

# SVEASKOG GREEN BOND

## DNV GL ELIGIBILITY ASSESSMENT

### Scope and Objectives

Sveaskog AB (Sveaskog) is Sweden's largest forest owner and sells sawlogs, pulpwood and biofuel to customers primarily in the pulp and paper and sawmill industries. Sveaskog also works with land transactions and develops the forest as a venue for hunting, fishing and other nature-based experiences. Sveaskog is the Swedish market leader within forest regeneration and seedlings through Svenska Skogsplantor.

Sveaskog is intending to issue a bond in the range of MSEK 500-1000 with a 5-7 year tenor. We understand that the bond will finance Sveaskog's general corporate undertakings. Sveaskog is a company committed to sustainable forestry, and all its forest is FSC<sup>1</sup> certified according to the Swedish FSC-standard.

DNV GL AS ("DNV GL") has been commissioned by Sveaskog to provide a green bond eligibility assessment of the Sveaskog Green Bond. We were commissioned to provide an assessment of the alignment of the bond against DNV GL's Green Bond Eligibility Assessment Protocol which is built around the Green Bond Principles<sup>2</sup> (March, 2015). Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to provide an independent assurance or other audit activity.

No assurance is provided regarding the financial performance of the bond, the value of any investments in the bond, or the long term environmental benefits of the transaction. Our objective has been to provide an assessment that the bond has met the criteria established on the basis set out below.

### Responsibilities of the Management of Sveaskog and DNV GL

The management of Sveaskog has provided the information and data used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform Sveaskog management and other interested stakeholders in the Sveaskog Green Bond as to whether the established criteria have been met, based on the information provided to us. In our work we have relied on the information and the facts presented to us by Sveaskog. DNV GL is not responsible for any aspect of the project categories referred to in this opinion and cannot be held liable if estimates, findings, opinions or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by Sveaskog's management and used as a basis for this assessment were not correct or complete.

### Basis of DNV GL's opinion

We have adapted our green bond eligibility assessment methodology to create a Sveaskog-specific Green Bond Eligibility Assessment Protocol ("Protocol") - see Schedule 1. Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL's opinion. The overarching principle behind the criteria is that a green bond should "enable capital-raising and investment for new and existing projects with environmental benefits"<sup>3</sup>.

<sup>1</sup> Forest Stewardship Council , <https://ic.fsc.org/sweden.301.htm>

<sup>2</sup> The [Green Bond Principles](#) are a set of voluntary process guidelines for issuing green bonds, initially issued in January 2014 and then updated on March 27<sup>th</sup> 2015.

<sup>3</sup> Ibid

As per our Protocol, the criteria against which the Sveaskog Green Bond has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a green bond must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a green bond should outline the process it follows when determining eligibility of an investment using Green Bond proceeds, and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a green bond should be tracked within the issuing organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond investors should be made of the use of bond proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

## Work undertaken

Our work constituted a high level review of the available information, based on the understanding that this information was provided to us by Sveaskog in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a Sveaskog-specific Green Bond Eligibility Assessment Protocol, and adapted to the purpose of the Bond, as described above and in Schedule 1 to this Assessment;
- Assessment of documentary evidence provided by Sveaskog on the Bond and on company activities using the Protocol and supplemented by a high-level desktop and media research. These checks refer to current assessment best practices and standards methodology;
- Review of externally published documents and internal analyses and documentation, and other sources of information on Environmental, Social and Governance (ESG) risks relating to the activities of Sveaskog;
- Interviews with Sveaskog senior managers, and review of relevant documentation and evidence related to the criteria of the Protocol;
- Documentation of findings against each element of the criteria. Our opinion as detailed below is a summary of these findings.

## Findings and DNV GL's opinion

DNV GL's findings are listed below:

1. **Principle One: Use of Proceeds.** Sveaskog is a company fully committed to sustainable forestry, and all its forest is FSC<sup>4</sup> certified according to the Swedish FSC-standard. Current certificates from internationally recognized certifying bodies, one of which FSC is mentioned, is a requirement for sustainable forestry in the Climate Bond Taxonomy<sup>5</sup>. All of Sveaskog's revenues come from Sveaskog's forest activities. As such, we consider Sveaskog to be "pure-play" for green bond purposes<sup>6</sup>. Sveaskog is issuing a general corporate purpose bond, hence the proceeds will be used for general financing and corporate purpose. The proceeds will be used to refinance Sveaskog's existing operations within its ordinary cause of business which is sustainable forestry. As stated above, DNV GL provides no assurance regarding the financial

<sup>4</sup> Forest Stewardship Council , <https://ic.fsc.org/sweden.301.htm>

<sup>5</sup> <http://www.climatebonds.net/standards/taxonomy>

<sup>6</sup> We consider a company to be "pure-play green" if >90% of its revenues come from business activities that are considered to have clear environmental benefits.

performance of the bond, the value of any investments in the bond, or the effects of the transaction.

