



Stena Metall AB

Green Finance Second Opinion

April 21, 2022

Stena Metall is a Swedish waste and recycled materials company with predominantly Europe-based operations. Stena Metall recycles ferrous and non-ferrous metals, electronics, plastic, paper and mixed waste, and then sells these in the form of new products to steel mills, paper mills and others. However, while most of the company's subsidiaries are in the recycling and circular economy business, the group also comprises a bunker oil and steel supplier. Its Green Finance Framework covers only the companies in the recycling/re-use segment.

Stena Metall's Green Finance Framework covers four eligible project types – all within the category of Circular Economy. It comprises Stena Recycling (including its flagship SNRC plant in Halmstad, Sweden), Stena Aluminium which produces aluminum alloys based on 100 percent recycled raw aluminum, a company capturing and safely disposing or converting fly ash into reusable material, and a company re-using batteries from electric vehicles. These processes are all essential elements in a low carbon and resilient economy – the company reusing EV batteries stands out as a particularly forward-looking technology.

The company issued a green bond in 2018 and this framework builds on that experience with an expanded scope (the 2018 framework only contained one category).

Stena Metall is a well established company with a track record on sustainability management and reporting, however there is room for improvement. For example, we encourage Stena Metall to engage with the TCFD and to expand climate risk assessments and the use of scenario analysis to all companies. Moreover, the company could consider setting ambitious targets for all companies and to streamline target and reporting procedures at the most ambitious and transparent levels.

Based on an assessment of the framework's alignment with the Green Bond and Green Loan Principles, the project categories and the company's governance, Stena Metall's framework receives overall a **CICERO Dark Green** shading and a governance score of **Good**. The industries and processes the company is involved with have climate and environmental impacts which Stena Metall helps reduce but the risk of unintended effects (including of lock-in) remains and should be monitored and managed closely. Stena Metall should also explore ways to source more renewable energy through on-site supply or PPAs, and alternative fuels and electric machinery – as these represent the majority of emissions across the companies included in the framework.

SHADES OF GREEN

Based on our review, we rate Stena Metall's green finance framework **CICERO Dark Green**.

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in Stena Metall's framework to be **Good**.



GREEN BOND AND LOAN PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.





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1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated April 2022. This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green



Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.



Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.



Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.

Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



2 Brief description of Stena Metall's Green Finance framework and related policies

Stena Metall AB (Stena Group) is a Swedish-based company with operations in around 200 locations in nine countries (Sweden, Norway, Denmark, Finland, Poland, Switzerland, Germany, Italy and the United States). The company provides the industrial sector with new and recycled materials and products, and solutions related to efficient resource management and circularity. Each year the Group recycles more than five million tonnes of waste. The company is privately owned. Materials and products recycled include ferrous and non-ferrous metals, electronics, plastic, paper and mixed waste. The recycled raw materials are sold to steel mills, paper mills and other customers for use in the manufacture of new products.

Stena Metall Group is made up of several subsidiaries: Stena Recycling, providing recycling and efficient resource management services; Stena Aluminium, a leading producer of aluminium alloy in northern Europe; Stena Stål, a supplier of steel; Stena Oil, Scandinavia's leading supplier of bunker oil; Halosep, a technology company managing and processing fly ash from waste incineration; Battery Loop, which develops energy storage solutions from used lithium-ion batteries from hybrid and electric vehicles; Stena Metall Finans, the Group's internal bank; and Stena New Ventures, in charge of developing new business opportunities for the Group. While several of these companies have business models based on circular economy principles, this is not the case for e.g. Stena Oil.

Environmental Strategies and Policies

Stena Metall measures and reports on climate impact in an annual Sustainability report. The report is in accordance with the GRI Standards Core option and contains additional company indicators. Climate targets are set at the company level and vary in scope from company to company. At the forefront is the Swedish branch of Stena Recycling, which has recently submitted its Science-Based targets for external approval. Some companies have targets on reduced energy intensity for their products.

The group's Scope 1 and 2 emissions in 2020/21 were 70 300 tonnes of CO₂, of which roughly 70% were Scope 1. The main emission sources for the companies included in the framework are from diesel in working machines and own vehicles (43%), electricity (31%) and LPG (18%) used in Stena Aluminum's smelting process.

