

‘Second Opinion’ on Stena Metall’s Green Bond Framework

May 5th 2018

Summary

The recycling companies of the Stena Metall Group collect, process, and recycle over five million tonnes of waste every year. The group provides valuable materials to society, while at the same time disposing of hazardous substances that can harm health and ecosystems. Recycling reduces raw material use, eliminating the associated greenhouse gas emissions.

Stena Metall's Green Bond Framework provides a clear and sound framework for climate-friendly investments. The framework lists eligible categories of "Green Projects" as pollution prevention and control connected to waste recycling activities in Stena Nordic Recycling Center (SNRC) in Halmstad, Sweden. Operations at this site is carried out by Stena Recycling AB and Stena Technoworld AB, subsidiaries of Stena Metall. These activities clearly promote a transition to low-carbon and climate-resilient growth and are an essential part of the green transition. The selection of eligible projects is supported by a strong governance structure.

The Stena Metall group and its subsidiary companies have ambitious climate related goals, comprehensive environmental strategies, policies and procedures. The Stena Metall Group refers to UN Global Compact and the greenhouse gas protocol and reports according to GRI Standards 2016, Core and the majority of the companies in the group has relevant ISO certifications.

Impact reporting is an important tool to enhance transparency on the projects risk from climate change and the environmental effectiveness of the projects. The Green Bond framework outlines a procedure for reporting, which includes impact reporting. CICERO is encouraged to see the issuer planning extensive impact and performance reporting as well as allocation disclosure at an annual rate. The reports will be available on a dedicated external web site.

CICERO finds that the framework is aligned with the Green Bond Principles. Based on the overall assessment of the project types that will be financed by the green bond and governance and transparency considerations, Stena Metall's Green Bond Framework is rated CICERO **Dark Green**.



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Dark Green

Contents

Summary	2
1 Introduction and background	4
Expressing concerns with ‘shades of green’	5
2 Brief Description of Stena Metall’s Green Bond Framework and rules and procedures for climate-related activities	6
Definition:	6
Selection:	7
Management of proceeds:	7
Transparency and Accountability:	8
3 Assessment of Stena Metall’s Green Bond framework and environmental policies	10
Overall shading	10
Eligible projects under the Green Bond Framework	10
Strengths	11
Weaknesses	12
Pitfalls	12
Appendix: About CICERO	13

1 Introduction and background

As an independent, not-for-profit, research institute, CICERO Center for International Climate Research provides Second Opinions on institutions' framework and guidance for assessing and selecting eligible projects for green bond investments, and assesses the framework's robustness in meeting the institutions' environmental objectives. The Second Opinion is based on documentation of rules and frameworks provided by the institutions themselves (the client) and information gathered during meetings, teleconferences and e-mail correspondence with the client.

CICERO 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 has established the global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, to broaden the technical expertise and regional experience for Second Opinions. CICERO works confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for Second Opinions. In addition to CICERO, ENSO members currently include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy. A more detailed description of CICERO can be found at the end of this report. ENSO 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.

CICERO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general level. CICERO does not validate or certify the climate effects of single projects, and thus, has no conflict of interest in regard to single projects. CICERO is neither responsible for how the framework or mechanisms are implemented and followed up by the institutions, nor the outcome of investments in eligible projects.

This note provides a Second Opinion on Stena Metall's Green Bond Framework and policies for considering the environmental impacts of their projects. The aim is to assess Stena Metall's Green Bond Framework as to its ability to support Stena Metall's stated objective of promoting the transition to low-carbon and climate resilient growth.

This Second Opinion is based on the green bond framework presented to CICERO by the issuer. Any amendments or updates to the framework require that CICERO undertake a new assessment. CICERO takes a long-term view on activities that support a low-carbon climate resilient society. In some cases, activities or technologies that reduce near-term emissions result in net emissions or prolonged use of high-emitting infrastructure in the long-run. CICERO strives to avoid locking-in of emissions through careful infrastructure investments, and moving towards low- or zero-emitting infrastructure in the long run. Proceeds from green bonds may be used for financing, including refinancing, new or existing green projects as defined under the mechanisms or framework. CICERO assesses in this Second Opinion the likeliness that the issuer's categories of projects will meet expectations for a low carbon and climate resilient future.

Expressing concerns with 'shades of green'

CICERO Second Opinions are graded dark green, medium green or light green, reflecting the climate and environmental ambitions of the bonds and the robustness of the governance structure of the Green Bond Framework. The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society. The shading methodology also aims at providing transparency to investors when comparing green bond frameworks exposure to climate risks. A dark green project is less exposed to climate risks than a lighter green investment.

