

SVEASKOG GREEN BOND FRAMEWORK

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 setting up a Green Bond Framework aimed to mobilise debt capital markets for the financing of sustainable forestry related projects and assets in line with the Green Bond Principles published in June 2017 by the International Capital Market Association. We understand that bonds issued under the Framework will finance a pool of forest and forestry related investment, i.e. projects and assets to promote a low-carbon and climate resilient growth through sustainable forestry and its related operations (Green Projects). Sveaskog is a company committed to sustainable forestry, and all its forest is FSC¹ certified in accordance 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 Framework. We were commissioned to provide an assessment of the alignment of the Framework against DNV GL's Green Bond Eligibility Assessment Protocol which is built around the Green Bond Principles² (June, 2017). 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 bonds issued under the Framework, the value of any investments in such bonds, or the long term environmental benefits of any transactions. Our objective has been to provide an assessment that the Framework 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 Framework 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 Framework Eligibility Assessment Protocol ("Protocol") - see Schedule 1. Our Protocol

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

² The [Green Bond Principles](#) are a set of voluntary process guidelines for issuing green bonds, initially issued in January 2014 and last updated June 2017.

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.

As per our Protocol, the criteria against which the Sveaskog Green Bond Framework 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 Framework Eligibility Assessment Protocol, and adapted to the purpose of the Bond Framework, as described above and in Schedule 1 to this Assessment;
- 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 their advisors, 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 FSC³ certified in accordance 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 Taxonomy⁴. Under the Green Bond Framework, Sveaskog will finance new Green Projects and re-finance FSC certified forest land holdings. Sveaskog's Green Bond Framework define the eligible investment under this in the Framework's Green Project Categories. In DNV GLs opinion, the defined investment categories meet the green bond requirements as set forth in the Green Bond Principles 2017 edition. As

³ Forest Stewardship Council , <https://ic.fsc.org/sweden.301.htm>

⁴ <http://www.climatebonds.net/standards/taxonomy>

stated above, DNV GL provides no assurance regarding the financial performance of bonds issued under the Framework, the value of such investments, or the effects of such transactions.

- 2. Principle Two: Process for Project Evaluation and Selection.** Sveaskog describes a process for Green Project evaluation and selection process. This selection process take into consideration eligible projects and assets as defined under the Green Project Categories in the Green Bond Framework, with associated sustainability objectives.
- 3. Principle Three: Management of Proceeds.** The Sveaskog Green Bond Framework described a sufficient process for the management of proceeds, including tracking of funds in separate accounts, the management and possible positive balance of this account and related reporting.
- 4. Principle Four: Reporting.** Sveaskog reports annually on its targets and achievement related to sustainable forestry. In addition, Sveaskog's Green Bond Framework describes dedicated reporting related to green bond under the Framework which meets the requirements in the GBP June 2017 edition.

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

for DNV GL

Oslo

September, 8th 2017



Anne Kvam
Principal Consultant and Project Director
Assessment Services Norway,
DNV GL Business Assurance Norway AS



Siv Inderdal Eklo
Regional development manager
Assessment Services Norway,
DNV GL Business Assurance Norway AS

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 Framework Eligibility Assessment Protocol

1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1a	Type of bond	The bond must fall in one of the following categories, as defined by the Green Bond Principles: <ul style="list-style-type: none"> • Standard Green Use of Proceeds Bond • Green Use of Proceeds Revenue Bond • Green Project Bond • Green Securitized Bond 	Review of: <ul style="list-style-type: none"> • Sveaskog Green Bond Framework dated 7th of September 2017 Interviews with Sveaskog management and advisors.	The Framework describe bonds which falls into the category of <i>Standard Green Use of Proceeds Bond</i> .
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.	Review of: <ul style="list-style-type: none"> • Sveaskog Green Bond Framework dated 7th of September 2017 Interviews with Sveaskog management and advisors.	Sveaskog declares that the net proceeds from the Bond Issue will in whole or in part, finance a selected pool of FSC certified forest and forestry related investments, projects and assets to promote a low-carbon and climate resilient growth through sustainable forestry and its related operations (Green Projects). This corresponds with the green Bond Principles category environmentally sustainable management of living natural resources and land use. Sveaskog Green Bond Framework describe green project sub-categories which list relevant investment in sustainable forestry under the Framework. The legal documentation for each individual Sveaskog green bond shall provide a reference to the Green Bond Framework.
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.	Review of: <ul style="list-style-type: none"> • Sveaskog Green Bond Framework dated 7th of September 2017 • <u>Climate Bond Standard</u> and currently existing green bond taxonomies • <u>Swedish FSC Standard</u> for Forest Certification 	The eligible Green Projects described in Sveaskog Green Bond Framework work to achieve environmental benefits from sustainable forestry operations including nature conservation initiatives and climate benefits through CO ₂ eq. absorption and focus on lowering CO ₂ eq. emission from own activities. Sustainable forestry Forests that are sustainably managed contribute to preserving or enhancing biodiversity and securing carbon storage. Sustainable forestry entails activities that avoid or substantially reduce carbon loss or that deliver substantial carbon