Across the five companies included in the Green Finance Framework, Stena Recycling stands for the majority of emissions, mainly from diesel and electricity use. Stena Aluminum stands for about a fifth of the emissions, which come mostly from the LPG needed in the smelting process. The issuer has informed us that so far no viable non-fossil alternative has been identified that could replace the LPG, but the question is monitored and assessed continuously. A year-on-year decrease in overall emissions of approx. 9% has been experienced in the past two years. The main emission sources of the Group as a whole are the combustion of diesel, LPG and MGO (marine) fuel, as well as purchased electricity, and the recent reduction in emissions are mainly due to a transition to origin-labelled electricity and a surge in use of renewable fuel (HVO100) to replace fossil diesel. From 2021, all of the company's Swedish subsidiaries purchase origin-labelled hydropower-generated electricity. The proportion of origin-labelled electricity used by the Group in the financial year amounted to 69 % of all electricity.

The group does not yet report on Scope 3 emissions although some companies have started the process of mapping them.



Transport represents a significant share of emissions (especially Scope 3). As a result, Stena Metall has recently started a process of optimising transport flows through a logistics organisation, which will cover both own transport (Scope 1 emissions) and purchased transport (Scope 3 emissions). The strategy comprises more stringent requirements, greater efficiency, better planning, and co-loading. For example, Stena Stål is running a project aimed at encouraging customers to place fewer, but larger orders. The aim is also to transition to less emission-intensive transport, such as train freight, where this is possible, and to switch to renewable fuel (HVO100). Electric lorries are used for some transport segments in Norway.

In addition to energy and transport, Stena Metall's operations have a water footprint which it is trying to reduce. It reports that in the past year, water consumption decreased by 14% compared to the previous year. Several of the plants with more significant water use have implemented measures to reduce consumption, e.g. by collecting rainwater to reduce demand on municipal water.

Stena Metall's facilities manage various types of materials that could lead to contaminants being emitted into soil and water where there is run-off of rainwater and other surface water, resulting in a negative environmental impact. There are a number of measures to prevent this, including cleaning of rainwater, stormwater filters, procedures for storage and cleaning, and hardening of surfaces. The measures taken at each facility are based on an environmental risk analysis and are designed in line with applicable legislation and licensing requirements.

Stena Metall's materiality analysis is conducted from a value chain perspective and takes into account sustainability issues even for those parts of the value chain that fall outside the Group's internal operations. It has implemented a Code of Conduct for Business Partners, to reinforce the Group's expectations that suppliers, customers and other business partners work in line with Stena Metall's values (which includes resource efficiency). The Code of Conduct is based on the UN Global Compact's principles for labour rights, the environment, human rights, and anti-corruption. Stena Metall Group supports these principles and is a participant in the UN Global Compact. A common system for supplier assessments based on ESG factors has been prepared and is in the process of being implemented. The company has identified that the environmental impact that arises in the value chain stems primarily from transport, both upstream and downstream. Downstream, sustainability assessments are also conducted for customers who receive waste, with the focus on countries that rank higher on established risk indices within environmental and social issues.

Stena Recycling has initiated the Circular Initiative, a research collaboration arena where major Swedish companies work together to increase the proportion of circular material flows and collaborate on long-term projects. Within this initiative, the company is funding several research positions and a full professorship.

The company does not report according to the TCFD but has recently conducted a climate risk assessment with double materiality perspective for Stena Recycling and Stena Aluminum. No significant direct risk was identified, and the company has not observed any climate related impacts (such as flooding) on their businesses so far. Climate risk is a mandatory component of Stena Metall's general Enterprise Risk Assessment.

Stena Metall issued a SEK 800 M green bond in May 2018 with use-of-proceeds exclusively financing the Stena Nordic Recycling Center in Halmstad (Sweden) (also included in this framework), on which CICERO Shades of Green provided a second-party opinion. The company has published annual reports since the issuance, and these are provided together with other green bond documentation on the company's website.



Use of proceeds

The net proceeds from Stena Metall's issuances of Green Finance Instruments will exclusively be used to finance Eligible Assets within Stena Recycling, Stena Aluminum, Batteryloop, HaloSep and its subsidiaries or acquired entities by those business areas. Net proceeds will finance Eligible Assets according to this framework in part or in full that promote environmental and societal benefits as determined by Stena Metall and its sustainability ambitions. The proceeds raised based on this Green Finance Framework can be applied towards ownership, capital expenditures, R&D and acquisitions of facilities, tools, processes, machines and supportive infrastructure associated with the eligibility criteria below.