- 2. Principle Two: Process for Project Evaluation and Selection.** As the proceeds of the bond will be put towards general corporate purposes, there is no need for the issuer to establish a process for project evaluation and selection.

Sveaskog has expressed commitment to operational excellence with regards to sustainability in general and environmental performance in particular through its policies, reporting and management systems. The company's environmental policy builds on its certification to ISO14001 and FSC, it submits UNGC progress reports annually, and has integrated annual reporting is in place which is assured by an accredited third party. Based on the evidence reviewed and the discussion we had with senior managers, we found nothing to suggest that Sveaskog's environmental, social and governance framework is not in line with good practice of the industry in which it operates.

- 3. Principle Three: Management of Proceeds.** This principle is not applicable since the Bond is a general corporate purpose bond. Sveaskog will thus not trace the use of proceeds of the Bond.
- 4. Principle Four: Reporting.** Sveaskog reports annually on its targets and achievement related to sustainable forestry. The company reports in accordance with GRI and also issues an annual UN Global Compact progress report. The annual report include;
- the extent of FSC/PEFC certified wood
  - goals and description of work related to nature conservation
  - net growth volume in their forest, which is a key indicator for the positive CO<sub>2</sub> uptake of their forests.

On the basis of the information provided by Sveaskog and the work undertaken, it is DNV GL's opinion that the Sveaskog Green Bond meets the criteria established in the Sveaskog-specific Green Bond Eligibility Assessment Protocol and that it is aligned with the stated definition of green bonds within the Green Bond Principles, which is to "enable capital-raising and investment for new and existing projects with environmental benefits".

#### for DNV GL

Oslo

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#### About DNV GL

Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

## Schedule 1- Sveaskog-specific Green Bond Eligibility Assessment Protocol

### 1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1a	Type of bond	<p>The bond must fall in one of the following categories, as defined by the Green Bond Principles:</p> <ul style="list-style-type: none"> <li>Green Use of Proceeds Bond</li> <li>Green Use of Proceeds Revenue Bond</li> <li>Green Project Bond</li> <li>Green Securitised Bond</li> </ul>	<p>Review of:</p> <ul style="list-style-type: none"> <li>Sveaskog Annual Report <u>2014</u></li> <li>List of FSC/PEFC certificates</li> <li>Private letter from Sveaskog senior management confirming future strategy within sustainable forestry</li> <li>Draft term sheet dated 05.01.2016</li> </ul> <p>Interviews with managers</p>	<p>The bond falls into the category of a Corporate General Purpose Bond and hence does not fall strictly within the types of bonds currently defined by the Green Bond Principles. However, we consider that Sveaskog is a pure-play sustainable forestry company<sup>7</sup>, as all of its business activities are considered “green”.</p> <p>Sveaskog is a company committed to sustainable forestry, and its forest is certified according to the two major forestry and chain of custody standards in the industry; FSC<sup>8</sup> (Forest Stewardship Council) and PEFC (Programme for the Endorsement of Forest Certification). Sveaskog also has certificates for FSC Chain of Custody and Controlled Wood for all procured wood<sup>9</sup>.</p> <p>Current certificates from internationally recognized certifying bodies, where FSC is mentioned, is a requirement for sustainable forestry in the Climate Bond Taxonomy.<sup>10</sup></p> <p>Sveaskog’s purpose, as stated in its Articles of Association, is to manage forest land and do forestry and associated business. The company shall be an independent party and cannot have large interest in end user, timber- and wood based business. According to their vision they aim to be a leader within sustainable forestry. All of Sveaskog’s revenues come from Sveaskog’s forest activities.</p> <p>Given the history, strategy, statement given by Sveaskog senior management, and its current business activities, DNV GL concludes that nothing currently suggests that over the tenor of the bond to be issued, Sveaskog would develop business activities that lies outside the scope of sustainable forestry.</p>

<sup>7</sup> We consider a company to be “pure-play green” if >90% of its revenues come from business activities that are considered to have clear environmental benefits, as described under criterion 1C.

