

# Second-Party Opinion

## Sociedade Bioelétrica do Mondego

### Green Bond

#### Evaluation Summary

Sustainalytics is of the opinion that SBM's Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds: renewable energy, and pollution prevention and control are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that the biomass power plant will lead to positive environmental impacts and advance the UN Sustainable Development Goal 7 and 12.



**PROJECT EVALUATION / SELECTION** SBM's internal process for evaluating and selecting projects is in line with market practice. Projects are proposed to SBM's Investment Working Group (IWG) and screened for corporate social responsibility relevance. Screened projects then go to the Green Bond Committee, composed of representatives from relevant departments at Altri Group, SBM's indirect parent company, which evaluates the eligibility against the criteria in the framework and determines whether to proceed.



**MANAGEMENT OF PROCEEDS** SBM's processes for management of proceeds is handled by the Finance Department at Altri Group, the indirect owner of SBM. All proceeds will be allocated and tracked through an internal management system that defines the destination of cash-flows, sets reserved accounts for unallocated proceeds and periodically adjusts the net proceeds. SBM may invest unallocated proceeds according to its liquidity and/or liability management activities. This is aligned with market practice.



**REPORTING** SBM intends to make allocation reporting available on an annual basis until the full allocation of the bond. The company will hire a third-party auditor to provide external validation of allocated funds. In addition, SBM is committed to impact reporting on relevant metrics on an annual basis. Sustainalytics views SBM's allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	22 February 2019
<b>Issuer Location</b>	Leirosa, Marinha das Ondas, Portugal

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## Introduction

Sociedade Bioelétrica do Mondego (SBM or “the company”) is wholly owned by Bioelétrica da Foz, which is a wholly-owned subsidiary of the Altri Group. The company is primarily engaged in the construction, operation and maintenance of a 34.5 MW capacity biomass power plant in Figueira da Foz, Portugal. Altri, the indirect parent company of SBM, owns and operates three pulp mills in Portugal – Celbi, Caima and Celtejo – which have the capacity to produce over a million tonnes of fibre annually. Through its subsidiary, Altri Florestal, Altri is also involved in the management of more than 80,000 hectares of forests in Portugal, which are certified to the Forest Stewardship Council (FSC®) and Programme for the Endorsement of Forest Certification (PEFC).

SBM has developed the SBM Green Bond Framework under which it is considering issuing a green bond and using the proceeds exclusively to finance the development of a 34.5 MW capacity biomass power plant, which will be attached to the pulp mill of its sister company, Celbi. The Framework defines eligibility criteria in the following areas:

1. Renewable and Clean Energy
2. Integrated Pollution Prevention and Control

A description of the eligible project for the 2019 green bond issuance is provided in Appendix 1.

SBM engaged Sustainalytics to review the SBM Green Bond Framework, dated February 15, 2019 and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP).<sup>1</sup> This Framework has been published in a separate document.<sup>2</sup>

As part of this engagement, Sustainalytics held conversations with various members of SBM’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of SBM’s green bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Green Bond Framework and should be read in conjunction with that Framework.

<sup>1</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> The Sociedade Bioelétrica do Mondego Green Bond Framework is available on Altri’s website at: [www.altri.pt>investors>greenfunding](http://www.altri.pt>investors>greenfunding)

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on SBM's Green Bond Framework

Sustainalytics is of the opinion that SBM's Green Bond Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018. Sustainalytics highlights the following elements of SBM's green bond framework:

#### Use of Proceeds:

- SBM will use the proceeds of the green bond to invest in a biomass power plant that will generate renewable energy to be used by Altri Group, SBM's indirect owner, and its affiliates, while simultaneously generating additional renewable energy capacity for Portugal's national energy grid. The eligible project is aligned with the Green Bond Principles 2018. SBM confirmed to Sustainalytics that the proceeds of the bond will go exclusively to financing the biomass power plant project and will not be used for re-financing of any kind.
- Sustainalytics notes that the SBM biomass power plant will rely on natural gas to a minimal extent in situational contexts, including start-up, shut-down transitions and emergency situations. At the request of Sustainalytics, the company has provided data on the expected significance of natural gas with regards to the energetic contribution to the boiler, electricity production and direct GHG emissions. Based on this disclosure, Sustainalytics is satisfied that the overall importance of fossil fuels is very limited. For example, SBM estimates that natural gas is expected contribute approximately 0.1% of energetic input to the boiler. Furthermore, SBM estimates the facility's future carbon intensity at approximately 125g CO<sub>2</sub>eq/kWh, which is above the threshold recommended by Sustainalytics<sup>3</sup> but nonetheless represents a major reduction compared to the average carbon intensity of Portugal's national electricity supply, which is 295g CO<sub>2</sub>eq/kWh. It is noteworthy that the expected emissions intensity of the facility was not calculated using a lifecycle assessment approach, and only considers direct emissions in relation to units of energy produced. As a result, the carbon intensity figure provided by SBM does not account for the carbon sequestration potential of the forests from which biomass feedstocks are harvested.
- While reliance on any fossil fuel use is generally to be avoided, the amount being used in the proposed power plant is seen as minimal, and, according to SBM, this minimal use is required for plant start-up, shut-down, transitions and emergency situations, as noted above. As such, Sustainalytics views this project to contribute to GHG reduction and to be aligned with the Green Bond Principles and market norms.
- The biomass power plant will make use of residual forest biomass which will be sourced from forest units managed by Altri Florestal, which are certified to the responsible forestry schemes of FSC® and PEFC and purchased from controlled sources to farmers and forest growers. Sustainalytics views these schemes as credible and residual biomass as an acceptable supply source.<sup>4</sup> Furthermore, as discussed in Section 3 of this document, by creating a demand for residual biomass, this project will help reduce the risk of forest fires.
- Furthermore, Sustainalytics positively notes the inclusion of technologies to limit emissions to air from the biomass power plant, nitrogen oxides, sulphur dioxide, and hydrochloric acid and hydrofluoric acid. These investments include ammonia-based solutions that react with emissions to render them less harmful, as well as filtering systems.

#### Project Evaluation and Selection:

- The project evaluation and selection process is facilitated by the Investment Working Group (IWG), which is formed by SBM directors who follow the mandate from Altri's Board of Directors. All proposed projects are screened by the IWG for their relevance to corporate social responsibility, before making their way to the Green Bond Committee (GBC), which is composed of members from several departments of Altri Group (namely, Engineering, Environmental & Sustainability, Forestry and Finance). The Green Bond Committee subsequently decides whether the proposed project aligns with eligibility criteria outlined in

<sup>3</sup> Sustainalytics recommended carbon intensity for electricity generated from biofuels is 100g/CO<sub>2</sub>e/kWh, which is informed by the Climate Bonds Standard

<sup>4</sup> See Appendix 2 for Sustainalytics' view on FSC and PEFC certifications.

the Framework and should be pursued. Sustainalytics views the project evaluation and selection process established by SBM as consistent with market practices.

**Management of Proceeds:**

- The net proceeds of the bond will be managed by the company's financial department. Tracking of disbursements to eligible green projects will be facilitated by an internal management system that will define the destination of cash-flows, set reserved accounts for the non-invested funds and periodically adjust the net proceeds to match allocations to the project. Proceeds not immediately disbursed to the project will be held. SBM may invest unallocated proceeds according to its liquidity and/or liability management activities. This is in line with market practice.

**Reporting:**

- SBM will provide allocation reporting on an annual basis in its annual report, which will be accessible on the Altri website. The reporting will include the total amount of allocated funds, the unallocated amount and the remaining outstanding total. Additionally, the company will hire a third-party auditor to verify cash flows until full allocation. This demonstrates a best practice approach to reporting.
- In addition to allocation reporting, SBM intends to annually report on impact metrics related to renewable energy, and pollution prevention and control. The proposed metrics for these impact categories includes total installed renewable energy capacity, annual renewable energy production, GHG emissions avoided, nitrogen oxide (NOx), sulfur dioxide (SOx), hydrochloric and hydrofluoric acids (HCL/HCF).

### **Alignment with Green Bond Principles 2018**

Sustainalytics has determined that SBM's green bond aligns to the four core components of the Green Bond Principles 2018. For detailed information please refer to Appendix 3: Green Bond/Green Bond Programme External Review Form.