The use of proceeds of the company's previous green bond framework was limited to spending on Stena Nordic Recycling Center (SNRC) – a part of the Stena Recycling category in this framework. The single largest investment so far under that green bond framework was in non-ferrous metal processing – sorting metals from other material and from each other to enable the sale of clean metal fractions to metal smelters. Another large investment has been in Europe's largest precious metals recycling facility, where precious metals are extracted from electronic products.

Information about the split between financed and refinanced assets will be included in the Green Finance Impact Report. The definition of financed assets are those assets which have been, or will be, taken into operation one year before the asset is approved by the Green Bond Committee. There is no uniformed look-back period for refinanced Eligible Assets, the Green Finance Committee will assess the remaining lifetime of those assets and its remaining life cycle benefit as the base for refinancing Eligible Assets.

In addition to Green Finance Instruments issued by Stena Metall in the capital market, the company may have bilateral Green Loans provided by lending institutions. Green Loans taken by Stena Metall may be provided by lending institutions that finance these by issuing Green Bonds. Stena Metall will report the aggregate amount of Green Loans taken and specify assets that has been financed by a Green Loan in a separate section of the Green Finance Investor report.

Green Bond net proceeds will not be allocated to projects for which the purpose of the project is fossil energy production or harmful resource extraction. Green Bonds will not be allocated to Stena Steel, Stena Oil or Stena Metal Inc (a subsidiary trading and distributing raw materials and assorted steel products for the steel industry).

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Stena Metall has established a Green Finance Committee (GFC) to evaluate and select assets that are in line with the criteria set out in the use of proceeds section. The committee meets at least on an annual basis or when needed. The Green Finance Committee is comprised of representatives from Treasury, Group Sustainability, Business Control, and the Group CEO. The sustainability representative will have veto to refuse projects that do not fulfill the criteria and has the deciding vote in a two against two scenario.

Stena Metall has clarified that an internal framework will be developed to assess and document the environmental benefits and risks for each proposed project. Risk of fossil fuel lock-in effects and impact on the local community (environmental and social) will be included in the assessment.



The Green Finance Committee is responsible for evaluating the compliance of proposed assets with the eligibility criteria outlined in the Use of Proceeds section, ensuring that the pool of Eligible Assets is aligned with the categories and criteria as specified in the Use of Proceeds section and replacing investments that no longer meet the eligibility criteria (e.g. following divestment, liquidation, concerns regarding alignment of underlying activity with eligibility criteria etc.).

On a best effort basis, the GFC will review and update the content of the Green Bond Framework and manage any future updates of the framework to reflect relevant changes in the company's corporate strategy, technology and market developments (e.g. introduction of the EU Green Bond Standard).

Management of proceeds

CICERO Green finds the management of proceeds of Stena Metall to be in accordance with the Green Bond Principles.

An amount equal to the net proceeds of any Green Bonds raised will be credited to an earmarked account that will support Stena Metall's lending to Eligible Assets. So long as the Green Bonds is outstanding and the earmarked account has a positive balance, funds may be deducted from the earmarked account and added to Stena Metall's lending pool in an amount up to all disbursements from that pool made in respect of Eligible Assets. The earmarked account will ensure monitoring and tracking of the Eligible Assets.

The Group Treasury is responsible for the allocation of proceeds. If, for any reason, an Eligible Assets ceases to comply with the requirements set out in the Framework such asset will be removed from the earmarked pool. Proceeds yet to be allocated towards Eligible Assets will be placed in the liquidity reserves and managed as such (invested in Swedish treasury bills and highly rated short term bank notes (A+ rating from Standard & Poor's or an equivalent rating from Moody's or Fitch)). The ambition is to use the proceeds within one year and no later than two years from the time of issuance of Green Finance Instruments.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Stena Metall will provide a Green Financing Investor Report on an annual basis as long as Stena Metall has Green Bonds outstanding, and thereafter in case of any material change to the allocation. Stena Metall intends to report on quantitative impact indicators where feasible and relevant data information is available. The issuer has clarified that it has used guidance from ICMA's Handbook (Harmonized Framework for Impact Reporting) in developing its reporting plans. The Green Financing Investor Report will include:

Allocation Reporting: the allocation report will, to the extent feasible, include the following components:

1. A description of the portfolio of Eligible Assets;
2. Type of financing instruments utilized and respective outstanding amounts;
3. Information on the split between new financing and re-financing;
4. A list of Eligible Assets including the amounts allocated, including allocated and disbursed amounts per category and geographical distribution.



