

Q&A - Kinnevik's Sustainability Linked Financing Framework

November 2021

General questions

What is a Sustainability Linked Financing Framework?

A Sustainability Linked Financing Framework is a platform that enables Kinnevik to issue sustainability linked bonds and loans. The format links material key performance indicators (KPIs) related to sustainability with a company's financing solutions through a financial incentive mechanism.

Kinnevik's Sustainability Linked Financing Framework is aligned with the Sustainability-Linked Bond Principles published by the International Capital Market Association (ICMA) in June 2020, and the Sustainability Linked Loan Principles, as published by the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA) and the Loan Syndications and Trading Association (LSTA) in July 2021.

Why has Kinnevik established a Sustainability Linked Financing Framework?

Sustainability is an integrated part of Kinnevik's business model and a core element in building companies that deliver superior returns. Kinnevik is committed to continuously improve our own and our portfolio companies' sustainability performance. Establishing a Sustainability Linked Financing Framework is therefore a natural next step for Kinnevik, whereby we integrate our commitment and ambition to be a sustainability leader into our financing solutions.

Has Kinnevik raised sustainable debt previously?

Yes, a sustainability link has already been incorporated into Kinnevik's SEK 5bn Revolving Credit Facilities, based on the Sustainability Linked Financing Framework.

Has Kinnevik's Sustainability Linked Financing Framework been reviewed by independent, external sustainability experts?

Yes, Kinnevik has received a Second Party Opinion on the framework from CICERO Shades of Green and IISD. The two Second Party Opinion providers confirm the alignment of the framework with the Sustainability Linked Bond Principles and the Sustainability-Linked Loan Principles and that the selected KPIs and SPTs are material, strategically significant and reflect the company's sustainability strategy. Furthermore, CICERO Shades of Green and IISD assessed the governance procedures in Kinnevik's framework to be Excellent.



Sustainability Linked Financing Framework

How were the Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs) selected?

Kinnevik's KPIs and SPTs were selected to ensure materiality and a high level of ambitiousness. Kinnevik has sustainability targets that have been communicated externally on both Kinnevik level and on portfolio level, but as the greatest potential in Kinnevik's impact is at portfolio level, the relevant KPIs were selected accordingly to reflect a high ambition level and focus on areas where Kinnevik can influence its portfolio companies to improve the most. The KPIs/SPTs reflect Kinnevik's active ownership ambitions as well as the incorporation of sustainability into its core value creation processes.

How far back in time can SPTs be measured?

SPT #1: Historical data regarding greenhouse gas emissions intensity from Kinnevik's portfolio can be tracked from year 2020, enabling Kinnevik to measure the change in emission intensity for the period 2020/21 and report on the same during 2022.

SPT #2: Kinnevik launched a Diversity & Inclusion framework in May 2019 including a target to allocate 10% of capital invested into new companies to female founded or led companies, and the share of capital invested into female founded or led companies can be tracked from year 2016.

SPT #3: Kinnevik has been measuring ESG scores for its portfolio during the last 5 years, however, in 2020 Kinnevik updated the standards against which the scores are measured. This updated version which also applies to KPI/SPT3, has been measured since 2020.

How will Kinnevik use the proceeds from its Sustainability Linked Instruments?

The proceeds of Sustainability Linked Finance Instruments will be used for general corporate purposes and refinancing.

What financial incentives are used in the Framework?

The financial incentive used for a specific instrument will be outlined in the security specific documentation. This may include yearly coupon, redemption price or margin adjustments. Regardless of financial effect selected, the scale of the impact aims at being meaningful and commensurate. Worth noting is that Kinnevik has annual SPTs and test dates, meaning that the SPTs require consistent year-on-year performance.

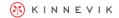
Will Kinnevik provide regular reporting to investors and the general public?

To ensure investors and other stakeholders have updated and adequate information about Kinnevik's sustainability strategy and the progress of the KPIs in relation to the respective SPTs, Kinnevik will report the progress of each SPT on their website and in their annual Sustainability Report and/or in a separate Climate Progress report (the Sustainability Linked Finance Reporting). The Sustainability Linked Finance Reporting will be published on Kinnevik's website for as long as there are Sustainability Linked Finance Instruments outstanding.

The Sustainability Linked Finance Reporting will contain the relevant information for assessing whether the applicable SPT has been met for the relevant Target Observation Date(s) and any relevant exclusions and/or considerations applied.

Is Kinnevik's annual sustainability reporting subject to external verification?

