



# Wallenius Wilhelmsen ASA Sustainability-Linked Financing Framework Second Opinion

2 February 2022

**Wallenius Wilhelmsen (“WalWil”) is a provider of integrated vehicle logistics services, which is headquartered in Oslo, Norway and listed on the Oslo Stock Exchange.** The company specializes in the distribution of cars, trucks, rolling equipment and breakbulk.

**WalWil has a climate strategy in place that entails decarbonizing its fleet and land-based logistics operations.** This includes an emissions reduction target for its Shipping Services’ emissions (99% of Scope 1 and 2 emissions; the other 1% come from land-based Logistics Services). The company is implementing the TCFD recommendations and assessed its physical and transition climate risks in 2021. WalWil intends to strengthen its climate risk management and conduct scenario analysis in 2022, including physical risk assessment of land-based assets and supply chains.

**A Shade of Green was assigned to 13% of WalWil’s revenues; shadings reflect the climate risk of WalWil’s cargo, factoring in the firm’s current reliance on fossil fuels.** Medium Green revenues (5%) are from shipments of battery electric vehicles (BEVs) and parts for renewable energy generation. Light Green revenues (8%) pertain to hybrid electric vehicles and rail cars. Red revenues (1%) are from cargo which may link to high climate risk activities, e.g. fossil fuel production and deforestation. Remaining revenues received a Yellow shading (86%), reflecting cargo with moderate to moderately high climate risk.

**CICERO Green assesses the framework’s sole KPI: WalWil’s fleet average carbon intensity, using the Carbon Intensity Indicator (CII) as measured by cgDIST (CO<sub>2</sub> emissions per gross ton-mile) as material, strategically significant, and backed by a robust and transparent methodology.** Investors should be aware that the KPI does not include WalWil’s land-based emissions or Scope 3 and non-CO<sub>2</sub> GHG emissions; as such it would not capture potential future emissions from newbuilds, possible methane leaks from planned LNG use, and sourcing of alternative fuels.

**WalWil’s sustainability performance target (SPT) to reduce its KPI by 27.5% over 2019-2030 translates into absolute emissions reductions that align with the Paris Agreement/1.5-degree goals, but only when also factoring in WalWil’s historical reductions in a 2008-2030 timeframe.** The SPT’s ambition exceeds the 2030 target in IMO’s GHG strategy. WalWil’s strategy to achieve the SPT is credible and depends on efficiency gains from operational/technical improvements. It also entails building new LNG dual-fuel vessels and new ships powered by wind and as-yet commercially unavailable fuels. Although the LNG vessels can be retrofitted to run on low-carbon fuels, their emissions may be locked-in as long as such fuels remain commercially unavailable at scale. We further assess the SPT as ambitious vs own performance in requiring new technological innovation, as well as aligned with peer ambitions when compared with the average annual intensity reductions entailed by their 2030 targets.

CICERO Green has not reviewed the degree to which the variation in the financial characteristics is commensurate and meaningful. Investors are encouraged to review the term sheets in detail and conduct their own assessment of the financial characteristics of the SLBs.

Included in the overall shading is an assessment of the governance structure of the sustainability linked bond framework. CICERO Shades of Green finds the governance procedures in Wallenius Wilhelmsen’s framework to be **Good**.



## SUSTAINABILITY LINKED BOND PRINCIPLES

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

## SUSTAINABILITY LINKED LOAN PRINCIPLES

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



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# 1 Assessment of Wallenius Wilhelmsen's activities and sustainability governance

## Company Description

Wallenius Wilhelmsen (“WalWil”) is a provider of integrated vehicle logistics services, which is headquartered in Oslo, Norway and listed on the Oslo Stock Exchange. The company specializes in the distribution of cars, trucks, rolling equipment and breakbulk. The company’s main brands include Wallenius Wilhelmsen Ocean, Wallenius Wilhelmsen Solutions, EUKOR, ARC, Armacup, and Keen.

WalWil operates two main business units, Shipping Services and Logistics Services:

- **Shipping Services** includes WalWil’s ocean transportation activities, servicing 16 trade routes and six continents. WalWil’s controlled fleet includes 129 owned, long-term charter, and short-term charter vessels as of Q3 2021. 52 are Roll-on Roll-off (RoRo) vessels, which specialize in carrying vehicles, equipment, and breakbulk cargo, such as equipment and machinery used in the power, aviation, rail sectors and oil & gas sectors.
- **Logistics Services** includes WalWil’s land-based operations. These include 66 vehicle and equipment processing centers, nine marine terminals, and 11 inland distribution networks, as well as its supply chain management services.

WalWil employs around 8,200 people in 29 countries worldwide and had annual revenues of USD 2,958 million in 2020.

## Background Information on the Shipping Sector

Emissions from shipping account for 3% of global GHG emissions and have increased in recent years.<sup>1</sup> This share is expected to increase further as shipping volumes are projected to grow and as other sectors can decarbonize more easily. International shipping is not covered by the Paris Agreement but regulated under the International Maritime Organization (IMO). The initial IMO Strategy on reduction of GHG emissions from ships (2018<sup>2</sup>, to be revised in 2023) contains three targets:

1. Reduce carbon intensity by at least 40% by 2030, pursuing efforts towards 70% by 2050, compared to 2008.
2. Total GHG emissions should peak as soon as possible and fall by at least 50% by 2050 compared to 2008.
3. Phase out emissions as soon as possible within this century

The demand for seaborne trade is projected to grow by 39% until 2050.<sup>3</sup> The 2050 IMO target thus requires approximately 30%-40% share of carbon-neutral fuels in world fleet energy, in addition to improving energy efficiency through operational and technical improvements. Zero-emissions technologies so far have only been implemented for short distances and small ships, while 80% of the sector’s emissions are from long-distance

<sup>1</sup> <https://www.imo.org/en/OurWork/Environment/Pages/Fourth-IMO-Greenhouse-Gas-Study-2020.aspx>

<sup>2</sup> <https://www.imo.org/en/MediaCentre/HotTopics/Pages/Reducing-greenhouse-gas-emissions-from-ships.aspx>

<sup>3</sup> <https://www.imo.org/en/OurWork/Environment/Pages/Fourth-IMO-Greenhouse-Gas-Study-2020.aspx>



freight. Developing zero-emissions technologies, on top of operational and technical improvements for long distance trade is therefore necessary for reaching the IMO targets.

Research suggests that a doubling of ambition level from the IMO 2050 target is necessary for ensuring that the shipping sector contributes to achieving the Paris Agreement and 1.5-degree goal.<sup>4</sup> Also, the IMO targets are for tank-to-wake emissions and not well-to-wake emissions, i.e. they do not include Scope 3 emissions. This may discourage companies from investing in renewable fuels that are only low-carbon on a full life-cycle basis, e.g. biofuels (see below).