Impact Reporting: Stena Metall Group will strive to report on the environmental impact of Eligible Assets financed by Green Finance Instruments when feasible and subject to data availability. The impact reporting aims to disclose the environmental impact of such Eligible Assets financed under this Framework, based on Stena Metall Group's financing share of each project. As Stena Metall Group can finance large and small Eligible Assets in the same project category impact reporting will be provided for a selection of projects within the Eligible Assets, the information may be provided on an aggregated portfolio basis due to confidentiality agreements, competitiveness considerations or numerous projects limiting the amount of detail that can be made available. Stena Metall Group intends to report on quantitative impact indicators where feasible and when relevant data is available. When reporting on quantitative indicators, the methodology for calculating the impact indicators will be described in the report.

The company has appointed an external independent auditor to annually assure the selection process for the financing of Eligible Projects and that the allocation of the net proceeds of the Green Bonds are done in accordance with Stena Metall Green Bond Framework.



3 Assessment of Stena Metall’s green finance framework and policies

The framework and procedures for Stena Metall’s green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Stena Metall should be aware of potential macro-level impacts of investment projects.


Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Stena Metall’s green bond framework, we rate the framework **CICERO Dark Green**.

Eligible projects under Stena Metall’s green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the “overall environmental profile” of a project should be assessed and that the selection process should be “well defined”.

The issuer currently only has one issuance planned under this framework. For that issuance, it expects approximately a 50-50 split between new financing and refinancing. About 90% is expected to be allocated to Stena Recycling (the first category) although the issuer underlines that this is an expectation only, not a guarantee.

Category	Eligible project types	Green Shading and some concerns
Circular economy 	Ownership, capital expenditures, R&D and acquisitions of facilities, tools, processes, machines and supportive infrastructure related to recycling and circular services. <ul style="list-style-type: none"> • <u>Stena Recycling</u> Investments in comprehensive solutions within recycling and circular services, aiming to move waste upwards in the waste hierarchy and increase the share of products and materials that can be reused or recycled. • <u>Stena Nordic Recycling Center (SNRC)</u> Investments in SNRC, which is the hub in Stena Metall’s recycling eco-system and one of Europe’s largest and most modern recycling facilities. 	Dark Green ✓ Stena Recycling is the mother company of several recycling subsidiaries including SNRC, a circular consulting company, and an R&D initiative with several ongoing industry collaborations. ✓ The issuer has clarified that only investments with ‘clear environmental benefits’ will qualify. As the categories and country contexts vary, there is no single definition or threshold for what a ‘clear benefit’ would imply however it would be based on either moving material up in the waste hierarchy, or on reduced climate footprint. As part of the selection procedure, an internal



- Stena Aluminium

Investments in recycling and circular services as one of the leading producers of premium quality aluminum alloys in northern Europe based on 100 percent recycled raw aluminum.

- Batteryloop

Investments in energy storage systems based on used lithium-ion batteries from hybrid and electric vehicles. The solution meets the growing demand for mobile energy storage systems, as well as the increasing need to reuse and extend the service life of batteries from the automotive industry.

- HaloSep

Investments in facilities, including supporting infrastructure, of cutting-edge technology to manage and process fly ash from waste incineration. The process makes it possible to clean the ash and recover resources through separation such as metals and salts that would otherwise be lost.

framework will be developed to assess the environmental benefit and potential sustainability risks of any project included in the allocation. The issuer has further clarified that any purchase of fossil fuels is ineligible. While it is not possible for us to assess with certainty the ambition level of this selection procedure, we view it as positive that Stena is planning for a streamlined approach.

- ✓ Waste recycling is an essential activity in a low carbon society and part of the long-term solution to a low-carbon and climate-resilient future. For example, recycling material tends to lower the CO2 footprint of products compared to using virgin material. However, it should be noted that recycling is only ranked in third place in the waste hierarchy – after re-use and waste prevention. Moreover, recycling entails energy consumption, emissions and discharges to the environment, although we note that the company operates within a European (Swedish) regulatory context with limits on these, and also has some voluntary policies and targets in place to reduce these impacts.
- ✓ Most transport solutions and machinery within the Stena Metall's recycling business currently run on fossil fuel. The company has informed us that going forward it will invest in electrical or biogas trucks and other rolling machines when feasible.
- ✓ Stena Metall uses electricity from the grid, which in Nordic countries is predominantly based on renewables but this is not necessarily the case in its other countries of operations. The company could be more ambitious in its energy sourcing (on site renewables, renewable PPAs) as a step towards lowering its operational impacts.
- ✓ Investments may include recycling of plastics, for example the lightweight LDPE or plastic from electronic waste. If



not recycled, the plastic would likely be incinerated, with associated relatively high emissions. In general, plastic packaging can be recycled up to seven times. The recovered plastic from electronic waste (ABS and PC plastic) is turned into pellets that can be used in the production of new goods.