Kinnevik will seek independent and external verification of its actual KPI performance relative to the SPT(s), on an annual basis and in relation to the Target Observation Date(s). The verification will be conducted by a reviewer with relevant expertise and limited assurance. The verification will be made public as part of the Sustainability Linked Finance Reporting on the website by the dates outlined in the transaction specific documentation. Failure to provide the annual verification by the dates defined in the transaction specific documentation, will result in an automatic adjustment in the financial characteristics as outlined in the security specific documentation.



Additional insights on included KPIs/SPTs

KPI/SPT1: Calculation methodology

KPI/SPT1 aims to capture Kinnevik's active ownership and influence as an investor and how Kinnevik can use such influence to ensure portfolio companies are growing in a sustainable way. That is also why we have chosen an intensity target, which means we will not benefit from exiting an investment with high intensity or investing in a company with low intensity. Kinnevik believes it is important that we make continuous improvements in terms of GHG intensity which is why we have chosen an annual target. Further, Kinnevik also believes that everyone needs to be part of the ongoing climate transition and hence we require significant change in all our companies regardless of their starting point or sector.

To measure performance against our climate target of a 50% reduction in greenhouse gas emission intensity from our portfolio by 2030 compared to 2020, we have in line with the Carbon Law translated our target into an annual target of 7% reduction in GHG intensity compared to the previous year. Performance against the year-on-year target is based on change in intensity per company from previous year which requires that i) a portfolio company has measured and reported on their GHG emissions for at least two years in a row and ii) been part of Kinnevik's portfolio during this period. The included companies and their share of our total portfolio value will be disclosed. The climate target and the SPT do not apply to our emerging market portfolio companies, which represent less than 2% of our portfolio value.

The annual reduction KPI calculation consist of three steps:

- 1) GHG intensity for each individual reporting portfolio companies by dividing their total GHG emissions in a calendar year by an individually selected denominator representing growth of the company (e.g. revenue, number of goods sold). As Kinnevik's portfolio consists of a diverse set of businesses, the most relevant denominator will depend on the specifics of the company. The denominator will stay the same for the relevant portfolio company for all measuring periods unless such denominator becomes irrelevant due to changes in the portfolio companies' business.
- 2) The year-on-year percentage change in GHG intensity is calculated for each individual reporting portfolio company.
- 3) The year-on-year change in intensity for all reporting portfolio companies is aggregated and weighted by their reported fair value at the end of the reporting period, resulting in a weighted change in GHG intensity compared to the previous year.

KPI/SPT 1: The Second Party Opinion mentions that this SPT cannot be confirmed to be aligned with the Paris Agreement. Can you explain?

According to CICERO's methodology, an intensity target cannot be aligned with the Paris Agreement if it is not also accompanied by an absolute reduction target, as this means that the absolute emissions potentially can increase over time even if the intensity may go down.

Kinnevik has together with an external party with relevant expertise in the area developed these climate targets that work for an investment company focusing on high growth portfolio companies. Intensity targets are broadly accepted by the market and provide a tool for companies to commit to emission reduction and efficiency initiatives without limiting the ability to conduct business.

KPI/SPT1: As the Framework uses emission intensity, how does Kinnevik address the risk of increasing absolute emissions associated with portfolio companies?

Kinnevik is aware of the importance of absolute emissions and will report on absolute emissions from its reporting portfolio companies. Given Kinnevik's investment strategy of investing in high growth companies, setting absolute reduction targets would restrict Kinnevik from conducting its core business. This is not the purpose of the Sustainability-Linked format.

KPI/SPT1: Why has the intensity reduction target not been verified by the Science Based Target Initiative?



Kinnevik's ambition is to have a target that directly relates its portfolio's GHG emissions. Firstly, current SBT guidance for the financial sector is primarily aimed at other types of players, asset owners, asset managers, financial institutions, etc., i.e. categories that are not directly applicable to Kinnevik and our business model. Secondly, such guidance mainly means that you should set goals for the portfolio to in turn set their own goals. Kinnevik has instead chosen to set a goal that directly refers to the portfolio, something that we consider more ambitious as it requires a lot from us as minority owners and investors in growth companies. It should also be noted that this goal was set in 2020, when SBT guidance was significantly less developed in this area. All in all, Kinnevik has chosen to prioritize a goal that is ambitious and that fits its business model over choosing a goal that aligns with various frameworks.

KPI/SPT1: What's the GHG coverage of the portfolio companies (scope 1, 2 and/or 3) - will all key material GHG emission categories be included?

Reporting is in line with the GHG Protocol and we encourage all our portfolio companies to measure scopes 1-3 based on a thorough materiality assessment to identify the material GHG emission categories across all three scopes.

KPI/SPT1: Is target setting per portfolio company a determinant in SPT achievement?