More generally, the urgent need to accelerate the decarbonization of the shipping sector places further emphasis on the importance of low-carbon fuel technologies alongside the broader array of potential demand and supply-side changes.<sup>5</sup> Compared to short sea shipping, deep sea shipping in particular poses a major challenge due to the long duration that ships must sail without refueling. This creates substantial barriers to adopting low-carbon fuels pertaining to onboard fuel storage and port refueling infrastructure.

Prospective low-carbon fuels can be broadly grouped into three categories: liquid and gaseous biofuels (e.g. biodiesel, biomethanol, biomethane), synthetic carbon-based fuels (e-methanol, e-methane), and non-carbon based fuels (e.g. ammonia and hydrogen). As both biofuels and synthetic carbon-based fuels emit CO<sub>2</sub> when combusted, they are only low carbon on a full life-cycle basis. In all cases, the carbon neutrality of the fuel depends on the production process and feedstock. In the case of biofuels, avoidance of direct and indirect land use change in feedstock production is crucial. CO<sub>2</sub> feedstock for synthetic carbon-based fuel production should come from biogenic CO<sub>2</sub> or direct air capture, as opposed to fossil fuel combustion. Hydrogen, whether for direct fuel use or as feedstock for production of ammonia or synthetic fuels, should be green, i.e. produced using electrolysis and renewable energy. This also applies to ammonia production.

Biofuels can be used with little to no ship engine modifications or in existing internal combustion, and synthetic carbon-based fuels can be used in internal combustion engines, e.g. purpose-built methanol engines and LNG engines. Both fuel types face competition from other transportation sectors and limited supply of feedstock. Ammonia is considered more viable than hydrogen due to the availability of existing transport and handling infrastructure, as well as its higher energy density, which also makes it easier to store and transport. Both fuels are highly flammable and requires substantial safety measures,<sup>6</sup> and ammonia has the added challenge of being highly toxic.

Wind power is also a zero-carbon propulsion system and can provide 5-20% of energy for motorized vessels, with potentially higher energy savings depending on routes. Limitations to wind propulsion primarily pertain to availability of deck space, which constrains retrofit potential, as well as compatibility with port operations and regulations pertaining to navigational line-of-sight.

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<sup>4</sup> <https://www.tandfonline.com/doi/full/10.1080/14693062.2021.1991876>

<sup>5</sup> Information in this section on zero-carbon shipping technologies is from the International Renewable Energy Association: [https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2021/Oct/IRENA\\_Decarbonising\\_Shipping\\_2021.pdf](https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2021/Oct/IRENA_Decarbonising_Shipping_2021.pdf)



## Sector Risk Exposure

The below text box highlights some key risks for the shipping sector in general.



**Physical climate risks:** Acute climate risks, e.g. more frequent and extreme storms and coastal flooding, and chronic climate risks, e.g. sea level rise, could increasingly disrupt and damage ocean and land-based activities, as well as supply chains. Vulnerability and impacts will depend on the type and location of physical assets, and insurance coverage may be increasingly difficult to secure or expensive.

**Transition climate risks:** Carbon pricing and border tax adjustments will affect competitiveness and demand for different countries' exports, in turn affecting shipping and logistics demand. Efforts by shipping sector clients to reduce Scope 3 emissions will lead to increased demand for zero or low-carbon shipping. IMO regulations related to climate change will create increased regulatory compliance costs.

**Environmental risks:** Air and water pollution from ships during operation and decommissioning creates regulatory and reputational risks. Regulatory and reputational risks also stem from the potential transport of invasive species via ballast water tanks, as well as airborne and waterborne noise pollution.

**Social risks:** Due to potential for workers in ship recycling to be underpaid and exposed to hazards ship owners face regulatory and reputational risks by not properly disposing of ships. Shipping companies also face reputational damage, operational disruptions and liabilities from workplace injuries, due to exposure of worker to risks from cargo handling, machinery, and extreme weather.

## Governance Assessment

WalWil has developed a medium-term (2030) GHG emissions intensity reduction target for Scope 1 and 2 emissions from its Shipping Services. It identifies this target as aligned with a well-below 2-degree scenario, based on guidance from the Science-Based Targets Initiative (SBTi), although the target has not yet been officially validated. WalWil has also identified sustainability objectives relevant to the remaining <1% of its Scope 1 and 2 emissions from its land-based Logistics Services. However, the company does not report on Scope 3 emissions, although it has estimated them. We note that WalWil's Scope 3 emissions could both decrease and increase in relevance as it implements its decarbonization strategy. We also note that WalWil's Scope 3 emissions accounting does not include emissions associated with its cargo, e.g. from the use of vehicles and equipment transported, and its sustainability reporting does not otherwise reflect climate-related transition risks pertaining to its cargo. We encourage WalWil to report KPIs related to the climate risk exposure of its cargoes, e.g. as captured in our shading of its revenues. See Emissions section for further details on WalWil's emissions and targets.

WalWil is in the early stages of implementing the Recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). In addition to measuring emissions and setting targets, this includes elevating climate and sustainability to have board-level oversight. According to WalWil, sustainability is generally an agenda item at board meetings, and sustainability risk updates are integrated in the quarterly update to the board. The company's CEO has ultimately responsibility for sustainability, which is overseen by its Chief Sustainability Officer. WalWil has shared that its senior management's remuneration is linked to sustainability KPIs, including emissions intensity, ESG rating, and diversity.



WalWil also identifies and assesses climate-related risks on an ongoing basis as part of its risk management processes and has identified extreme weather, regulatory costs of carbon, access to and cost of capital, and technology risk as its primary climate risks. WalWil conducted a climate risk assessment in 2021 that included workshops, internal interviews and document review. Although WalWil has identified physical climate risks such as extreme weather, it does not disclose how it integrates considerations for climate resilience into its operations and decision-making processes. The company has shared that it plans to strengthen its climate risk assessment processes by Q1 2022 and aims to conduct climate scenario analysis in 2022. This will include physical risk assessments of its land-based assets and supply chains and identification of mitigation options.

In addition to its focus on climate change, WalWil's wider sustainability strategy encompasses other focal areas it identified through a materiality assessment as material to WalWil's business and its stakeholders. These include: environmental emergency preparedness of ships, ship recycling, biodiversity, air quality, water and waste. WalWil reports on related KPIs and has relevant policies in place.

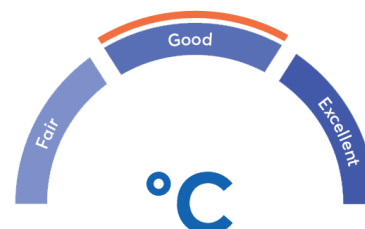
According to WalWil, it has responsibly recycled its ships since 1999, and the company has a publicly available Responsible Vessel Recycling Policy (October 2019). WalWil also discloses how the policy aligns with the Ship Recycling Transparency Initiative, to which it is a founding signatory. WalWil also discloses a list of recycled vessels that includes the entities responsible for selling and recycling each ship and the shipyard where it was recycled.