This Second Opinion will allocate a 'shade of green' to the green bond framework of Stena Metall:

- **Dark green** for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically, this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.
- **Medium green** for projects and solutions that represent steps towards the long-term vision but are not quite there yet.
- **Light green** for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil-based processes).
- **Brown** for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The project types that will be financed by the green bond primarily define the overall grading. However, governance and transparency considerations are also important because they give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The overall shading reflects an ambition of having the majority of the project types well represented in the future portfolio, unless otherwise expressed by the issuer.

2 Brief Description of Stena Metall's Green Bond Framework and rules and procedures for climate-related activities

Stena Metall AB is a recycling company which collects, processes, and recycles ferrous and non-ferrous metals, paper, plastics, hazardous waste, and other waste products. The company also trades in scrap, pig iron, hot briquetted iron, and finished steel products; collects and recycles electronics, fridges, and freezers; and produces recycled aluminum alloys for aluminum foundries and automotive industry. Each year the company recycles more than 5 million tons of waste.

Stena Metall is a non-listed privately owned Swedish company with eight different business areas: Recycling, Electronics Recycling, Trading in Raw Materials, Aluminium, Steel, Components, Oil and Finance. It has around 3,500 employees at operations in more than 200 locations in ten countries. It is wholly owned by the Sten A. Olsson family.

The Stena Metall Green Bond Framework governs the issuance of notes to finance operations related to Stena Metall Group's (the 'Group') recycling operations at Stena Nordic Recycling Center (SNRC) in Halmstad, Sweden, the hub of the Group's industrial recycling infrastructure. SNRC opened in October 2016. On an annual basis, the facility supplies approximately 130,000 tonnes of ferrous and non-ferrous metals to smelters around the world. 225,000 tonnes of waste is processed including about 200,000 recycled cars. The company is one of the first in the world to meet the EU's 95 percent target for recycling end-of-life vehicles. The facility reduces landfill by 40% compared to other less advanced technologies. At the end of 2016/2017, Stena Technoworld opened a new precious metals recycling (PMR) facility at SNRC. It is Europe's largest and has the capacity to handle 90,000 tonnes of electronic scrap per year.

In addition to its recycling purpose, Stena Metall – through its subsidiaries Stena Stål and Stena Aluminium, offers a range of steel and aluminum products and components used in manufacturing equipment for the automotive industry, as well as for heavy vehicles and heat exchangers. The company also supplies marine fuels oil and full-service marine waste solutions for ships in the Skagerak, Kattegatt, and the North Sea region. The issuer is continuously working on reducing emissions also from this activity, driven by tough regulations in the region they operate. One could argue that as these activities are not aimed at a low-carbon society, they serve to uphold GHG emitting businesses and as such that Stena Metall is not 'pureplay' green. However, as the proceeds from the green bond will be solely dedicated to the activities of Stena Recycling, which is not involved in these activities, we do not see this as a material issue.

Definition:

All net proceeds will go towards financing or refinancing investment in SNRC. Eligible investments must contribute to one or more of the following set of global criteria:

1. Mitigation (M): Reduce harmful emissions of greenhouse gases, either by improving and transitioning existing assets through meaningful upgrades and retrofits or by investing in new assets utilizing low carbon intensive technology and environmentally sound solutions.

2. Adaptation (A): Investments to better withstand the effects brought on by climate change, improving the resilience to climate change and expected changes in the micro-climate and local environment, for instance, increased rainfall, heightened risk of flooding or sea level rise.

3. Environment and eco-systems (E): Support environmental investments with a positive environmental impact other than the direct mitigation of climate change (max 15 % of net proceeds).

Stena Metall Group has also identified their operations broadly speaking, and the green bond framework more specifically, to be aligned with the Sustainable Development Goals (SDGs). The Group's ambition is to contribute to all SDGs, while focusing on those most relevant for the business and where the contribution has the most effect. For the Group, this means focusing on SDGs with a connection to business development and creating values for the customers, other business partners, the society and to the Group's business itself (Goals 5, 8, 9, 11 and 12). This includes collaborations with business partners, research and academic institutes (17). The focus is also related to identified material sustainability aspects with a connection to responsibility and compliance (6, 7 and 16). The Group's operations contribute to reduced climate impact, as recycling saves resources and energy compared to using new resources (13).

Stena Metall's Green Bond framework explicitly excludes fossil energy generation, nuclear energy generation, research and/or development within weapons and defense, potentially environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco.

Selection:

Stena Metall Group has created a Green Finance Committee consisting of the Head of Sustainability and Public Affairs, the Group CFO, and the Managing Directors of Stena Recycling AB and Stena Technoworld AB.