<sup>8</sup> Forest Stewardship Council , <https://ic.fsc.org/sweden.301.htm>

<sup>9</sup> <https://us.fsc.org/en-us/certification/controlled-wood>

<sup>10</sup> <http://www.climatebonds.net/standards/taxonomy>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1b	Green Project Categories	The cornerstone of a Green Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security.	<p>Review of :</p> <ul style="list-style-type: none"> <li>Draft term sheet (dated 05.01.2016)</li> <li>Interviews with managers</li> </ul>	<p>Sveaskog declares that the net proceeds from the Bond issue will be deposited in Sveaskog's general cash pool and used for general financing purposes and general corporate purpose in Sveaskogs ordinary cause of business, which is sustainable forestry.</p>
1c	Environmental benefits	All designated Green Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer.	<p>Review of:</p> <ul style="list-style-type: none"> <li>Sveaskog Annual Report 2014</li> <li>Sveaskog Code of Conduct</li> <li>Climate Bond Standard and currently existing green bond taxonomies</li> <li>Swedish FSC Standard for Forest Certification</li> <li>FSC certificate Sveaskog</li> <li>Forest Stewardship Council international <a href="#">home page</a></li> <li>Lundmark et al 2014: " Potential Roles of Swedish Forestry in the Context of Climate Change Mitigation"</li> <li>Instruktion för återväxtkontroll.pdf (instruction for re-generation control)</li> <li>Kopia av Andel godkänd förnyingsareal vid återväxtkontroller.xlsx</li> <li>Sammanfattning av Skötselskolan för Plantering.pdf</li> <li>Sveaskogs naturvårdsarbete.pdf (Sveaskog nature conservation work)</li> </ul>	<p><b>Sustainable forestry</b></p> <p>Forests that are sustainably managed contribute to preserving biodiversity and securing carbon storage. Sustainable forestry entails activities that avoid or substantially reduce carbon loss or that deliver substantial carbon sequestration.</p> <p>Sveaskog manages 4 million hectares of forest, of which 3.12 million is productive forest land. As per December 2015 all forest owned by Sveaskog was certified according to the FSC Swedish standard. Approx. 35% of the company's production deliveries derive from bought wood within Sweden, and 5% is imported. Sveaskog also has certificates for FSC Chain of Custody and Controlled Wood for all procured wood<sup>11</sup>.</p> <p>The Forest Stewardship Council is an independent, non-profit organization which sets standards for responsible forest management, which ensures that harvest of timber and non-timber products maintains the forest's biodiversity, productivity, and ecological processes. FSC Forest Management certification confirms that a specific area of forest is being managed in line with the FSC Principles and Criteria. The FSC Controlled Wood Standard minimizes the risk of using wood products from 'unacceptable' sources in FSC-labeled products. FSC Controlled Wood is material that can be mixed with certified material during manufacturing FSC mixed-products. Controlled Wood standards are related to both the Forest Management and Chain of Custody certification.</p> <p><b>CO<sub>2</sub> uptake</b></p> <p>A growing forest removes CO<sub>2</sub> from the atmosphere through photosynthesis, converting it into organic carbon which is stored in woody biomass. A forest's ability to do this decrease with age. When mature trees are harvested, CO<sub>2</sub> is</p>

<sup>11</sup> <https://us.fsc.org/en-us/certification/controlled-wood>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
			<p>Discussions with Sveaskog management</p>	<p>released until the newly planted saplings increase their uptake. Overall, the sustainable management of forests ensures that the overall flow of forest CO2 remains carbon positive.</p> <p>Sveaskog balances harvesting and growth of its forest assets by following comprehensive re-generation policies and procedures, which are aligned with industry best practices. This resulted in a net growth of its forest assets by 11.3million forest cubic meter in 2014 (similar as in 2013), i.e. avoiding deforestation. A study that has been done on the CO2 uptake of Swedish forestry show that - provided the sector continues to manage the forests as today – the Swedish forests have an annual net uptake of 14 mill tonnes of CO2. As an illustration this would mean that Sveaskog’s share of CO2 uptake would be 2 mill tonnes pr year (as their share of the Swedish forest is 14%).</p> <p><b>CO<sub>2</sub> emission</b></p> <p>Regarding emissions from own operations (transport, harvesting, travel etc.) Sveaskog have set a target of 30% reduction of CO2 in 2020, compared with a baseline from 2010. The result in 2014 (approx. 155 000 ton CO2) show a reduction of 5% compared with 2013.</p> <p><b>Nature conservation</b></p> <p>Sveaskog uses 20 % of its productive forest land below the mountain forest region for nature conservation. This target goes beyond the requirements of the FSC standard, and the industry average.</p> <p>To achieve this target, Sveaskog uses three tools on different scales:</p> <ul style="list-style-type: none"> <li>- Ecoparks, which are large contiguous landscapes with high natural values. Sveaskog has planned 36 ecoparks which corresponds to 5% of productive forest land or a total of 175,000 hectares.</li> <li>- Nature conservation forests, which are forests set aside for nature conservation. They comprise 300,000 hectares which is 10% of Sveaskog’s productive forest land outside the ecoparks.</li> <li>- Consideration for nature in production forests. This includes sensitive small biotopes, edge zones and tree groups. Consideration for nature averages just under 10% which adds up to a conservation area of 250,000 hectares.</li> </ul>
1d	Refinancing share	In the event that a proportion of the proceeds may be used for	Review of:	Sveaskog is issuing a general corporate purpose bond, hence the proceeds will be used for general financing and corporate purpose. The proceeds will be used

