topic for the 'Building Products & Furnishings Industry'. The Company has also provided quantifiable evidence of the materiality of this KPI, i.e. the share of net revenue that comes from the sale of wood products.

**Ability to be benchmarked**

KPI 1: may be benchmarked as GHG emissions reduction targets which can easily be compared with companies in the same industry, e.g. Interface, Tarkett, Balta, Armstrong Flooring, Mohawk and Shaw.

KPI 2: may be benchmarked with comparable companies that have established SBTi commitments and targets. Information about peers' commitment to reducing scope 3 emissions is however limited as targets are either currently not set by the Company's peers or the information about the targets is not available. Only one of the Company's peers has provided official information about their SBTi commitments and targets.

KPI 3: may be benchmarked with comparable companies and on an aggregate level. However, the certification standards used sometimes deviate between the various players in the sector.

**ASSESSMENT**

Overall, TGG has assessed the KPIs to have a *very high degree of relevance and materiality*. KPIs 1, 2 and 3 can be regarded as highly relevant and material to the operational characteristics of the Company's business areas, and further quantifiable evidence on the business model's potential impact on sustainability have been assessed.



## Principle Two

# Calibration of Sustainability Performance Targets (SPTs)

## Alignment with the Company's sustainability strategy

SPT	Strategy to achieve the SPT
1. <b>Reduction in Scope 1 and 2 CO<sub>2</sub> e emissions</b>	An 8 per cent annual reduction of Scope 1 and Scope 2 CO <sub>2</sub> e emissions leading to a 40 per cent reduction by year end 2025 against base year 2020.
2. <b>SBT to be validated by the Science Based Target Initiative (SBTi)</b>	The CO <sub>2</sub> e emission reduction targets to be validated by SBTi by 2023. The SPT will be aligned with the SBTi targets (as a sub-target) for 2025.
3. <b>Increase the share of sustainably sourced wood</b>	From the 2020 baseline, an annual 1.4 percentage points improvement in sustainably sourced wood leading to the performance target of 87 per cent in 2025.

TGG views the SPTs as supporting the Company's sustainability strategy (please see section 3 for discussion of the Company's sustainability strategy).

### Level of ambition, Baseline and Benchmarks

The targets (SPTs) established are based on the Company's internal priorities.

#### SPT 1

Scope 1 and scope 2 emissions from the Company accounted for 15 175 tonnes of CO<sub>2</sub> in 2020. These emissions represent emissions that Kährs could control with targeted activities. Kährs has set a reduction target to reduce direct emissions by 8 per cent annually leading to a 40 per cent reduction by year end 2025 against a base year 2020.

The Company plans to implement several initiatives to reach these targets, as described below:

- Sourcing electricity from 100 per cent renewable sources
- Investing to change fossil fuel heating with biogas
- Exchange the diesel-powered forklifts with electric forklifts
- Replace diesel-powered heavy machinery with HVO (as this is currently the best available option)
- Continuous improvement in energy efficiency

TGG is of the opinion the Company's reduction targets for scope 1 and scope 2 emissions are *highly ambitious*. The Company has reduction targets, measured at annual reduction rates, 1.6 to 4 times the reduction rate of their peers<sup>14</sup>.

#### SPT 2

Scope 3 emissions account for more than 2/3 of the total Kährs CO<sub>2</sub>e emissions and thus constitute the biggest emission source for the Company.

For Kährs to set and get approval of a Science Based Target, Kährs needs to further deepen the understanding of emissions from Scope 3 and accurately map its upstream and downstream emissions. Kährs' supply chain includes 3 000 timber suppliers from approximately 10 countries in Europe and Asia. A deeper understanding of scope 3 GHG emissions will enable Kährs to create a clear roadmap for how to reach substantial GHG emission reductions in line with the 1.5 C target.

In TGG's opinion considering the Company's business model and the outcome of the materiality mapping of Scope 3 emissions, which includes the Company's supply chain emissions, setting reduction targets in line with the Paris Agreement (1.5 C) is *highly ambitious*.

#### SPT 3

In 2020, 80 per cent of all wood purchasing in the Group was sustainably sourced. Kährs targets a 1.4 percentage points annual improvement in sustainably sourced wood leading to a target of 87 per cent in 2025, measured as a

<sup>14</sup> Ref. the competitor analysis of Kährs (not public)

percentage of the Group's total purchased wood raw material. Sustainably sourced wood is defined as FSC certified<sup>15</sup> or controlled wood<sup>16</sup> as well as PEFC certified<sup>17</sup> or from controlled sources<sup>18</sup>.

FSC is an international organization working for global responsible forest management that considers both the environment and the people living in and from the forest. PEFC (Programme for Endorsement of Forest Certification) is an international system for sustainable forest management.

To reach the target, Kährs has planned several initiatives, including increasing the share of Swedish oak at Nybro, working with existing and new suppliers of wood material (especially in Russia and Romania) to increase the proportion of certified materials, changing the softwood supplier mix, and working with Polish plank suppliers to increase certification levels.