WalWil's Supplier Code of Conduct requires suppliers to reduce GHG and non-GHG emissions, lower their consumption of energy, water and natural resources, increase renewable energy use, and minimize waste generation, as well as to establish KPIs and targets for improving their environmental performance. WalWil does not yet have specific targets in place for its suppliers and does not disclose the steps it takes to monitor and audit supplier compliance with the code. It is also unclear how life cycle assessments factor into WalWil's decision-making processes for its supply chain and wider operations. The company has shared that it is currently developing its strategic approach to monitoring and reducing emissions through supplier engagement.

WalWil's considerations for social risks include specific prohibitions on human trafficking and the purchase, supply and use of conflict minerals. It also addresses worker health and safety, as well as the safety and human rights of workers working in ship recycling, as outlined in its Responsible Vessel Recycling Policy.

WalWil has published annual sustainability reports under its current name since 2017 and as its predecessor company since 2009. Its most recent report (2020) is embedded in its annual report and prepared in line with reporting frameworks developed by the Global Reporting Initiative and the Sustainability Accounting Standards Board. WalWil's sustainability reports are not subject to third party assurance.

The overall assessment of Wallenius Wilhelmsen's governance structure and processes gives it a rating of **Good**. Key areas for improvement include implementation and use of climate scenario analysis as a strategic decision-making tool, development of a climate adaptation strategy, quantified targets for supplier sustainability, and greater transparency around supplier monitoring and transparency.





### Wallenius Wilhelmsen's Emissions

WalWil's emissions for 2017-2020 are summarized in the table below. Total Scope 1 and 2 emissions in 2020 were 3,778,748 tCO<sub>2</sub>eq. Around 99% of the total was from its Shipping services, i.e. emissions released from combustion of fossil fuels for propulsion and onboard generation of steam and electricity. The 2020 figure represented a decline in emissions of 28% from 2017. Over the same period, emissions intensity from WalWil's Shipping Services declined by 7.6% from 36.26 g/tonne-km to 33.51 g/tonne-km indicating that declining activity was a bigger driver of emissions reductions than efficiency gains. Much of this was linked to the COVID-19 pandemic's impact on shipping demand in 2020, WalWil's total Scope 1 and 2 emissions declined by 20% from 2019, but emissions intensity increased by 0.5%. In contrast, WalWil's total Scope 1 and 2 emissions in 2019 represented a decline of 10% from 2018, while emissions intensity decreased by 7%.

Emissions	2017	2018	2019	2020
CO <sub>2</sub> eq intensity from Shipping Services (g/tonne-km)	36.26	35.88	33.33	33.51
Scope 1 emissions from Shipping Services (tCO <sub>2</sub> eq)	5,223,028	5,240,419	4,687,389	3,764,260
Scope 2 emissions from Shipping Services (tCO <sub>2</sub> eq)	0	0	0	0
Scope 1 emissions from Logistics Services (tCO <sub>2</sub> eq)	n.a.	6,902	8,005	8,322
Scope 2 emissions from Logistics Services (tCO <sub>2</sub> eq)	n.a.	n.a.	6,611	6,166
Total Scope 1 and 2 emissions (tCO <sub>2</sub> eq)	5,223,028	5,247,321	4,702,005	3,778,748

WalWil does not report its Scope 3 emissions, which are also not included in its corporate emissions reduction target. It has shared that it has estimated Scope 3 emissions for 2020, which were 1,966,249 tCO<sub>2</sub>, or 34% of its Scope 1, 2 and 3 emissions. 48% of its Scope 3 emissions, were related to fuel and energy, 43% to upstream transportation and distribution, and 6% to capital goods (i.e. vessels and other vehicles).<sup>7</sup>

WalWil committed to setting a decarbonization target via the Science-Based Targets Initiative (SBTi) in April 2021 and has prepared a target but has not yet submitted it for validation. According to WalWil, this target entails reducing WalWil's Scope 1 and 2 emissions intensity (measured in gCO<sub>2</sub>eq/tonne-km) by 27.5% by 2030 from a 2019 baseline, and is aligned with a well-below 2-degree scenario. WalWil has shared that, together with peers it is engaging with the SBTi on its target-setting guidance and tool for maritime transport. Once these have been finalized, the company will examine the implications for its target.

In 2020, WalWil also set three milestones to address its climate impacts, including:

- ✓ All new equipment at terminals and yards to be zero-emission by 2023
- ✓ All owned global feet vessels equipped for zero-emissions at berth by 2025
- ✓ 100% of energy from sustainable sources by 2050.

To date, WalWil has reduced its emissions intensity by improving the efficiency and performance of its vessels. These efforts have included vessel performance management to optimize fuel usage, optimizing the utilization of its fleet, hull fouling management to reduce drag, and occasional retrofits and installation of emissions abatement systems. Moving forward, WalWil's emissions reduction efforts for its Shipping services will continue to focus on operational improvements and technological innovation. See section "Initiatives and strategy to achieve the SPT" for further details on its future efforts.

<sup>7</sup> This estimate was performed as part of WalWil's preparation to set a Science-Based Target; 40% is the threshold at which the Science-Based Targets Initiative requires companies to include their Scope 3 emissions in target-setting.



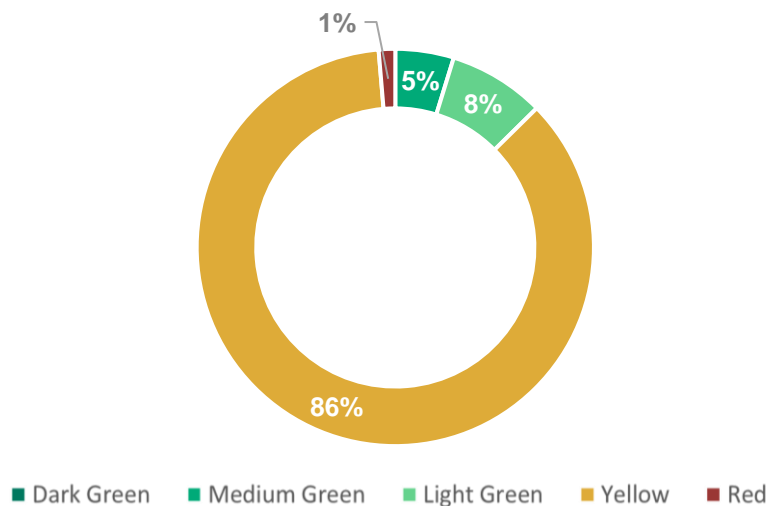
WalWil's Scope 1 and Scope 2 emissions from its land-based Logistics services were 14,488 tCO<sub>2</sub>eq in 2020. These emissions are from electricity generation and fuel use in WalWil's vehicle processing centers, vehicle distribution centers and ocean terminals, and vehicles that it operates. WalWil's Logistics services emissions increased between 2018 and 2019 due to a 5% increase in hours worked and 10 more land-based facilities reporting on their emissions. To date, WalWil's efforts to manage Logistics Services' emissions include installation of solar panels and/or LED lighting at a number of facilities and purchasing renewable electricity. WalWil's reporting on land-based emissions does not currently include all of its offices. WalWil has also yet to collect and report data on renewable energy purchases but shared that it is currently looking into doing so and also setting a target for renewable energy use. WalWil does not report an emissions intensity figure for its Logistics Services.