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
			<ul style="list-style-type: none"> • FSC certificate Sveaskog • WWF international web page • Sveaskog web site <p>Discussions with Sveaskog management and advisors</p>	<p>sequestration¹.</p> <p>Sveaskog manages 4 million hectares of forest. As per September 2017 all forest owned by Sveaskog was certified in accordance to the Swedish Forest Stewardship Council (FSC) standard. When acquiring forest land Sveaskog will, if it is not already FSC-certified, take action to make sure the new forest land is eligible to FSC-certification and have the forest land certified in accordance with the Swedish FSC standard.</p> <p>The FSC 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. An assessment of the nature conservation organisation the World Wide Fund For Nature (WWF) states that the FSC “provides the most credible forest certification scheme at present”⁵. It is assumed that as long as Sveaskog comply with the Swedish FSC standard they meet the minimum criteria sat for sustainable resources and land-use management under the Green Bond Protocol. Such an interpretation is also practiced by the Climate Bond Initiative.</p> <p>Nature conservation</p> <p>Sveaskog works with nature conservation in different scales – from small environmental considerations in their forest operations to set aside nature conservation forests and large contiguous landscapes, so called ecoparks. 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. Financing of nature conservation under the Green Bond Framework may include (a) environmental consideration during harvest operations, (b) prescribed burning, (c) wetland restorations and (d)</p>

⁵ See http://wwf.panda.org/about_our_earth/deforestation/forest_sector_transformation/forest_certification/fsc/

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
				<p>voluntary set asides.</p> <p>CO₂ uptake A growing forest removes CO₂ from the atmosphere through photosynthesis, converting it into organic carbon which is stored in woody biomass. While the carbon storage accumulates over years, the CO₂ absorption rate decreases after a certain age. When mature trees are harvested, CO₂ is released until the newly planted saplings increase their uptake.</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. Sveaskog, normally, only harvests approximately 70 percent of the annual growth. Thus the total standing volume on the landholdings of Sveaskog increases every year.</p> <p>As part of its Green Project reporting, Sveaskog will report an aggregation of estimated net absorption of CO₂-equivalents per geographical market area (North, Middle and South), and where relevant other climate and sustainability deliveries.</p> <p>CO₂ emission 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. In 2017, Sveaskog will conduct an energy survey of buildings, operations and transportations in accordance to Swedish law. The survey will result in a description of the company's total energy use. Parts of the company, with a considerable energy use, will be mapped in detail and the survey will result in suggested actions in order to decrease energy use or increase energy efficiency. Investments will lead to less environmental impact and future reductions in costs.</p> <p>Sveaskog also contribute in reducing CO₂ eq. emission downstream in their supply chain, when wood based material replace more CO₂ eq. intensive material.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1d	Refinancing share	In the event that a proportion of the proceeds may be used for 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.	<p>Review of:</p> <ul style="list-style-type: none"> Sveaskog Green Bond Framework dated 7th of September 2017 <p>Interviews with Sveaskog management and advisors.</p>	Sveaskog Green Bonds will finance new Green Projects (includes Green Projects not yet known at the time of issuance, planned, ongoing and those finalized within 12 months before the time of issuance) and to refinance Sveaskog FSC-certified forest land holdings. The proportion of Green Bond net proceeds used to finance new Green Projects and to refinance Sveaskog FSC-certified forest holdings will vary between the Green Bond issuances, the annual Green Bond reporting will disclose the proportions.

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2a	Investment-decision process	<p>The issuer of a Green Bond should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds. This includes, without limitation:</p> <ul style="list-style-type: none"> A process to determine how the projects fit within the eligible Green Projects categories identified in the Green Bond Principles; The criteria making the projects eligible for using the Green Bond proceeds; and The environmental sustainability objectives 	<p>Review of:</p> <ul style="list-style-type: none"> Sveaskog Green Bond Framework dated 7th of September 2017 	<p>Sveaskog’s Green Bond Framework describes the outlined Green Project evaluation and selection process, as follows:</p> <ol style="list-style-type: none"> Sveaskog Business Controllers present investments, projects or assets, meeting any of the Green Project Categories definitions to the Green Bond Committee. The Green Bond Committee solely makes the decision to finance Green Projects, in line with the Green Project Category definition, with net proceeds from the issuance of Green Bonds. A decision to allocate net proceeds will require a consensus decision by the Green Bond Committee. The decision is documented and filed.