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
			<p><u>including sustainability report</u></p> <ul style="list-style-type: none"> <li>Media review and data research based on articles from Swedish Society for Nature Conservation</li> </ul>	<p>on the impact of driving in forest areas.</p> <p>Sveaskog operates in the Swedish regulatory environment which is regarded as robust and with high health, safety and environmental requirements.</p> <p>Based on the evidence reviewed and the discussion we had with senior managers, we found nothing to suggest that Sveaskog's environmental, social and governance framework is not in line with good practice of the industry in which it operates.</p>

### 3. Management of proceeds

This principle is not applicable since the Bond is a General Corporate Purpose bond. Sveaskog will thus not trace the use of proceeds of the Bond.

### 4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
4a	Periodical reporting	<p>In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Green Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.</p>	<p>Review of:</p> <ul style="list-style-type: none"> <li>Sveaskog Annual Report <u>2014</u></li> </ul> <p>Discussion with Sveaskog management.</p>	<p>Sveaskog reports annually on its targets and achievement related to sustainable forestry. The company reports in accordance with GRI and also issues an annual UN Global Compact progress report. The annual report include;</p> <ul style="list-style-type: none"> <li>- the extent of FSC/PEFC certified wood</li> <li>- goals and description of work related to nature conservation</li> <li>- net growth volume in their forest, which is a key indicator for the positive CO<sub>2</sub> uptake of their forests</li> <li>- CO<sub>2</sub> emission from own operation</li> </ul>

<sup>1</sup> Climate Bond Initiative Taxonomy: Agriculture & Forestry: <http://www.climatebonds.net/standards/taxonomy>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
		refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.	Discussion with Sveaskog management	to refinance Sveaskog's existing operations within its ordinary cause of business which is sustainable forestry.

## 2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2b.	Issuer's environmental and social and governance framework	In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances, Green Bond investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.	<p>Review of:</p> <ul style="list-style-type: none"> <li>• <u>CSR-requirements for suppliers and contractors</u></li> <li>• <u>Sveaskogs Code of Conduct</u></li> <li>• <u>Sveaskog's nature conservation work</u></li> <li>• <u>Supporting biodiversity in tomorrow's forest landscape</u></li> <li>• <u>Environmental policy</u></li> <li>• <u>Joint industry environmental policy on the impact of driving in forest areas (Branschgemensam miljöpolicy om körskador i skogsmark)</u></li> <li>• <u>Sveaskog UN Global Compact 2014</u></li> <li>• <u>Communication on Progress report</u></li> <li>• <u>2014 Annual report</u></li> </ul>	<p>Sveaskog has expressed commitment to operational excellence with regards to sustainability in general and environmental performance in particular through its policies, reporting and management systems. Sveaskog's relevant policies are communicated in its Code of Conduct and refer to the 10 principles of the UN Global Compact (UNGC) which it is a member of since 2005. The code applies to all employees with additional responsibilities for top management. Suppliers and contractors are expected to commit in writing to Sveaskog's CSR requirements and onsite inspections of contractors and suppliers are carried out to verify adherence to Sveaskog's CSR requirements.</p> <p>The company's environmental policy builds on its certification to ISO14001 and FSC, it submits UNGC progress reports annually, and has integrated annual reporting in place which is assured by an accredited third party. Within the sustainability sections of the reports, clear references are made to GRI indicators to demonstrate work with Sveaskog's key sustainability issues, including business ethics, satisfied customers, biodiversity, economic performance, gender/diversity, climate effects (emissions).</p> <p>Safety, health and related environmental issues that may impact staff are addressed in the materiality analysis of Sveaskog's Communication on Progress linked to UNGC. Health and safety management policies cover both Sveaskog's staff and contractors. Noteworthy actions have been taken with regards to specific safety measures for the forestry industry, through the joint industry policy</p>