### Assessment of Wallenius Wilhelmsen's Revenues

According to CICERO Green's methodology, a Shade of Green should be allocated to the issuer's revenue streams according to how these streams reflect alignment of the underlying activities towards a low carbon and climate resilient future and taking into account governance issues. (See methodology page for further details on shading).

WalWil transports a range of cargo, including vehicles, equipment, and breakbulk, such as equipment and machinery used in the power, aviation, rail and oil & gas sectors. Our analysis is based on WalWil's 2020 annual revenues of USD 2,958 million,<sup>8</sup> broken down by cargo descriptions and groupings provided by WalWil. The shading is based primarily upon the end use of the cargo, as well as climate impacts in its production where relevant. WalWil's current and total reliance on fossil fuel powered vessels was also factored in across the board.

Shades of Green by annual revenue 2020



A Shade of Green has been assigned to 13% of WalWil's revenues; 5% is Medium Green and 8% is Light Green. Medium Green revenues are associated with WalWil's transport of cargo that supports economic activities already aligned with a low carbon and climate resilient future. This includes commercial, industrial and passenger battery electric vehicles (BEVs) and components and machinery used in renewable energy generation. Hybrid vehicles that WalWil transports are shaded Light Green as they can support the development of EV-supportive charging infrastructure but are still directly fossil fuel dependent and have some emissions. Light Green revenues also include railcars and rail equipment, which are a low carbon transportation mode. According to WalWil, this

<sup>8</sup> The analysis excludes 0.7% of 2020 revenues due to data sharing restrictions. According to WalWil, this revenue is most likely related to the automotive segment.





category does not include locomotives and only pertains to passenger rail, i.e. there is no possibility that it would be used to transport fossil fuels.

The approach to assigning Green shadings was conservative in general; WalWil indicates a high level of confidence in identifying Light and Medium Green shaded revenues based on information including client names, actual vehicle model/equipment names, and manufacturer's product mixes (i.e. breakdown of BEV/hybrid vs conventional models), as well as the actual cargo carried. In the absence of such information, all other cargo was assumed to be non-Green. As such, there may be elements of Green in Yellow-shaded revenues, but it is not possible to specify these further without additional information about the cargo.

A Yellow shading has been assigned to the 86% of revenues that WalWil derives from transporting the following categories of cargo:

- Commercial and passenger vehicles powered by internal combustion engines
- Machinery used for production of passenger and commercial vehicles
- Aircraft, aircraft components and associated production machinery
- Boats and yachts
- Steel and metal products
- General machinery components

This shading reflects these cargoes' association with sectors that are associated with GHG emissions, exposed to climate risks, and need to be decarbonized, but are not fundamentally incompatible with a low-carbon and climate resilient future, e.g. aircraft and conventional vehicles. That being said, some of these cargoes may come close to a Red shading given their emissions intensity, e.g. aircraft or certain classes of boats and yachts. Cargo in this shading may have also qualified for a shade of Green but received a Yellow shading due to insufficient information on which to base a shading. For example, a portion of vehicle production machinery is used for battery electric vehicle production, which would have been shaded Medium Green in the context of this report. Additionally, some cargo in the "steel and metal products" and "general machinery components," which together account for 1% of revenues, may be Red due to their possible end use in fossil fuel production. For instance, WalWil has shared that the majority of cargo in "steel and metal products" is used for construction but cannot rule out the possibility that some is used for oil tanker construction and in mining. It has not been possible to separate this out due to lack of information.

Finally, a Red shading has been assigned to the 1% of revenues that WalWil derives from the following categories of cargo:

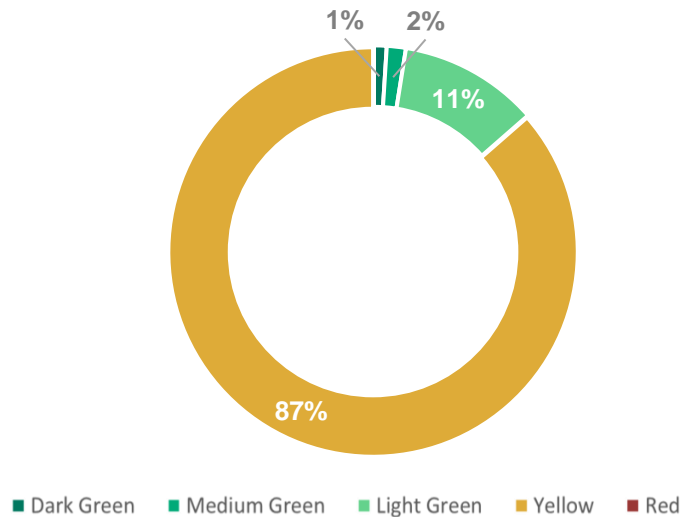
- Components for non-renewable power generation
- Mining equipment
- Forestry products
- Natural rubber

This shading reflects cargo categories that are known by WalWil to be Red, e.g. components for non-renewable power generation, which WalWil informs are mostly linked to natural gas infrastructure. The Red shading also reflects a conservative approach for certain cargo categories, recognizing the high likelihood that these cargoes directly support or result from activities with the highest level of emissions and climate risks, e.g. deforestation in the production of forestry and natural rubber products and the use of mining equipment for coal production.



## Wallenius Wilhelmsen's Investment Plans

### Shades of Green by planned 18-month capex



A Dark Green shading has been assigned to 1% of WalWil's 18-month capex. This includes capex on wind turbines and electric equipment, which support WalWil's plans to reduce emissions at its land-based facilities. According to the company, this includes sourcing renewable energy, replacing fossil fuel powered equipment and vehicles such as forklifts, vans, minibuses, etc. with electric equipment and vehicles, as well as investments in charging stations. WalWil has clarified that these vehicles and equipment will be fully battery electric. Electrification is widely regarded as key for decarbonizing land transport.

A Medium Green shading has been assigned to 2% of WalWil's 18-month capex. This includes expenditures on energy efficiency improvements to its logistics centres, e.g. installation of LED lighting in warehouses. WalWil has not specified a minimum threshold for energy efficiency improvements but indicates that it expects "meaningful reductions" in power consumption and related operational expenditures from these investments. WalWil has clarified that none of these investments improve the efficiency of fossil fuel heating systems.

A Light Green shading has been assigned to 11% of WalWil's 18-month capex, which includes ship energy efficiency improvements (e.g. engine retrofits, hull cleaning, and operational improvements) and the installation of ballast water treatment systems (BWTS). BWTS are required to ensure that ships' exchange of ballast water does not lead to the spread of invasive species, which can negatively impact local marine ecosystems and reduce their resilience to climate change.<sup>9</sup> Even if energy efficiency and BWTS investments are important for climate mitigation and adaptation, the shading reflects their installation on fossil fuel-powered vessels that will eventually need to be phased out. Light Green capex also includes WalWil's investment in groupwide sustainability management and reporting systems in order to align with the ISO 9001, 14001 and 45001 standards.