## **Section 2: Sustainability Strategy of the Issuer**

### **Contribution of framework to issuer's sustainability mandate/strategy/targets**

In its sustainability policy, Altri, SBM's indirect parent company, has a stated commitment to give priority to the use of renewable sources of energy.<sup>5</sup> The sustainability report includes a comprehensive overview of environmental performance across a variety of key indicators including energy, emissions, waste and water.<sup>6</sup> The company has demonstrated relatively consistent improvements for energy use and carbon and, specifically, has been able to significantly reduce dependence on externally-acquired electricity. This has been coupled with improvements in energy efficiency optimization and reduction of CO<sub>2</sub> emissions, which have decreased 18% since 2015. As such, the company has made clear efforts to improve its energy efficiency, reduce dependence on fossil fuels and reduce its overall carbon footprint. However, it should be noted that the group's air and water emissions have remained relatively stable.<sup>7</sup> Sustainalytics encourages the development of measurable targets and action plans for addressing these impacts. It is notable that the entirety of Altri Group's forests under management are certified to FSC® and PEFC standards, which Sustainalytics considers to be robust and credible guidance for forest management practices.

Overall, the company has demonstrated a strong commitment towards environmental responsibility and has a robust Environmental Management System. Sustainalytics is of the opinion that SBM is well positioned to issue a green bond and that the proposed SBM biomass power plant, which will be located at a Celbi pulp mill, also owned by Altri Group, will further contribute to the group's overall goals of increasing its use of renewable energy while providing a sustainable end of life use for residual forest products.

### **Well positioned to address common environmental and social risks associated with the projects**

While Sustainalytics supports the development of renewable energy infrastructure, it is recognized that the development of a biomass power plant will have associated environmental and social risks such as soil and

<sup>5</sup> Celbi 2017 Environmental Statement available at: [http://www.altri.pt/~media/Files/A/Altri-V2/environment/CELBI\\_DA2017\\_EN\\_Web.pdf](http://www.altri.pt/~media/Files/A/Altri-V2/environment/CELBI_DA2017_EN_Web.pdf)

<sup>6</sup> Altri Group 2017 Sustainability Report available at: [http://www.altri.pt/~media/Files/A/Altri-V2/reports-and-presentations/reports/english/2017/ALTRI\\_Relat\\_Sustentabilidade\\_2017\\_EN.pdf](http://www.altri.pt/~media/Files/A/Altri-V2/reports-and-presentations/reports/english/2017/ALTRI_Relat_Sustentabilidade_2017_EN.pdf)

<sup>7</sup> Celbi 2017 Environmental Statement available at: [http://www.altri.pt/~media/Files/A/Altri-V2/environment/CELBI\\_DA2017\\_EN\\_Web.pdf](http://www.altri.pt/~media/Files/A/Altri-V2/environment/CELBI_DA2017_EN_Web.pdf)

<sup>8</sup> Altri Group 2016 Sustainability Report available at: [http://www.altri.pt/~media/Files/A/Altri-V2/reports-and-presentations/reports/english/2017/ALTRI\\_Relat\\_Sustentabilidade\\_2017\\_EN.pdf](http://www.altri.pt/~media/Files/A/Altri-V2/reports-and-presentations/reports/english/2017/ALTRI_Relat_Sustentabilidade_2017_EN.pdf)

groundwater pollution (TSS and COD), air emissions (SO<sub>x</sub>, NO<sub>x</sub>, VOCs), hazardous working conditions, potential negative impacts on local communities close to the operations and sourcing unsustainable biomass. To manage these risks, the following actions have been implemented:

- Celbi, which is owned by Altri Group, and operates the pulp mill that SBM's biomass project will be attached to adheres to operational standards to mitigate potential environmental and social risks associated with the development of a new biomass power plant, including Eco-Management and Audit Scheme (EMAS), ISO 9001, ISO 14001, ISO 50001 and OHSAS 18001.<sup>9</sup> Furthermore, the SBM facility to be funded by green bond proceeds will be covered by ISO 14001 and OHSAS 18001 through its parent-company Bioelétrica da Foz. Sustainalytics believes that certification to these standards demonstrates alignment with market practice and is adequate for mitigating associated environmental and social risks.
- The company has an accompanying set of sustainability policies, many of which are specifically targeted at mitigating environmental and social risks related to waste, pollution, worker's health and safety and stakeholder engagement. In addition to the EU and ISO accreditations, the company has developed a model for the assessment of environmental impacts, which defines the level of risk associated with environmental impacts of operational processes and has established control measures to reduce these risks. The model is publicly disclosed in the company's Environmental Statement.<sup>10</sup>
- Sourcing biomass from unsustainable sources may foster deforestation, depletion of carbon pool or competition with food production. The feedstocks for the proposed project will be sourced from Altri Florestal forest units which are certified under the FSC® and PEFC responsibly forestry certification schemes and from other controlled sources (private or public). Although the residual forest biomass is not a certified product, the use of residual forest biomass is considered by Sustainalytics to be in line with market practices. As such, Sustainalytics highlights that SBM will not use potentially controversial feedstock sources, including peat, palm oil and plastics, for example.