The Committee has evaluated whether eligible investments are compliant with the Green Terms, applicable national laws and regulations as well as policies and guidelines within the Stena Metall Group. The committee has both looked at the eligibility of historical as well as future investments. The decision to allocate net proceeds to SNRC is based on consensus and the decision has been documented. The Group CFO carries ultimate responsibility for the compliance of the decision.

Management of proceeds:

Proceeds from the issuance of Green Bonds will be separated and tracked by the issuer. Net proceeds will be credited to a separate account (the Green Account) and the terms of this account disallows fungibility with other funds. A transfer from the Green Account is allowed in an amount corresponding to the financing or refinancing of the Eligible Investment that have met the Green Terms.

The issuer's ambition is to allocate the full net proceeds within one year from (i) investments/expenditure completion or (ii) ongoing investments/expenditure.

Pending investment in Eligible Projects, the unallocated funds may be invested in short term interest bearing securities. The allowed investments are 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 allocation of proceeds will be verified by an external auditor to Stena Metall Group.

Transparency and Accountability:

Stena Metall Group will publish an annual report on its external website (www.stenametall.se) that will detail the allocation of green bond proceeds and adherence to the Green Terms of the bond. The first report is expected to be published in November 2018 (and yearly thereafter until the full amount of the net proceeds have been allocated) and will be available in English.

An external auditor will investigate the allocation of proceeds and provide conclusions that will be provided in a signed statement the Group's website as well as in the company's Sustainability Report.

The Reporting will contain information related to the investment in SNRC. It will also include information about SNRC, and examples of the Eligible Investment's adherence to the Green Terms.

The Reporting will disclose the sum of allocated net proceeds to SNRC, the aggregated investment costs in SNRC and the sum of other external debt financing SNRC (if applicable).

The Reporting will contain a disclosure of a select set of asset level indicators and measurements. The data will be provided in a table format and disclosing, where and when available, the following indicators and measurements:

- i. Processed waste at SNRC (tonnes).
- ii. Fractions and volumes of sorted from waste (numbers and tonnes).
- iii. Processed number of cars per year at SNRC (thousands of cars).
- iv. Percentage of recyclable materials from cars at SNRC (%).
- v. Prevented CO₂ emissions from recycled material (tonnes).
- vi. Water use per ton material processed (cbm).
- vii. Energy consumption and GHG emissions SNRC.

The table below lists the documents that formed the basis for this Second Opinion:

Document Number	Document Name	Description
1	Stena Metall Green Bond Framework	The Green Bond Framework
2	Årsredovisning 2016/17	Annual report 2016/17

3	Sustainability Report: the Stena Metall Group	Sustainability Report
4	Principer, trossatser och grundvärden för Stena Metall AB, 2014	Stena Group owners' mission and value statement
5	Stena Metallkoncernens uppförandekod, 2017	Stena Metall's Code of Conduct
6	Stena Recycling: Verksamhetspolicy	Stena Recycling's Operations Policy
7	Hagainitiativet: Företag för aktivt klimatansvar	Information on the Haga Initiative
8	Stena Recycling Certification schemes	Certification according to ISO14001 and others available from https://www.stenarecycling.se/kundservice/dokument-och-publikationer/tillstand-och-certifikat
9	Stena Skyltar	Short documents that describe several processes
10	Direct emission calculations from SNRC	

Table 1. Documents reviewed

3 Assessment of Stena Metall’s Green Bond framework and environmental policies

Overall, Stena Metall’s green bond framework provides a sound framework for climate-friendly investments.

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, whereas the weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of the issuer’s systematic sustainability work and governance structure of the green bond framework in terms of management and use of proceeds, we rate the framework CICERO Dark Green.

Eligible projects under the Green Bond 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 certainty to investors 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 net proceeds from the issuance of Green Bonds will be used exclusively to finance and refinance the investment in SNRC. The net proceeds will be directly allocated to finance and refinance expenditure and future investments at Stena Recycling AB and Stena Technoworld AB, directly connected with SNRC. The only net proceeds allocated to other entities in the Group is the refinancing of the acquisition of land and buildings where SNRC is located, which is booked on the Group’s balance sheet.

Category	Eligible project types	Green Shading and some concerns
Pollution Prevention and Control	<ul style="list-style-type: none"> Waste recycling 	<p>Dark Green</p> <ul style="list-style-type: none"> ✓ Waste recycling is an essential activity in a low carbon society and hence a part of the long-term solution. ✓ As any activity, recycling will entail some emissions and discharges to the environment. Stena Metall is well equipped through certified processes, policies and

strategies to minimize the environmental impacts of their activity.