A Yellow shade has been assigned to the remaining 87% of WalWil's 18-month capex. The greatest proportion pertains to drydocking. According to WalWil, vessels are required to dry dock at least once every five years and involves inspection, cleaning, repairing, sandblasting and repainting of the hull, in addition to general upgrades and maintenance. This would include installation of energy efficiency measures, which have been split out and included under the Light Green shading. The next largest proportion is for a newly built vessel; whereas this

<sup>9</sup> <https://www.iucn.org/resources/issues-briefs/invasive-alien-species-and-climate-change>



investment does entail lock-in of emissions for this vessel's useful life, a Yellow shading has been assigned to reflect the hard-to-abate nature of the shipping sector.

The remaining, Yellow-shaded capex includes growth, maintenance and improvement capex, as well as the remaining required installation of scrubbers on vessels in WalWil's fleet and investments IT systems and strategic projects. According to WalWil, growth capex includes its acquisition of DeGould, a provider of automated vehicle inspections systems, and maintenance capex includes maintenance of fossil fuel vehicles and other assets. The installation of scrubbers could potentially be considered for a green shading in light of its benefits for reducing local environmental pollution, but a Yellow shading was assigned to reflect the possibility that they extend the useful lives of fossil fuel powered vessels.

### **Initiatives and strategy to achieve the SPT**

The shipping sector needs a dual-track approach to decarbonization that combines short-term efficiency gains from operational and technical measures with accelerated efforts to scale and commercialize alternative fuels and propulsion technologies for the longer-term. An exclusive focus on the former risks delaying the introduction of large-scale changes required to decarbonize the sector; this is a risk that is applicable across the sector. In this respect it is important that WalWil has outlined a suite of measures to achieve its SPT that include technical, operational, and asset replacement initiatives across the course of 2019-2030. However, we note that it has not yet committed to any new vessels for reasons highlighted below, and that its existing public collaborations on alternative fuel technologies do not yet extend to fuels it believes more viable in the long-term, e.g. ammonia and methanol.

#### *Operational and technical initiatives*

WalWil expects that technical and operational measures will account for 50% of the emissions intensity reductions required to achieve its SPT. These will focus on improving the fuel consumption of its existing fleet and will be the sole driver of emissions intensity reductions until 2024, when emissions intensity reductions from asset replacement will start to increase in influence on the KPI. Technical improvements include enhancing the energy efficiency of ship machinery and systems and bettering propulsion efficiency through hydrodynamic improvements, e.g. hull cleaning and proactive biofouling protection. Operational improvements include optimization of ballast, engines, and operations, e.g. through improving data analytics, slow steaming, improved routing and better interfacing between marine terminals and vessels. We do not perceive any immediate climate-related risks associated with these initiatives, provided that they do not unduly prolong the life of fossil fuel vessels.

#### *Asset replacement strategy*

WalWil expects that asset replacement will account for around 50% of the emissions intensity reductions required to achieve its SPT. This involves commissioning new ships or chartering modern vessels long term from other owners, the first of which will need to be operational in 2025. Due to the long lead time for new ship construction, the company expects it will have to place its first orders by 2022-23. Initial newbuilds will be LNG dual-fuel vessels that can be converted to run on low or zero-carbon fuels, with expected introduction of these fuels from 2025-2027. Wind-powered ships are expected to enter the fleet from 2027. WalWil has not specified which alternative fuels it believes to hold the most promise; its options include ammonia and methanol. The carbon neutrality and viability of such fuels depends respectively on feedstocks and the successful scaling of supply and supporting infrastructure (see Background Information on the Shipping Sector section).

LNG vessels already exist, and the fuel can offer 20-30% emission reductions compared to liquid fossil fuels.<sup>10</sup> Considering supply and supporting infrastructure compared to emerging alternatives, LNG may be among the best

<sup>10</sup> <https://www.sciencedirect.com/science/article/pii/S0196890418314250>

'Second Opinion' on Wallenius Wilhelmsen's Sustainability-Linked Financing Framework



options that are viable today for deep sea shipping. WalWil plans to ensure that the LNG dual-fuel ships can be converted to run on other fuels, e.g. ammonia, bio-LNG, and methanol. Regardless, investment in LNG propulsion systems may lock in emissions, at least until alternative low-carbon fuels become commercially available at scale, which is not guaranteed. This is an issue that is relevant to the wider shipping sector. Investments in LNG vessels are hence still associated with climate transition risks.

In addition to CO<sub>2</sub> emissions from combustion, LNG engines may release unburned methane, known as “methane slip.” Due to methane’s high global warming potential, the potential for emissions reductions from LNG use is affected by the extent of methane slip, which in turn depends on engine technology. According to WalWil, it will most likely be considering high-pressure LNG diesel-cycle engines, for which methane slip is limited to ~0.2% of total throughput.<sup>11</sup> In comparison, low-pressure technologies have methane slip of around 2-5% of throughput.<sup>12</sup> It has been estimated that total methane emissions of 5.5% over the LNG fuel’s life cycle (i.e. including emissions in the supply chain) would place LNG use in line with diesel in terms of climate impacts.<sup>13</sup> The IMO signaled in 2019 that it would consider concrete proposals to regulate the issue;<sup>14</sup> use of LNG may thus pose regulatory risks to WalWil.

The final part of WalWil’s asset replacement strategy is the development of a wind-powered pure car and truck carrier (PCTC). The company expects to have two in service by 2027 and another two by 2030. According to WalWil, such vessels offer CO<sub>2</sub> reductions of up to 90% per voyage from current vessels. The wind-powered PCTCs would still require supplemental propulsion systems. According to WalWil, the first two PCTC vessels will be dual-fuel, ammonia-ready LNG vessels, with the expectation that the next two will be powered by ammonia.

In summary, the success of WalWil’s asset replacement strategy is highly contingent upon the successful future scaling and commercialization of alternative fuels. Shipping companies can play a role in addressing this challenge by catalyzing demand for such fuels by commissioning new vessels at scale, in order to solve the ‘chicken and egg’ problem of simultaneously insufficient supply and demand. In the absence of a supportive policy environment, this would entail a substantial risk, although this could be mitigated with dual-fuel engine technology.

WalWil has not yet made such a commitment and shared that commissioning vessels powered by future fuels such as ammonia is not possible due to the considerations around the state and future development of supply and bunkering infrastructure. To help address such issues with alternative fuels, WalWil has shared that it is currently exploring conversations with potential future fuel providers, insurers and engine manufacturers around future fuels. This includes participating in a biofuel trial<sup>15</sup> and collaborating with sector peers, clients and academia on R&D for lignin-based biofuels.<sup>16</sup> The company has however not disclosed any participation in collaborative efforts to advance the technology for other fuels that it views as a more viable long-term solution than biofuels, e.g. ammonia and methanol.

