

Second Party Opinion

Enviva's Green Finance Framework

JAN. 19, 2022

Enviva produces and sells utility-grade wood pellets globally, which are used as a substitute for fossil fuels in energy generation. The company supplies power generators primarily in the U.K., EU, Caribbean, and Japan, and is working to expand the use of the pellets as a feedstock for industrial and transportation applications, including in hard-to-abate sectors. Enviva owns 10 production sites in the southeastern U.S. that convert wood fiber into wood pellets, with a total capacity of 6.2 million metric tons per year. It's headquartered in the U.S.

In our view, Enviva's Green Finance Framework, published in January 2022, is aligned with:

- ✓ Green Bond Principles, ICMA, 2021
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2021

Issuer's Sustainability Objectives

Enviva's sustainability objectives include displacing fossil fuels, planting more trees, and fighting climate change by enabling global utilities to reduce their carbon emissions. Enviva intends to support the proper management of forests while reducing emissions through the production and distribution of pellets for bioenergy generation and industrial decarbonization through its operating policies and certifications, and partnership projects. It also seeks to have net zero emissions across its operations.

Enviva's Green Finance Framework addresses how the company will fund projects to expand renewable energy generation, specifically biomass-based generation, biofuel production for transportation, and industrial products. The framework details which project types are eligible for financing or refinancing through Enviva's various financing options.

Such projects can deliver environmental benefits, given that transition from fossil fuel- to biomass powered generation can reduce lifetime greenhouse gas emissions, particularly on carbon-intensive grids and hard-to-abate sectors. Biomass is recognized by many taxonomies and standards as a renewable energy source and a key enabler in reducing emissions in the energy sector. However, projects that fall into this category involve intensive land use, which can generate mixed results: land conversion for human use can increase water demand, degrade soil and water quality, and lessen biodiversity in forests. While Enviva's business model relies primarily on waste wood that would otherwise be burned or landfilled, it increases the economic viability of cutting down existing forests and conversion to intensive land use. Furthermore, although Enviva's plants are strategically located near ports, the business model requires long-distance shipping transportation from pellet's distribution to use, which increases the lifecycle carbon footprint.

The company's framework highlights its many forestry certifications, which emphasize its commitment to track and report the wood sources, which is routinely updated and published on its website. Additionally, the U.K. and EU require compliance with multiple laws and management practices including preserving forest carbon stocks, protection of sensitive areas, mitigation of biodiversity threats, and assurance of long-term forest productivity.

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Second Party Opinion Summary


Use of proceeds

Alignment  Enviva's Green Finance Framework is aligned with this component of the Green Bond Principles and Green Loan Principles.

Score Not aligned **Aligned** Strong Advanced

Enviva commits to using the net proceeds of the instruments issued under its framework to finance or refinance whole or partial projects that fit within the eligible project category. Specifically, these projects must increase the production and distribution of biomass for renewable energy generation and biofuel and feedstock for hard-to-abate sectors.


Process for project evaluation and selection

Alignment  Enviva's Green Finance Framework is aligned with this component of the Green Bond Principles and Green Loan Principles.

Score Not aligned Aligned **Strong** Advanced


The framework outlines the process and criteria for selecting eligible green projects. Enviva has a dedicated ESG committee that analyzes and selects eligible projects aligned with its Green Finance Framework. The ESG committee is also in charge of confirming the alignment of green eligible projects to the company's environmental and social policies.

Management of proceeds

Alignment  Enviva's Green Finance Framework is aligned with this component of the Green Bond Principles and Green Loan Principles.

Enviva's ESG Committee ensures tracking, monitoring, and allocation of eligible project proceeds. In the case of pending allocation of proceeds, they will be temporarily managed under the company's liquidity practices, which include general purposes, investments in cash or liquid securities, and repayment of debt.

Reporting

Alignment  Enviva's Green Finance Framework is aligned with this component of the Green Bond Principles and Green Loan Principles.


Score Not aligned Aligned **Strong** Advanced

Enviva expects to publish a report on its website annually. This report will disclose amounts allocated to eligible green projects, the amount of net proceeds pending allocation, and case studies with additional information regarding the green projects. The entity will also provide an impact report, which should highlight expected and actual impacts of the projects, as well as the calculation methodology for the qualitative and quantitative data presented.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For the use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Enviva's Green Finance Framework is aligned with this component of the Green Bond Principles and Green Loan Principles.

Commitments score

Not aligned **Aligned** Strong Advanced

We consider Enviva's overall use of proceeds commitments to be aligned.