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.	Review of: <ul style="list-style-type: none"> • CSR-requirements for suppliers and contractors • Sveaskogs Code of Conduct • Sveaskog's nature conservation work Supporting biodiversity in tomorrow's forest landscape • Sveaskog UN Global Compact 2016 Communication on Progress report • 2016 Annual report including sustainability report 	<p>Sveaskog has expressed commitment to operational excellence with regards to sustainability in general and environmental performance 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 is 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 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

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3a	Tracking procedure	<p>The net proceeds of Green Bonds should be credited to a sub-account, moved to a sub- portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for Green Projects.</p> <p>So long as the Green Bond is outstanding, the balance of the tracked proceeds should be periodically adjusted to match allocations to eligible Green Projects made during that period. The issuer should make known to investors the intended types of temporary placement for the balance of unallocated proceeds.</p>	<p>Review of:</p> <ul style="list-style-type: none"> Sveaskog Green Bond Framework dated 7th of September 2017 	<p>The procedures for management of proceeds is describe in Sveaskog’ s Green Bond Framework.</p> <p>An amount equal to the net proceeds of the Green Bond issuance credits a separate account to support Sveaskog’s financing of Green Projects. Sveaskog will document all transfers to and from such separate account, to secure tracking of the funds and to simplify the annual review.</p> <p>In the event the separate account has a positive balance, Sveaskog has the right to temporary; (i) deposit such positive balance with banks and/or (ii) invest in (a) Swedish treasury bills, (b) any green bonds, (c) covered bonds and/or (d) commercial papers and short dated bonds., issued by banks or corporates with a business plan not focused on fossil or other CO2 intense activities. Temporary investments will not be in entities with a business plan focused on fossil or other CO2 intense activities. Temporary investments will be in entities with at least A-rating from S&P or equivalent rating from other rating institute.</p> <p>As long as Green Bonds are outstanding and the separate account has a positive balance, such positive account balance will, in relation to amounts allocated to Green Projects, be adjusted at least every fiscal quarter. Sveaskog will, until full allocation of such Green Bond net proceeds has taken place, in its reporting disclose the amount equal to the Green Bond net proceeds not yet allocated to Green Projects. For the avoidance of doubt Sveaskog can, where relevant, use the net proceed to repay any Green Bonds.</p> <p>In DNV GLs opinion, these procedures fulfil the requirement of management of proceeds.</p>

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
4a	Periodical reporting	Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of material developments. This should include a list of the Projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the GBP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).	<p>Review of:</p> <ul style="list-style-type: none"> Sveaskog Green Bond Framework dated 7th of September 2017 <p>Interviews with Sveaskog management and advisors</p>	<p>Sveaskog reports annually on its targets and achievement related to sustainable forestry. The company reports in accordance with GRI and issues an annual UN Global Compact progress report.</p> <p>In Green Bond Framework, Sveaskog will report annually and until maturity of the Green Bonds issued on its website and in the Sveaskog Annual Sustainability Report. The reporting will include:</p> <ul style="list-style-type: none"> A summary of the Green Bond developments. The outstanding amounts of issued Green Bonds. The balance of the separate account (including any temporary deposits or investments and Green Bond repayments) and the available headroom in green value (if any). The total proportion of Green Bond net proceeds used to finance new Green Projects (includes Green Projects not yet known at the time of issuance, planned, ongoing and those finalized within 12 months before the time of issuance) and the proportion of Green Bond net proceeds used to refinance Sveaskog FSC-certified forest holdings. Total amount of Green Bond net proceeds allocated to relevant Green Project category. <p>Sveaskog will also include Green Project reporting which includes:</p> <ul style="list-style-type: none"> Sustainable and Swedish FSC-certified forest management & FSC-certified forest land; <ul style="list-style-type: none"> Brief description of example investments, projects and/or assets. An aggregation of Green Bond net proceeds used per geographical market area (North, Middle and South). Confirming that all forest land holdings where Green Bond net proceeds have been used are FSC-certified. An aggregation of estimated net absorption of CO₂-equivalents per geographical market area (North, Middle and South), and where relevant other climate and sustainability deliveries. Research and development;

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
				<ul style="list-style-type: none"> ○ Brief description of all investments and projects. ○ Green Bond net proceeds used per investment and project. ○ Report potential climate, biodiversity and sustainability deliveries due to investments in research and development projects with a climate positive impact. The procedure for reporting will be developed for each individual project depending on type of project. <p>In DNV GLs opinion, this reporting is to be considered sufficient under the Green Bond Principles 2017.</p>

|