Table 2. Eligible project categories

Strengths

Through their recycling operations, the companies of the Stena Metall Group contribute to the development of the circular economy. The underlying argument linking recycling and climate change is that an efficient utilization of resources is a vital component of the transition to low-carbon and climate resilient growth. Stena Recycling is a signatory of Hagainitiativet – a business network of 15 Swedish companies with aspirations to be leaders in the efforts to combat climate change while remaining profitable and sustainable businesses. The signatories aim for a 40 percent reduction in greenhouse gas emissions by 2020 and to be fossil-fuel free by 2030.

Stena Metall carries out research on its own and in collaboration with universities (such as Chalmers University) and others to find solutions that contribute to a circular economy and sustainable society. The company participates in the Swedish government's collaborative group for a circular bio-based economy and in the European Innovation Partnership. For three years, the Stena Circular Economy Award has rewarded Swedish high school students who show particular interest in sustainability issues. In 2017, Stena Recycling was voted Sweden's most sustainable recycling company in the study 'Sustainable Brand Index Business to Business'¹. In January 2018 the company received another award for its recycling achievements (Best Swedish waste management company of the year).²

Stena Metall's first sustainability report was published in 2017. Between 2015 and 2017, a review of the Group's overall sustainability work was undertaken. The goal was to agree on Group-wide priorities, based on global conditions and the companies' respective business models. In 2012, the Stena Metall Group adopted a code of conduct. It was revised in January 2017, with amendments concerning economic sanctions, diversity and human rights. The code of conduct is based on the principles of the UN's Global Compact regarding labor legislation, environment issues, human rights and anti-corruption and is communicated with employees and business partners in order to ensure consensus on key areas

Stena Metall reports in accordance with the GRI Standards 2016 Core.

Stena Recycling AB and Stena Technoworld AB are both certified according to ISO 14001. Stena Recycling AB is in addition ISO 9001 and 18001 certified. Sustainability goals are handled within the companies' management systems. The managing directors of the Group's companies are responsible for the sustainability consequences of their operations. Decisions on sustainability are made at Group board level. The Stena Metall Green Bond Framework governs the issuance of notes to finance operations related to Stena Metall Group's (the 'Group') recycling operations at Stena Nordic Recycling Center (SNRC) in Halmstad, Sweden. Stena Metall has a comprehensive management system for securing sustainability and environmental friendly operation. The Stena Metall Group refers to UN Global Compact and the greenhouse gas protocol and reports according to GRI Standards 2016, Core and the majority of the companies in the group has relevant ISO certifications. The governance structure of Stena Metall is therefore a clear strength.

¹ <https://www.stenarecycling.se/nyheter/stena-recycling-bast-i-branschen-pa-hallbarhet>

² <https://www.stenamettall.se/nyheter/stena-nordic-recycling-center--arets-avfallsbehandlare>

The use of proceeds only goes to financing and refinancing of activities related to SNRC. The purpose of the green bond is therefore clear. Furthermore, waste recycling is a crucial part of the long term solution to reach a climate friendly society.

CICERO is also encouraged by the financial and impact reporting and independent auditing being planned for the use of proceeds from this green bond.

CICERO finds Stena Metall's Green Bond Framework to be fully aligned with the Green Bond principles.

Weaknesses

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

Pitfalls

Due to the complexity of how socio-economic activities impact the climate, a specific project is likely to have interactions with the broader community beyond the project borders. These interactions may or may not be climate-friendly, and thus need to be considered with regards to the net impact of climate-related investments.

Appendix: About CICERO

CICERO Center for International Climate Research is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen inter-national climate cooperation. We collaborate with top researchers from around the world and publish in recognized international journals, reports, books and periodicals. CICERO has garnered particular attention for its work on the effects of manmade emissions on the climate and the formulation of inter-national agreements and has played an active role in the UN's IPCC since 1995.

CICERO is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Second Opinions won several international prizes, including an award from Climate Bonds Initiative for being the biggest second opinion provider (2017) and two awards from Environmental Finance for being the best external review provider (2017, 2018).

CICERO Second Opinions are graded dark green, medium green and light green to offer investors better insight in the environmental quality of green bonds. The shading, introduced in spring 2015, reflects the climate and environmental ambitions of the bonds in the light of the transition to a low-car-bon society.

CICERO works with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions. Led by CICERO, ENSO is comprised of trusted 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 and the International Institute for Sustainable Development (IISD). ENSO operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

cicero.oslo.no/greenbonds