- ✓ **Stena Nordic Recycling Center (SNRC)** forms the hub of the Group's industrial recycling infrastructure. It receives complex (mixed) materials from several countries from both households and industry
- ✓ SNCR is home to a research lab where recycling processes and technologies are developed and refined.
- ✓ Fractions that cannot be recycled – or should not be recycled because they are hazardous - are disposed of in accordance with European legislative requirements for waste management. They are either sent to incineration or landfills and only to countries within EU/EEA. 95% of fractions sent to incineration go to energy recovery facilities where the heat generated from the process is utilised.

- ✓ **Stena Aluminium** produces alloys which are used for components in the automotive and engineering industries. These alloys are based on 100 percent recycled aluminium, which has a significantly lower climate footprint than virgin aluminum (a common reference is that it takes 90% less energy to produce recycled aluminium compared to virgin aluminium).
- ✓ Using recycled aluminium also avoids the other environmental stresses and hazards resulting from the mining of raw ore – the alternative virgin resource.

- ✓ According to the issuer, **Batteryloop's** re-use technology almost doubles the life of the original batteries. Batteryloop's



technology fits in within the ‘re-use’ rung on the waste hierarchy (see Background section) – one rung above recycling – as the technology consists of combining a used battery (70% of the life of a battery remains after it no longer is fit for powering a car, according to the issuer) with a storage container and software. To further reduce climate impacts, it is possible to charge the Batteryloop system with renewable energy (e.g. solar power)

- ✓ **Halosep**’s fly ash technology allows previously hazardous waste to be converted into new resources (e.g., stabilized fly ash which can be used in construction), while at the same time reducing the amount of waste that goes to landfill. Stena Metall has clarified that the main environmental benefit of the HaloSep process is that hazardous fly ash is separated into fractions of which 0% constitutes hazardous waste, and that it reduces the need for chemicals otherwise needed to cleanse the fly ash in the incineration plant.
- ✓ Halosep provides a service to the waste incineration industry – an industry not in line with a low carbon future, but with some short-term environmental benefits compared to landfilling

Table 1. Eligible project categories

Background

Recycling and re-use are key strategies for reducing our impact on virgin resources, on climate change, and on the environment broadly speaking. Stena Metall is a Swedish company governed by EU laws and directives on this matter. A key EU Directive it follows is the waste hierarchy – see Figure 1- where the principle is that waste should have as little negative impact on the environment and climate as possible. The higher up in the hierarchy waste can be handled, the better this will be for the environment. At the top of the hierarchy is waste prevention, which is most beneficial for the environment. At the bottom is landfilling, which is the least beneficial measure when it comes to waste management.

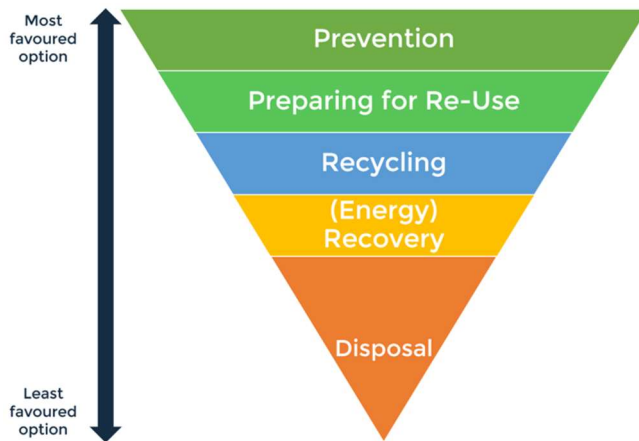


Figure 1: Waste Hierarchy

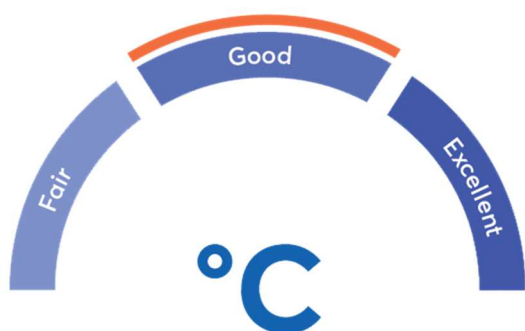
The EU has an ambitious waste and recycling strategy, including through its Circular Economy Action Plan, launched in March 2020, which sets out the EU's ambition for cutting back on waste and increasing materials recycling. The EU has a target for recycling 65% of municipal waste by 2030, for recycling 75% of packaging waste by 2030 and for binding landfill target to reduce landfill to maximum of 10% of municipal waste by 2030.