Based on the above Sustainalytics considers that SBM, its parent company and the broader Altri Group have implemented adequate measures to mitigate environmental and social risks associated with the construction and operation of a new biomass power plant.

### Section 3: Impact of Use of Proceeds

The use of proceeds categories is recognized as impactful by GBP. Sustainalytics has focused on two below where the impact is specifically relevant in local context.

#### The contribution of the framework to supporting Portuguese and European sustainability goals

SBM intends to use 100% of the green bond proceeds to invest into the development and maintenance of a biomass power plant. The plant is projected to generate 34.5 MWH/yr for the public electricity system, which will contribute to achieving the renewable energy goals outlined in Portugal's National Energy Strategy 2020 (ENE 2020). Specifically, the project will contribute to ENE 2020 renewable energy Axis 2 "Betting on Renewable Energy", which aims to promote the development of a national renewable energy industrial sector including the diversification of renewable energy types and a reduction in external dependence.<sup>11</sup> In addition, the Portuguese government has set a national target of 769 MW of biomass electricity by 2020. As of 2017, biomass energy was providing an estimated 5.1% (735 MWH) of the electricity produced in Portugal,<sup>12</sup> out of 43.3% total renewable energy. In comparison, wind power represented 21.6%, hydropower 15%, solar power 1.6% and the remaining 56.7% energy are still derived from fossil fuels, all of which comes from imported sources.<sup>13</sup> Sustainalytics considers the project to contribute to increase the locally produced renewable energy in Portugal.

<sup>9</sup> Celbi 2017 Environmental Statement available at: [http://www.altri.pt/~media/Files/A/Altri-V2/environment/CELBI\\_DA2017\\_EN\\_Web.pdf](http://www.altri.pt/~media/Files/A/Altri-V2/environment/CELBI_DA2017_EN_Web.pdf)

<sup>10</sup> Celbi 2017 Environmental Statement available at: [http://www.altri.pt/~media/Files/A/Altri-V2/environment/CELBI\\_DA2017\\_EN\\_Web.pdf](http://www.altri.pt/~media/Files/A/Altri-V2/environment/CELBI_DA2017_EN_Web.pdf)

<sup>11</sup> National Energy Strategy 2020 (ENE 2020) available at: <https://www.iea.org/policiesandmeasures/pams/portugal/name-24739-en.php>

<sup>12</sup> The use of biomass in Portugal available at:

[https://www.macedovitorino.com/xms/files/2017/The\\_use\\_of\\_biomass\\_in\\_Portugal\\_macedo\\_vitorino\\_associados.pdf](https://www.macedovitorino.com/xms/files/2017/The_use_of_biomass_in_Portugal_macedo_vitorino_associados.pdf)

<sup>13</sup> An Overview of the Portuguese Energy Sector available at: <https://www.mdpi.com/1996-1073/11/12/3259/pdf>

Furthermore, the project will contribute to two of the broader European 20-20-20 targets, which include (i) 20% reduction in CO<sub>2</sub> emissions compared to 1990 levels; (ii) 20% of the energy, based on consumption, coming from renewables.<sup>14</sup> Sustainalytics believes that the biomass power plant will increase Portugal's total production of biomass and contribute to both national and EU renewable energy goals. However, it is important to note that the power plant will rely on natural gas during start-up, shutdown and other operational transition situations that require supplementary power. Nonetheless, given the very limited contribution of natural gas in terms of energetic input, electricity production and GHG emissions, as confirmed by SBM, Sustainalytics views the project as impactful.