The Company already has a high share of certified sourced wood, at 80 per cent. This makes a 7 percentage points improvement more demanding than starting from a lower baseline. The planned increase will mean that 35 per cent of the currently non-certified sourced wood will become certified if and when the target is reached.

The planned increase in the certification share will both have a direct and an indirect effect. First, a significant share (about 1/3) of the currently non-certified sourced wood will have a certification within 2025, amounting to approximately 15 000 cubic meters of wood. Second, the indirect effect on suppliers will also be positive, especially in countries where the certification level today is low, as this will highlight the importance of sustainable forest management and sustainably sourced wood.

A review of 11 peers and 6 diversified flooring players showed that only half of these companies publish information on the share of certified wood, with the share of certified sourced wood among the Company's peers ranging from 49 per cent to up to 100 per cent<sup>19</sup>.

In TGG's opinion a target of 87 per cent sustainably sourced wood within 2025 is *fairly ambitious*.

## ASSESSMENT

Overall, TGG regards the Company's SPTs related to its sustainability strategy and the selected SPTs as being *highly ambitious*.

### Principle Three

## Securities Characteristics<sup>20</sup>

The Company's Sustainability-Linked Bond framework contains the characteristics of a conventional bond but with a penalty provision attached.

Should the Company fail to meet the SPTs by the Target Observation Date, the redemption price will increase by a specified fraction of the Nominal Amount. For the avoidance of doubt, for the bond characteristics to remain unchanged, the Company must (i) reach the applicable SPTs at the Target Observation Dates, and (ii) provide and make public relevant reporting and verification (as per the reporting section of the Framework).

## ASSESSMENT

TGG notes that the penalty structure is in line with other comparable sustainability-linked securities in the market.

<sup>15</sup> [FSC](#) (Forest Stewardship Council) is an international membership organization that promotes the responsible management of the world's forests

<sup>16</sup> [Controlled Wood \(fsc.org\)](#)

<sup>17</sup> The [PEFC](#) Program for the Endorsement of Forest Certification schemes is the world's largest organization for forest certification.

<sup>18</sup> [Chain of Custody of Forest Based Products - Guidance for Use, PEFC GD 2001:201X, Enquiry Draft - Chain of Custody of Forest Based Products - Guidance for Use, PEFC GD 2001:201X, Enquiry Draft - Public Consultation - PEFC Consultations](#)

<sup>19</sup> TGG was not able to uncover whether the few peers with higher ratios of certified wood were including all parts of the business, or if these numbers were only relating to parts of the peers' business – and the certification methods were not identical.

## Principle Four

### Reporting

The Company commits to annually publish up to date information regarding the development of the KPIs in relation to the respective SPTs.

In any case, for any date/period relevant for assessing the trigger of the SPT performance leading to a potential adjustment in the redemption price of the bond, such information will be made accessible on the Company's website.

Kährs commits to make available (in the sustainability report or sustainability progress report) any relevant information enabling investors and others to monitor the progress of the KPIs versus the SPTs (including the changes to baseline if relevant). The Company will seek independent annual verification of the performance on the KPIs to be published on its website.

#### ASSESSMENT

TGG views the reporting structure to be in line with the ICMA principles.

## Principle Five

### Verification

To confirm the transparency and robustness of the Company's Sustainability-Linked Bond Framework, Kährs will seek external and independent verification by one or more qualified external reviewers, with relevant expertise, confirming whether the relevant Key Performance Indicator meets the relevant Sustainability Performance Target within the predefined timeframe. As stated above, the verification report provided by the external verifier will be published on the Company's website.

#### ASSESSMENT

TGG is of the opinion that the Company's verification scheme is in line with the requirements outlined by ICMA in that the Company will commission independent and external verification to conduct the assurance.

Alignment with Sustainability-Linked Bond Principles of June 2020

#### CONCLUSION

*TGG finds that the Company's November 2021 SLBF is aligned with the five core elements of the ICMA Sustainability-Linked Bond Principles.*

### 3. Alignment with strategy

#### Objectives of the Company's sustainability strategy and ESG risk management

Kährs is a leading European manufacturer and distributor of premium flooring, and is the wood flooring market leader in Sweden, Finland, and Russia, and holds strong positions in other key markets such as Norway, Switzerland, the UK, the United States, and Germany.

The overall sustainability strategy of Kährs is named "A Planet Positive Journey". Key elements of this strategy are reducing the Group's climate impact and driving innovations to obtain a more sustainable product portfolio, while acting in a responsible manner. In 2019, the Company performed a materiality assessment which identified relevant ESG considerations from a stakeholder perspective. The top three ESG issues identified were durable products, climate footprint, and biodiversity and deforestation.

As a part of its strategy, Kährs aims to reduce net greenhouse gas emissions and implement other sustainability measures that benefit people and the environment. This includes converting to renewable energy, reducing waste from the production, developing products with health and the environment in mind, and ensuring that raw materials are procured in a sustainable and responsible way.

Kährs aims to find ways to make the production process more environmentally friendly through the use of wood and supporting reforestation, the selection of phthalate free materials for vinyl floors, and environmentally conscious production.