Enviva commits to allocating the net proceeds of any bonds and loans issued under its framework exclusively to eligible green projects, designed to increase biomass production and distribution capacity, which include the development, construction, or purchase of production sites, port terminals for its distribution or any related infrastructure.

Through these projects, Enviva expects to contribute to the displacement of coal and other fossil fuels for energy generation, industrial use, and transportation with renewable sources. Wood pellets are recognized as a renewable energy source in jurisdictions such as the EU and Japan. Enviva's framework identifies climate change mitigation is an objective associated with the eligible projects; this is consistent with Capital Market Association's (ICMA's) view that renewable energy contributes to climate change mitigation. However, the use of forest byproducts as a feedstock for energy is becoming increasingly subject to regulatory scrutiny due to its emissions, the potential impact on forests' ability to sequester carbon, and other consequences of intensive land use.

Under its Green Finance Framework, Enviva seeks to finance and refinance eligible projects, committing to allocate the net proceeds 24 months after each issuance and identifying a 36-month lookback period for refinanced projects. Additionally, the company intends to disclose the proportion of proceeds allocated to refinanced projects, as recommended by the Principles.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Enviva's Green Finance Framework is aligned with this component of the Green Bond Principles and Green Loan Principles.

Commitments score

Not aligned Aligned **Strong** Advanced

We consider Enviva's overall process for project selection and evaluation commitments to be strong.

Enviva's Green Finance Framework outlines the process and criteria to select the eligible green projects. The entity has assigned an ESG Committee, which consists of members of the executive, business development, finance, and sustainability teams to work with strategic decision-makers. This working group will evaluate and approve projects to ensure the proposed investments align with the green eligibility criteria.

The framework also specifies that the ESG Committee will be responsible for ensuring that the eligible projects comply with Enviva's social and environmental risk policies. Investments financed under this framework will follow Enviva's Responsible Sourcing Policy, which outlines how material social and environmental issues are managed, including how Enviva intends to comply with sustainable forest practices and protect human rights. The policy also includes transparency commitments such as using technology to

monitor, track, and report on the wood the company sources, and compliance with multiple international certifications on fiber sourcing and chain of custody standards, which is a market best practice. Certifications include the Sustainable Forestry Initiative® (SFI®) Fiber Sourcing Standard, the Forest Stewardship Council® (FSC®) Chain of Custody Standard, the Programme for the Endorsement of Forest Certification (PEFC) Chain of Custody Standard, SFI Chain of Custody Standard, and Sustainable Biomass Program (SBP) Standard for Enviva’s operations.

Management of proceeds

The Principles require disclosure of the issuer’s management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer’s commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

✓ Enviva’s Green Finance Framework, is aligned with this component of the Green Bond Principles and Green Loan Principles.

Enviva’s framework outlines that the Finance team will be responsible for periodically tracking and providing information to the ESG Committee on funds allocated to eligible green projects and unallocated amounts. Unallocated proceeds will be temporarily used for general purposes, including investment in cash or other liquid securities, repayment of debt, or other purposes, according to Enviva’s liquidity practices. However, in our view, the use of unallocated proceeds for debt repayment is not the best practice.

If a project is no longer eligible under the criteria, Enviva will try to reallocate the proceeds to eligible projects while the instrument is outstanding, yet due to the purpose of Enviva’s business and eligible projects, the company views this as an unlikely scenario.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✓ Enviva’s Green Finance Framework is aligned with this component of the Green Bond Principles and Green Loan Principles.

Disclosure score

Not aligned Aligned **Strong** Advanced

We consider Enviva’s overall process for project selection and evaluation commitments to be strong.

Enviva has committed to reporting annually on the allocation of proceeds as long as any issuance remains outstanding. The report will include amounts of allocated and unallocated net proceeds, Enviva commits to have an external third party verify the information in the report, once proceeds are fully allocated. We consider this a strong practice.

When feasible, Enviva will provide an annual report on qualitative and/or quantitative impacts generated by the projects financed under its framework. If projects are not yet in operation, expected impacts will be disclosed, and once they become operational, actual impacts will be reported. This data could include biomass renewable energy generated due to the increased capacity, greenhouse gas emissions avoided, and amount of displaced coal and other fossil fuels. The entity also commits to disclose the calculation methodology used to obtain the impact metrics, which we view as a strong practice. Nevertheless, there is no commitment for external review of the assets’ impacts.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use ICMA's SDG mapping for this part of the report. We acknowledge that ICMA's mapping doesn't provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Enviva's Green Finance Framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Renewable Energy	 7. Affordable and clean energy*  13. Climate action

*The eligible project categories link to these SDGs in the ICMA mapping.

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