### Forest fire risk management using residual forest products for biomass

Portugal has one of the highest forest fire risk ratings in Europe and has adopted aggressive policies to help reduce the risk of forest fires<sup>15</sup>. In 2017 more than 500,000 hectares were burned, setting the record for the most land burnt in Portugal. Unmanaged forests and forests with high volumes of residual biomass, which act as fuel for forest fires in excessively dry climates, pose an increased risk for forest fires,<sup>1617</sup> highlighting the importance of ensuring these materials are managed appropriately. By creating a demand for the use of residual biomass, the SBM biomass power plant project has the potential to encourage the management of forests and reduce the overall amount of residual biomass, thereby indirectly reducing the risk of forest fires in Portugal. Given, that biomass will be sourced exclusively from residual forest materials resulting from Altri Group's forestry activities, Sustainalytics views SBMs biomass plant as an important driver of demand for these materials, which can contribute to a reduction of forest fire risk in the Portuguese context.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Pollution Prevention and Control	12. Responsible Consumption and Production	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment

### Conclusion

SBM, a wholly-owned subsidiary of Altri Group, has established the SBM Green Bond Framework with the intention of funding the development of a new biomass power plant project next to an existing pulp mill owned by Celbi, a partner company that is also owned by Altri Group. By focusing on reducing external dependence on fossil fuel-based electricity sources and adding renewable energy capacity to the grid, Sustainalytics is of the opinion that the project will help the company achieve its own sustainability goals while simultaneously contributing to Portugal's national energy policy targets, EU 20-20-20 targets related to renewable energy, energy efficiency and pollution prevention and control.

The company has clearly outlined the use of proceeds and determined eligible categories: renewable energy and pollution prevention and control, which are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers SBM's process for project selection and evaluation, management of proceeds

<sup>14</sup> 2020 Climate & Energy Package available at: [https://ec.europa.eu/clima/policies/strategies/2020\\_en](https://ec.europa.eu/clima/policies/strategies/2020_en)

<sup>15</sup> Portugal forest fire facts available at: <https://www.safecommunitiesportugal.com/forest-fires/>

<sup>16</sup> Forest fuel reduction available at: [https://www.srs.fs.usda.gov/pubs/ja/ja\\_bolding002.pdf](https://www.srs.fs.usda.gov/pubs/ja/ja_bolding002.pdf)

<sup>17</sup> Wildfires set to increase: could we be sitting on a tinderbox in Europe? Available at: <https://www.sciencedaily.com/releases/2018/03/180307100722.htm>



and reporting of allocation and impact to be aligned with market practice. Based on these points, Sustainalytics considers the SBM Green Bond Framework to be credible, impactful and transparent.

## Appendices

### Appendix 1: Overview of the SBM Biomass Power Plant Project

SBM will use the proceeds of this Green Bond to fund a biomass power plant project in Portugal. The biomass plant will be constructed at the Celbi industrial facility site, where there is already a similar biomass power plant owned by SBM's parent company. Celbi is a pulp production plant that produces bleached short-fibre pulp from eucalyptus. The biomass plant will produce net electricity generation of 34.5 MWt, all electricity not consumed by production site will be sold back to the Portuguese national grid. As such, the biomass plant will contribute to both national and EU renewable energy targets and reduce dependence on the use of fossil fuels. By providing an end-use for residual forest biomass, which can act as a fuel during forest fires, the power plant can help contribute to reducing the risk of forest fires in one of the EU's highest risk nations.

### Appendix 2: Sustainalytics' Analysis of FSC and PEFC Certifications

FSC and PEFC are both based on rigorous standards and on a multi-stakeholder structure. Both organizations are in line with international norms such as the International Labor Organization (ILO) conventions, the Convention on Biological Diversity (CBD), and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). In addition to compliance with laws in the country of certification, both schemes have a set of minimum requirements that companies are required to meet to obtain and maintain certifications. These requirements include compliance with standards around sustainable management of forests, management of environmental impact of operations, preservation of biodiversity, management of socio-economic and community relations, and sourcing of sustainable wood (chain of custody). Furthermore, both FSC and PEFC require external annual audits to ensure compliance and achieve and maintain certification. Despite these similarities, PEFC has faced certain criticisms from civil society actors. These are highlighted below:

- (i) **Type of organization:** Since the FSC is an international labelling and certification system, it sets its own global standards. The PEFC, in contrast, is not a standard setter, but a mutual recognition scheme. The PEFC sets sustainability benchmarks according to international norms and endorses national certification schemes that comply with these benchmarks. A common criticism of this model is that it allows for more flexibility in the interpretation of international PEFC benchmarks as per regional, cultural, and socio-economic context, and results in the endorsement of less rigorous national certification schemes. However, the process for being endorsed by the PEFC is thorough; any national certification system seeking to obtain PEFC endorsement must submit to a comprehensive assessment process, including independent evaluation and public consultation. This evaluation of compliance with international PEFC benchmarks is carried out by independent, accredited certification organizations.
- (ii) **Indigenous People's Rights:** FSC and PEFC both identify indigenous rights as an important standard in forest management. Both certification schemes require that forest management activities consider and do not infringe on indigenous people's rights, and the activities are carried out using frameworks ensuring their free and informed consent. A criticism of PEFC is that it requires only engagement with indigenous people in forest management decisions, while the FSC provides performance-oriented targets, and requires forest managers operating on indigenous lands to obtain indigenous people's consent through binding agreements.
- (iii) **Sourcing wood from non-certified sources:** Both FSC and the PEFC have established standards around sourcing wood from non-certified and controversial sources. FSC's standards direct forest managers to avoid wood harvested in violation of traditional and civil rights. A criticism of the comparable PEFC standard is that it limits identification of controversially sourced wood to situations where the local legislation is violated. However, PEFC standards explicitly reference the

violation of local, national, and international legislation with regards to worker's and indigenous people's rights as being a controversial source of wood.

## Appendix 3: Green Bond / Green Bond Programme - External Review Form

### Section 1. Basic Information

<b>Issuer name:</b>	Sociedade Bioelétrica do Mondego
<b>Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i></b>	Sociedade Bioelétrica do Mondego Green Bond Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	February 22, 2019
<b>Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i></b>	

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarize the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify)</i> :                        |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.



### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

- SBM will use the proceeds of the green bond to invest in a biomass power plant that will generate renewable energy to be used by Altri Group, SBM's indirect owner, and its affiliates, while simultaneously generating additional renewable energy capacity for Portugal's national energy grid. The eligible project is aligned with the Green Bond Principles 2018. SBM confirmed to Sustainalytics that the proceeds of the bond will go exclusively to financing the biomass power plant project and will not be used for re-financing of any kind.
- Sustainalytics notes that the SBM biomass power plant will rely on natural gas to a minimal extent in situational contexts, including start-up, shut-down transitions and emergency situations. At the request of Sustainalytics, the company has provided data on the expected significance of natural gas with regards to the energetic contribution to the boiler, electricity production and direct GHG emissions. Based on this disclosure, Sustainalytics is satisfied that the overall importance of fossil fuels is very limited. For example, SBM estimates that natural gas is expected contribute approximately 0.1% of energetic input to the boiler. Furthermore, SBM estimates the facility's future carbon intensity at approximately 125g CO<sub>2</sub>eq/kWh, which is above the threshold recommended by Sustainalytics<sup>18</sup> but nonetheless represents a major reduction compared to the average carbon intensity of Portugal's national electricity supply, which is 295g CO<sub>2</sub>eq/kWh. It is noteworthy that the expected emissions intensity of the facility was not calculated using a lifecycle assessment approach, and only considers direct emissions in relation to units of energy produced. As a result, the carbon intensity figure provided by SBM does not account for the carbon sequestration potential of the forests from which biomass feedstocks are harvested.
- While reliance on any fossil fuel use is generally to be avoided, the amount being used in the proposed power plant is seen as minimal, and, according to SBM, this minimal use is required for plant start-up, shut-down, transitions and emergency situations, as noted above. As such, Sustainalytics views this project to contribute to GHG reduction and to be aligned with the Green Bond Principles and market norms.
- The biomass power plant will make use of residual forest biomass which will be sourced from forest units managed by Altri Florestal, which are certified to the responsible forestry schemes of FSC® and PEFC and purchased from controlled sources to farmers and forest growers. Sustainalytics views these schemes as credible and residual biomass as an acceptable supply source.<sup>19</sup> Furthermore, as discussed in Section 3 of this document, by creating a demand for residual biomass, this project will help reduce the risk of forest fires.
- Furthermore, Sustainalytics positively notes the inclusion of technologies to limit emissions to air from the biomass power plant, nitrogen oxides, sulphur dioxide, and hydrochloric acid and hydrofluoric acid. These investments include ammonia-based solutions that react with emissions to render them less harmful, as well as filtering systems.

#### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy                 | <input type="checkbox"/> Energy efficiency   |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |

<sup>18</sup> Sustainalytics recommended carbon intensity for electricity generated from biofuels is 100g/CO<sub>2</sub>e/kWh, which is informed by the Climate Bonds Standard

<sup>19</sup> See Appendix 2 for Sustainalytics' view on FSC and PEFC certifications.

- |  |  |
|--|--|
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input type="checkbox"/> Clean transportation            |
| <input type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation       |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input type="checkbox"/> Green buildings                 |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other <i>(please specify)</i> : |

If applicable please specify the environmental taxonomy, if other than GBPs:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

- The project evaluation and selection process is facilitated by the Investment Working Group (IWG), which is formed by SBM directors who follow the mandate from Altri's Board of Directors. All proposed projects are screened by the IWG for their relevance to corporate social responsibility, before making their way to the Green Bond Committee (GBC), which is composed of members from several departments of Altri Group (namely, Engineering, Environmental & Sustainability, Forestry and Finance). The Green Bond Committee subsequently decides whether the proposed project aligns with eligibility criteria outlined in the Framework and should be pursued. Sustainalytics views the project evaluation and selection process established by SBM as consistent with market practices.

### Evaluation and selection

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives            | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                  | <input type="checkbox"/> Other <i>(please specify)</i> :  |

### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other <i>(please specify)</i> :   |  |

## 3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

- The net proceeds of the bond will be managed by the company's financial department. Tracking of disbursements to eligible green projects will be facilitated by an internal management system that will define the destination of cash-flows, set reserved accounts for the non-invested funds and periodically adjust the net proceeds to match allocations to the project. Proceeds not immediately disbursed to the project will be held. SBM may invest unallocated proceeds according to its liquidity and/or liability management activities. This is in line with market practice.

**Tracking of proceeds:**

- ☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other (*please specify*):

**Additional disclosure:**

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only                             | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                             | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other ( <i>please specify</i> ):                               |

**4. REPORTING**

Overall comment on section (if applicable):

- SBM will provide allocation reporting on an annual basis in its annual report, which will be accessible on the Altri website. The reporting will include the total amount of allocated funds, the unallocated amount and the remaining outstanding total. Additionally, the company will hire a third-party auditor to verify cash flows until full allocation. This demonstrates a best practice approach to reporting.
- In addition to allocation reporting, SBM intends to annually report on impact metrics related to renewable energy, and pollution prevention and control. The proposed metrics for these impact categories includes total installed renewable energy capacity, annual renewable energy production, GHG emissions avoided, nitrogen oxide (NOx), sulfur dioxide (SOx), hydrochloric and hydrofluoric acids (HCL/HCF).

**Use of proceeds reporting:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis     |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other ( <i>please specify</i> ): |

**Information reported:**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
|---|--|

☐ Other (please specify):
**Frequency:**
☒ Annual

☐ Semi-annual

☐ Other (please specify):
**Impact reporting:**
☒ Project-by-project

☐ On a project portfolio basis

☐ Linkage to individual bond(s)

☐ Other (please specify):
**Frequency:**
☒ Annual

☐ Semi-annual

☐ Other (please specify):
**Information reported (expected or ex-post):**
☒ GHG Emissions / Savings

☐ Energy Savings

☐ Decrease in water use

☒ Other ESG indicators (please specify):

- Total installed renewable energy capacity,
- Annual renewable energy production,
- Nitrogen oxide (NOx),
- Sulfur dioxide (SOx),
- Hydrochloric and hydrofluoric acids (HCL/HCF)

**Means of Disclosure**
☐ Information published in financial report

☒ Information published in sustainability report

☐ Information published in ad hoc documents

☐ Other (please specify):

☒ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): Allocation of funds will be third-party verified.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

[Altri Group website](#)  
[Altri Group 2017 Sustainability Report](#)  
[Celbi 2017 Environmental Statement](#)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**
**Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input checked="" type="checkbox"/> Verification / Audit             | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

Review provider(s):

Date of publication:

**ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. Second Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognized external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialized research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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