Priority areas in the Company's sustainability strategy	SLBF KPI/SPT
1. Climate action and reducing the Group's climate impact is a core element of the Company's sustainability strategy. The Company is working towards becoming climate positive and is taking	1 & 2
2. measures to reduce its GHG emissions.	
3. The Company has a clear ambition to ensure that the wood it uses in its products is sourced in a sustainable way and has a key environmental objective to increase the proportion of certified wood material in its products.	3

Given Kährs' quantitative goals, corporate-wide strategy and past performance, TGG is of the view that Kährs has a suitable sustainability strategy and that its performance is on track to achieve the established objectives.

#### Assessment of the SLBF based on the Company's sustainability strategy

##### CONCLUSION

The selected sustainability topics chosen are deemed as relevant to the Company's operations based on its sustainability strategy. Formalising the targets as outlined in the SLBF will strengthen the Company's governance of selected ESG topics.

*In sum, TGG regards the KPIs and SPTs to reflect main elements of the Company's sustainability strategy.*

## 4. Impact of the defined SPTs

Kährs is a large group, with operations in 17 countries and approximately 1 500 employees. The Group's products are sold to over 70 countries globally<sup>21</sup>. The Company has an impact on the environment and humans as the Company transports and manufactures wood flooring products and other flooring products. More specifically, the Company's business model can have a negative effect on the environment through emissions, pollution, deforestation, waste etc.

In the case of the Company and its SLBF, the impacts of SPTs 1-2 are linked to climate action, and the monitoring and reduction of the Company's carbon footprint, including scope 3 targets.

For SPT 1, it is noted that in absolute terms, a 40 percent decrease in emissions from 2020 to 2025, would result in about 6 000 tonnes reduced CO2 emissions.

The impact of SPT 2 is not measurable at this stage. However, TGG would like to underline the importance of decision-makers in companies understanding that their mitigation and other actions influence Scope 3 emissions: ignoring Scope 3 impacts might lead to the promotion of technologies that do not yield the expected emission reductions. The Company has rightly identified Scope 3 emissions from its supply chain as important, and it is to be expected that future reductions will surpass those measured in SPT 1.

When it comes to SPT 3, the Company states that it will reach the target through several key initiatives, e.g. working with existing and new suppliers of wood material (especially in Russia, Poland, and Romania), to increase the proportion of certified materials. The certifications will ensure that the sourced wood is from forests that are managed in line with strict environmental requirements.

Deforestation is a major challenge for the wood product sector and the forestry sector in general. The removal of trees through deforestation contributes to around 15 to 20 per cent of global GHG emissions.<sup>22 23 24</sup> Deforestation can also result in serious negative impacts on forest biodiversity. The UN Food and Agriculture Organization (FAO) estimated that 13 million hectares of forest are lost each year to deforestation.<sup>25</sup>

The increase in certified wood will have a positive effect on the environment, as the certifications will ensure that the wood is sourced from sustainably managed forests. A rough estimate suggests that this would imply that an additional 15 000 cubic meters of wood will be coming from sustainably managed sources. There will also be a positive indirect effect on suppliers, especially in countries where the certification level today is low, as the Company's demand for certifications will highlight the importance of sustainable forest management and sustainably sourced wood.

In sum, TGG notes that the impact of SPT 1-3 can be quantified to a certain degree, and TGG is confident that the impact will be impactful, given the scope and nature of the Company's operations.

### The Company's alignment with and contribution to the UN SDGs

The UN Sustainable Development Goals (SDGs) were launched in September 2015 and represent an agenda for achieving sustainable development by the year 2030. Global challenges – ranging from climate change, depletion of natural resources to poverty and inequality – are in need of solutions that the private sector can contribute to. To achieve results, it is important that companies wanting to contribute to the SDGs link action to their core operations and business strategy. The Company has identified SDG 3 (Good Health and Well-being), SDG 7 (Affordable and Clean Energy), SDG 11 (Sustainable Cities and communities), SDG 12 (Responsible consumption and production), SDG 13 (Climate Action) and SDG 15 (Life on land) as relevant to its operations.

<sup>21</sup> Kährs corporate presentation 2022

<sup>22</sup> [Minimizing environmental impacts of timber products through the production process "From Sawmill to Final Products" | Environmental Systems Research | Full Text \(springeropen.com\)](https://www.springeropen.com)

<sup>23</sup> [Microsoft Word - Measuring Carbon Emissions from Tropical Deforestation--An Overview.doc \(edf.org\)](https://www.lse.ac.uk/granthaminstitute/explainers/whats-redd-and-will-it-help-tackle-climate-change/)

<sup>24</sup> <https://www.lse.ac.uk/granthaminstitute/explainers/whats-redd-and-will-it-help-tackle-climate-change/>

<sup>25</sup> [Threats to forests - PEFC - Programme for the Endorsement of Forest Certification](https://www.pefc.org/)

Sustainability impact of the defined SPT

## **CONCLUSION**

Taking into account the nature and scope of the Company's operations, TGG regards the SPTs to be impactful.

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