<sup>11</sup> <https://www.sciencedirect.com/science/article/pii/S0196890418314250>

<sup>12</sup> <https://www.sciencedirect.com/science/article/pii/S0196890418314250>

<sup>13</sup> <https://www.dnv.dk/Publications/the-fuel-trilemma-position-paper-28039>

<sup>14</sup> <https://www.imo.org/en/OurWork/Environment/Pages/GHG-Emissions.aspx>

<sup>15</sup> <https://www.walleniuswilhelmsen.com/insights/alternative-fuels-for-sustainable-shipping-wallenius-wilhelmsen-trials-biofuels>

<sup>16</sup> <https://www.offshore-energy.biz/maersk-wallenius-wilhelmsen-to-lead-development-of-leo-fuel/>



## 2 Wallenius Wilhelmsen's Sustainability Linked Financing Framework

### Description of the Sustainability Linked Framework

WalWil has developed a sustainability linked financing framework with one KPI and SPT, focused on reducing the carbon intensity of its shipping operations by 27.5% by 2030 from a 2019 baseline, following the trajectory presented in its framework. The financial characteristics of any securities issued under the framework will change if WalWil's performance on the KPI, at target observation dates specific to each security, does not comply with the SPT trajectory.

### Selection of Key Performance Indicators (KPIs)

WalWil has selected the following KPI:

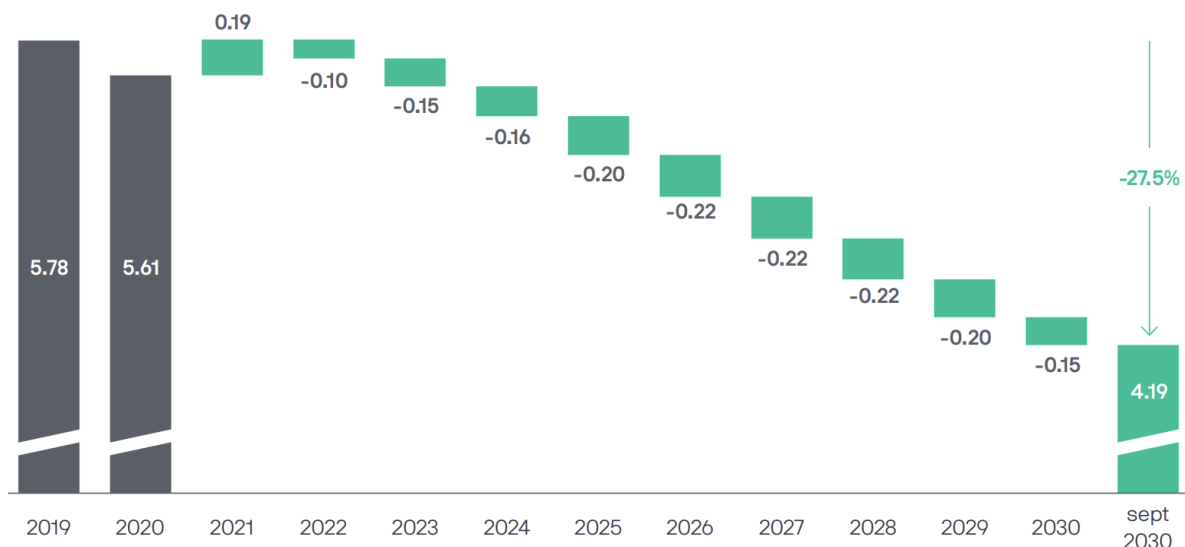
- ✓ Average carbon intensity for WalWil's fleet of owned and long-term charter vessels. The carbon intensity per vessel is Carbon Intensity Indicator (CII) as measured by cgDIST, or CO<sub>2</sub> emissions per gross ton-mile (unit: grams of CO<sub>2</sub> per gross ton-mile, or gCO<sub>2</sub>/GT-nm)

### Calibration of the Sustainability Performance Target (SPT)

WalWil's Sustainability Performance Target is:

- ✓ Reduce the KPI, as defined above, by 27.5% by 2030 compared to 2019

The SPT entails reducing the KPI from a 2019 baseline of 5.78 gCO<sub>2</sub>/GT-nm to 4.19 gCO<sub>2</sub>/GT-nm by 2030. This corresponds to an annual average reduction of 2.5%. The actual trajectory outlined by WalWil is reproduced in the table and chart below. WalWil indicates that 2019 is an appropriate baseline year as the last year of normal operations before disruptions from the COVID-19 pandemic.





Trajectory	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
SPT: reduction in % vs 2019*		-3,0%	0,3%	-1,3%	-3,9%	-6,6%	-10,1%	-14,0%	-17,7%	-21,5%	-24,8%	-27,5%
Annual KPI levels	5,78	5,61	5,80	5,71	5,56	5,40	5,20	4,98	4,76	4,54	4,35	4,19

As noted earlier, WalWil has prepared a corporate target for submission to the SBTi that aligns with a well-below 2-degree scenario. Like the SPT, this target also entails reducing carbon intensity by 27.5% from 2019 to 2030 but is not identical for a number of reasons detailed in the framework. In summary, the corporate target has a wider scope in terms of covering i) greenhouse gases beyond CO<sub>2</sub>, e.g. methane, ii) well-to-wake emissions (vs tank-to-wake emissions), and iii) all of WalWil's fleet (vs owned and long-term charter vessels only). This greater scope arguably makes WalWil's corporate target more ambitious than its SPT.

### *Fallback Mechanisms and Exceptional Events*

WalWil indicates in its framework that the KPIs and SPTs will remain unchanged even if WalWil's sustainability strategy or ambitions change. According to the framework, two circumstances permit changes to the baseline and/or trajectory, summarized below. Refer to the framework for full details.

- ✓ Changes to the calculation methodology of the KPI, e.g. from changes to the IMO's CII definition or fuel conversion factors, etc., or changes in data, e.g. due to data accessibility, permit changes to the baseline.
- ✓ The sale or purchase of 10 or more vessels by WalWil would result in the recalculation or pro forma adjustment of the trajectory, including to the 2019 baseline where applicable. Note that normal fleet development and initiatives by WalWil to achieve the SPT, e.g. newbuilds, sale or purchase of second-hand vessels, or phasing in or out of vessels, would not lead to an adjustment of the trajectory.

### *Financial Characteristics*

Financial characteristics will be determined separately for each sustainability linked securities issued under the framework. Each such security will feature target observation dates, on which WalWil's performance on the KPI will be assessed in relation to the SPT trajectory. This assessment entails comparing WalWil's performance on the KPI to the corresponding target, as identified according to the target observation date on the SPT trajectory. Should WalWil's performance on the KPI not comply with or improve upon the SPT trajectory, a trigger event will occur, leading to a change in the financial characteristic. A trigger event will also occur should WalWil fail to meet reporting requirements under the framework or publish the verification of its performance on the KPI in a timely manner.

WalWil has clarified that there will be no change to the financial characteristics of the securities should it meet all the above requirements. However, WalWil's framework does not specify the financial characteristic(s) subject to change, the nature of the potential change, or the timing and number of target observation dates that will be decided for each security.