No, however, it is Kinnevik's ambition to work with all portfolio companies to set their own relevant climate targets.

KPI/SPT1: How will the denominator for intensity be selected and explained (emissions vs. revenues, turnover, sold volume)?

The denominator is selected together with the portfolio company and will signify the company's core business. The selected denominator for an individual portfolio company will remain the same for all measuring periods unless such denominator becomes irrelevant due to changes in the portfolio companies' core business.

KPI/SPT1: How is each company weighted in the portfolio?

Each portfolio company is weighted by their fair value in Kinnevik's portfolio. We have chosen this approach, and not to weight them by their share of total emissions, because we believe it is important that all portfolio companies are held accountable for achieving intensity reductions and in turn are part of the global climate transition.

KPI/SPT1: How will exclusions and inclusion of portfolio companies be made in relation to the KPI/SPT1?

Two years of GHG reporting is required to calculate the change in intensity. Kinnevik will provide full transparency on which portfolio companies are included in the calculation of KPI/SPT1. Only companies that have reported on their GHG emissions to a satisfactory extent during at least two years and been in our portfolio during the last two years will be included. Our emerging market assets, currently less than 2% of our portfolio, are excluded from the target.

Further, given that the KPI/SPT refers to Kinnevik's influence as investor and the fact that our portfolio is constantly evolving, we only look at changes in intensity during the period when Kinnevik owns a stake in a company. Further, we will always use a comparable portfolio as the basis for the calculation. For example, the reduction of GHG intensity between 2020 and 2021, will not include Zalando as Kinnevik distributed its entire shareholding in Zalando during 2021.

KPI/SPT2: Calculation methodology

The target measures the share of capital allocated to female led or founded new companies, divided by total new capital invested, on a two-year rolling basis.

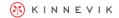
A company qualifies as a female founded company if, at the time of investment -

- at least 50% of the founding team active in the company are women, or
- at least 1/3 of the founding team active in the company are women and serve in the most senior level of the company, or
- a woman co-founder also serves as CEO or Chairman of the Board.

"Active in the company" is defined as still working operationally for the company or serving on the board.

A company qualifies as a female led company if, at the time of investment -

- at least 50% of the senior management team are women, or
- a woman serves as CEO and at least 30% of the senior management team are women at the time of investment.



KPI/SPT2: Kinnevik has previously met the criteria of capital allocation established for KPI #2, how can it be ensured that the 10% per year target is sufficiently ambitious?

The Second Opinion assures that the 10% target is ambitious compared to industry peers. The KPI only targets new investments, and this amount will vary across time. Ensuring that we are able to source and invest in female founded or led companies is therefore an ongoing effort and past success does not guarantee future performance. As we have tied this to invested capital, we want to ensure that outlier years where we invest lower amounts will not benefit us disproportionally and therefore use the share of new invested capital on a two-year rolling basis.

KPI/SPT3: Calculation methodology

Kinnevik performs a yearly assessment of all our portfolio companies based on the Kinnevik Standards. As part of this assessment, Kinnevik scores the companies on their fulfilment of the standards. Each standard is in turn weighted based on Kinnevik's view of importance of the same. The assessments are performed by the Kinnevik Sustainability Team through interviews with the companies and our board representatives. To ensure consistency, the Kinnevik Standards also include guidance notes that provide further information on how the assessment of each standard is performed and what aspects are to be considered.

The Standards include 84 metrics which in turn are split into two levels, one for small companies (equity value of < USD750m) and one for large companies (equity value of >USD750m), with the latter being more comprehensive and advanced. For example, our large company standard on diversity & inclusion training requires that the company provides training to all employees annually while the small company level for the same standard only requires that training is held for management. This is to ensure that the assessment is relevant for the companies' stage and size. While small companies are only scored against the small company standards, large companies are scored on both small and large company standards. This means that a large company needs to adhere both to the small company standard and the corresponding large company standard to receive a full score on a standard.

Should a standard not be deemed applicable to a certain company's business model and/or sector/market, it is up to the Sustainability Team to decide whether such company should be scored against that standard or not.

Performance against this yearly KPI is based on change in the average ESG score of the portfolio from the previous year, meaning that only companies that was in Kinnevik's portfolio the previous year and the current year will be included in the calculation. The KPI and the SPT do not apply to our emerging market portfolio companies.

More information about the Kinnevik Standards is available in our <u>2020 Sustainability Report</u> on page 26, also a selection of the standards and previous performance is available on page 36.

KPI/SPT3: Is the target weighted based on portfolio value as KPI #1 or do all portfolio companies weigh equally?

All companies are weighted equally.

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