Recycling is important for resource use and for GHG emissions. Between 1995 and 2017, greenhouse gas emissions from waste in the EU fell by 42%, according to estimates by the European Environmental Agency¹. Emissions from waste largely depend on how the waste is treated: when waste is sent to a landfill, the organic content in the waste decomposes and produces GHG emissions (of which roughly half is methane and the other half carbon dioxide). Likewise, when waste is incinerated – even if energy is captured and put to productive use – emissions of GHG and other pollutants can be significant. If waste instead is converted into new materials, these emissions are avoided. With increased recycling going forward, the potential is there to bring down emissions from the waste sector even further.

Governance Assessment

Four aspects are studied when assessing the Stena Metall's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

¹ <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200123-1>



The overall assessment of Stena Metall's governance structure and processes gives it a rating of **Good**. The group has emission reduction targets, but they vary in ambition, scope and transparency from company to company. The company does not currently engage with the TCFD nor does it use climate scenarios on a routine basis. Stena Metall should seek to improve both the ambition levels of its targets and the degree of publicly available information across its companies. It could also be stronger on decarbonisation strategy for transport

and energy use, through e.g. the use of time-bound numerical targets. Transparency is crucial to understanding the impact of green bonds and Stena's current published green bond reporting is – although generally speaking good - not very transparent on the methodology used to arrive at GHG reduction estimates. Stena Metall says it will publish more details in the reporting related to this bond, and we encourage investors to follow up on this aspect. The planned selection procedure of the Green Finance Framework is strong and includes environmental veto power and ranking of projects based on environmental benefits and risks.

Strengths

Stena Metall plays an important role in improving the carbon footprint of industries through its business model of supplying these with recycled raw materials. According to the company, in 2020/21 the avoided CO₂ emissions from its products were 7,839,607 tonnes CO₂. These calculations are based on the differences in energy consumption to produce recycled raw materials compared to the equivalent for extracting virgin raw materials (assumptions were used together with best-available data, so the figure should be seen as an estimate).

The company has a clear sustainability profile and forward-looking ambitions. It has engaged with SBTi for some of its companies to validate its targets externally. It is involved in several R&D activities – both industry-wide and internal - and funds a full professorship position dedicated to improving recycling technologies.

We are impressed by the issuer's planned selection procedure, both the veto and double vote right instilled in the sustainability representative on the Green Finance Committee and the planned framework to assess and document the environmental benefits and risks for each proposed project. The latter include assessment of risk of fossil fuel lock-in effects and impact on the local community (environmental and social).

Weaknesses

We find no major weaknesses in the Green Finance Framework of Stena Metall.

Pitfalls

It is worth noting that Stena Metall's strategy of buying Guarantees of Origin for its renewable energy allows it to claim to be using renewable energy without creating any incentives for new renewable energy assets to be built. This is not necessarily a criticism of Stena Metall per se – many companies use this approach - but rather of the approach, which arguably allows companies to claim 'net zero' too easily. A more ambitious strategy by Stena Metall would be to build onsite renewable energy, whenever possible, or to enter into bilateral PPAs (purchasing power agreements) with renewable energy generators. We understand that Stena Metall will be considering such options in the future.

Stena Metall engages with industries of high environmental risk and impact. In most cases, Stena Metall's role is to reduce these industries' climate and environmental impacts, but situations may arise where the company's role



inadvertently encourages increased emissions or lock-in effects which may prevent innovation (e.g. very efficient fly ash disposal could contribute to making waste incineration more attractive). The Stena Group appears to have systems in place to detect and counter-balance such unintended effects (e.g. its selection procedure analyses lock-in and ranks projects on environmental and social merit) but it is a risk that should be continuously assessed and monitored.



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Green Finance Framwork April 2022	
2	Green Bond Report (three in total, covering 2019-Investor reports for the 2018 green bond 21)	
3	Stena Metall, Annual Review & Sustainability Report 2020/21	



Appendix 2: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.