### *Reporting*

Transparency, reporting, and verification of impacts are key to enable investors to follow the performance of the KPIs selected. Procedures for reporting and disclosure are also vital to build confidence that the sustainability-linked financing is contributing towards a sustainable and climate-friendly future, both among investors and in society.

WalWil is committed to transparent reporting on its performance on the KPI and achievement of the SPT, and more generally, the implementation of its sustainability strategy. Reporting is overseen by its Chief Sustainability Officer and will occur via an annual sustainability report or dedicated sustainability-linked financing progress



report published on its website. The reporting will include a verification report of its performance on the KPI as well as related impacts.

The reporting may include information about updates to WalWil's emission reduction strategy and/or governance, updates on new or proposed regulations, the main factors behind KPI performance, and positive sustainability impacts from KPI improvement. In addition, it may provide information on any recalculations of the KPI or adjustments to its scope, baseline or trajectory. See framework for full details

#### *Verification*

WalWil will obtain external and independent ex-post verification by qualified external reviewers with relevant expertise of its performance on the KPI relative to the SPT. It is committed to making public the verification report on its website. The verification report will form the basis for evaluating possible changes to the financial characteristics of any securities issued under this framework. Failure to provide this ex-post verification report will result in an adjustment of the financial characteristics as outlined in the security-specific documentation.

### **Assessment of Wallenius Wilhelmsen's Sustainability-Linked Financing Framework**

In this section we comment on the alignment of WalWil's framework with the Sustainability-Linked Bond Principles (SLBP) and Sustainability-Linked Loan Principles (SLLP). According to the SLBP and SLLP, the KPIs should be relevant, core and material to the issuer's overall business, and of high strategic significance to the issuer's current and/or future operations. The SLBP and SLLP further recommend that three benchmarking approaches are considered during the target-setting exercise. The sections below summarize our conclusions from our review of WalWil's KPIs and target-setting processes for the SPT, which also includes more detailed comments on methodologies and the benchmarking of the targets. We conclude our assessment of this framework with general comments on bond characteristics, reporting and verification.

CICERO Green finds WalWil's sustainability-linked financing framework to be aligned with the SLBP and SLLP.

#### *Assessment of the KPI: Average carbon intensity for WalWil's fleet of owned and long-term charter vessels*

#### **Comments on KPI selection**

<b>Aspect</b>	<b>CICERO Green Comments</b>
Materiality	<p><b>The KPI addresses a material issue</b></p> <ul style="list-style-type: none"><li>✓ We agree with WalWil's assessment that its GHG emissions are a highly material issue, both as a source of financial risk and in terms of its impact on environment and society; in this sense the KPI is highly material as it addresses WalWil's climate risks and impacts.</li><li>✓ The KPI covers WalWil's Shipping Services, which account for &gt;99% of WalWil's Scope 1 and 2 emissions. It excludes WalWil's land-based emissions, which it estimates as &lt;1% of its total emissions.</li><li>✓ The KPI is for tank-to-wake emissions intensity, i.e. it does not cover WalWil's well-to-tank and other Scope 3 CO<sub>2</sub> emissions, which it estimates at around 34% of its total emissions. Given that 48% of WalWil's Scope 3 emissions are related to fuel and energy, it is likely that its efforts to achieve its SPT may help address a</li></ul>



portion of these emissions by reducing the amount of fossil fuels purchased. However, a substantial proportion will likely remain unaddressed, e.g. those from newbuilds in WalWil's asset replacement strategy, its sourcing of future fuels, and the eventual use of vehicles and equipment that WalWil transports in its business activities.<sup>17</sup> WalWil has shared that it excluded Scope 3 emissions from its KPI due to the lack of standard conversion factors for both conventional and low-carbon fuels. According to the company, these are currently under development by the IMO and it will follow guidelines on Scope 3 emissions once they are ready.

- ✓ The KPI does not cover non-CO<sub>2</sub> GHG emissions, e.g. methane, nitrous oxides and black carbon, which may be present to varying extents in WalWil's well-to-tank and tank-to-wake emissions depending on the fuels and engines used. This is a pitfall for all fuel types, but especially considering WalWil's plan to rely on LNG dual fuel ships and the risk of engine methane slip. According to WalWil, methane slip is not expected to be significant for the engines it is currently considering (see section "Asset replacement strategy").<sup>18</sup> Even if non-CO<sub>2</sub> GHG emissions were covered, methane leaks, venting and flaring in the LNG supply chain would not be captured due to the current exclusion of Scope 3 emissions (see previous bullet).
- ✓ The KPI is material in that it applies to WalWil's shipping segment (72% of 2020 revenues) and covers WalWil's controlled fleet, i.e. all owned and long-term charter vessels (92% of its total fleet as of Q3 2021). WalWil has shared that short-term charter vessels are excluded due to the limited share these vessels represent, the short duration of the charters, and the reduced influence that WalWil has over emission from such vessels.

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Strategic  
Significance

**The KPI is of strategic significance**

- ✓ The KPI differs from the corporate-level emissions intensity measure currently reported by WalWil, which it uses for corporate-level target setting. Specifically, WalWil's corporate emissions intensity measure is i) for all Scope 1 and 2 GHG emissions and ii) based on WalWil's energy efficiency operational indicator (EEOI); nonetheless the KPI has similar drivers and supports WalWil's implementation of its climate strategy, in particular its efforts to decarbonize its fleet. Note that WalWil's corporate target may change following the finalization of the SBTi sector-specific guidance for maritime transport.
- ✓ The KPI favours investments in fuels and propulsion technologies that are no/low carbon on a tank-to-wake basis, e.g. ammonia and hydrogen, as opposed to biofuels and other carbon-based renewable fuels, e.g. e-methanol. Such fuels are only zero/low-carbon on a full life-cycle, i.e. well-to-wake, basis, due to carbon sequestration occurring during feedstock production and because they emit CO<sub>2</sub> when combusted. This means that decarbonization effects from the possible future use of biofuels or other renewable carbon-based fuels would not be captured by WalWil's KPI, which does not include well-to-tank, i.e. Scope 3 emissions. WalWil recognizes this and does not depend on biofuels in its strategy for

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<sup>17</sup> We note that accounting for these emissions in WalWil's Scope 3 may be unusual from the perspective of the GHG Protocol.

<sup>18</sup> See estimates by fuel and engine type of the extent to which GHG emissions increase depending on whether non-GHG and well-to-tank emissions are included: <https://theicct.org/sites/default/files/publications/Well-to-wake-co2-mar2021-2.pdf>





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achieving the SPT. It expects that biofuels can play a role in its operational initiatives (e.g. as a drop-in substitute fuel) but has highlighted challenges related to supply. See previous section on “Materiality” for a discussion of Scope 3 emissions.

- ✓ The KPI explicitly supports one out of WalWil’s four overall strategic pathways, “lead the journey to zero emissions;” the KPI also implicitly supports another, “drive operational effectiveness,” as its decarbonization strategy necessarily involves operational improvements. The third and fourth strategic pathways are “expand to full life cycle logistics” and “end-to-end supply chain orchestration” As already noted, the KPI does not cover WalWil’s land-based emissions, although these are very small and covered by WalWil’s other climate targets.
- ✓ The KPI can be considered a strategic choice in that it is underpinned by the same metric chosen by the IMO for regulating shipping sector emissions until 2030.

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#### Methodology

#### **The methodology is robust and transparent**

- ✓ The KPI is clearly defined and can be consistently measured and quantified. This is supported in particular by the requirement to report the KPI to the IMO’s Data Collection System (DCS).
- ✓ In its framework, WalWil identifies the targets in IMO’s GHG strategy as a possible benchmark for performance, although it notes several reasons why it should not be used as a direct comparison. Notably, the IMO’s CII regulations are for individual vessels, whereas the KPI is WalWil’s fleet average.
- ✓ An emissions intensity measure based on physical output allows for greater comparability of performance over time, as it is not affected by demand for WalWil’s services or pricing.
- ✓ However, as an emissions intensity measure, performance on the KPI does not guarantee absolute emissions reductions if it decreases more slowly than growth in the associated economic activity. Note that WalWil expects absolute emissions to also decline if it achieves its SPT, and it will continue to report on absolute emissions by segment in its annual disclosures.
- ✓ The KPI is not a measure of actual emissions intensity as its calculation is based on ships’ theoretical capacity and assumes that ships are always sailing fully loaded; actual emissions intensity is likely to be higher than measured by the KPI to the extent that WalWil’s ships are loaded when sailing.<sup>19</sup> Note that WalWil will continue to report on its actual operational emissions intensity (its EEOI), which will enable future comparisons with the KPI.
- ✓ Historical KPI data presented by WalWil are calculated based on a standard factor for converting its EEOI to cgDIST. WalWil’s actual historical performance on the KPI may be different, depending on factors outlined in the previous bullet point. WalWil notes that its historical EEOI data have been audited through 2018. The

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<sup>19</sup> <https://www.seacargocharter.org/wp-content/uploads/2020/10/UCL-2015-Understanding-the-Energy-Efficiency-Operational-Indicator-Main.pdf>



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company has also obtained independent verification of the KPI data for 2019 and 2020.

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### *Assessment of the SPT: Reduce KPI by 27.5% by 2030 compared to 2019*

It is positive that WalWil has provided a year-on-year trajectory for achieving its SPT and that this trajectory entails consistent gradual reductions in the KPI across the specified 2019-2030 timeframe. We believe this will support consistent efforts by the company to reduce the KPI. Considering the urgency of climate action, we encourage WalWil to maintain a high level of ambition and make every effort to consistently exceed its trajectory to the extent possible.

### **Detailed comments on SPT ambitiousness**

<b>Benchmark</b>	<b>CICERO Green Comments</b>
<i>Own performance</i>	<p><b>Ambitious vs own performance in requiring new technological innovation</b></p> <ul style="list-style-type: none"><li>✓ Between 2008 and 2019, WalWil reduced its emissions intensity by 33%, or 3% per year, via operational and technical improvements. By comparison, WalWil's SPT entails an annual average reduction of 2.5% per year between 2019 and 2030.</li><li>✓ It is clear that WalWil's asset replacement strategy necessitates new improvements and technological innovation beyond historical own performance—according to the company, nearly half of its planned new vessels will have to rely on zero-emissions propulsion systems that are not currently available.</li><li>✓ WalWil's strategy to achieve the SPT involves operational, technical, and asset replacement initiatives; it estimates that the first two will contribute half of the emissions reductions required to achieve its target.</li><li>✓ We are unable to independently assess the extent to which achieving the SPT will entail greater challenges on operational and technical improvements than it has experienced over the 2008-2019 period beyond what WalWil describes.</li></ul>
<i>Peers</i>	<p><b>Ambition is aligned with peers</b></p> <ul style="list-style-type: none"><li>✓ The average annual emissions intensity reductions entailed by targets for K-Line, NYK, MOL, Odfjell and Maersk for 2019-2030 range from 2.0% to 2.8%.<sup>20</sup> The annual average reduction implied by WalWil's SPT is 2.5% and thus in line with this range.</li><li>✓ WalWil's peers have announced targets with some variance in underlying metrics chosen for emissions intensity. Direct peers include NYK Line, K-LINE, MOL, Höegh Autoliners, and Hyundai-Glovis. Of these, NYK<sup>21</sup> and MOL<sup>22</sup> have announced 2050 net zero targets and interim emissions intensity reduction targets of 30% from 2015-2030 and 45% from 2019-2035, respectively. K-Line has targets</li></ul>

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<sup>20</sup> This comparison entailed calculating the average annual emissions intensity reductions required by each peer to achieve its 2030 target from its chosen baseline.

<sup>21</sup> <https://www.nyk.com/english/esg/envi/plan/>

<sup>22</sup> <https://www.mol.co.jp/en/pr/2021/21081.html>



to halve absolute emissions and reduce emission intensity by 70% from 2008-2050, and an interim target of reducing emissions intensity by 50% from 2008-2030.<sup>23</sup> Hyundai Glovis has announced a target to reduce absolute emissions by 52.05% by 2050 from 2016 levels but no emissions intensity target;<sup>24</sup> Höegh has no publicly announced targets.

- ✓ Other peers in the wider shipping sector with notable targets include Odfjell and Maersk. Odfjell has a target to halve emissions intensity by 2030 from 2008 included in its sustainability-linked financing framework and a target of having a climate-neutral fleet by 2050. Maersk has announced a 2050 net zero target with an interim emissions intensity reduction target of 60% from 2008-2030; it has notably ordered nine dual fuel renewable methanol vessels as part of a strategy to incentivize production of the low-carbon fuel.
- ✓ Besides a comparison of the SPT with peers' 2030 targets, it is also important to take into consideration the existence of longer-term, i.e. 2050, targets for decarbonization when assessing the SPT's ambition against peers.

*Science-based scenarios or international targets*

**Paris/1.5 degree-aligned with caveats; more ambitious than IMO targets**

*Benchmarking against Paris Agreement/1.5-degree targets*

- ✓ The SPT translates into absolute emissions reductions that roughly align with the level needed to achieve the Paris Agreement/1.5-degree goals, but only when also factoring in WalWil's historical reductions in a 2008-2030 timeframe.
- ✓ Analyses of sector decarbonization pathways vary and are based on reductions in absolute emissions or emission intensity. E.g. Bullock et al (2021) indicate that in a 1.5-degree scenario, absolute CO<sub>2</sub> emissions decline by 34% from 2008-2030, including a 4% annual reduction between 2023-2030.<sup>25</sup> General guidance from the SBTi's Corporate Net Zero Standard<sup>26</sup> requires targets to entail a 4.2% annual reduction in absolute emissions for a 1.5 degree scenario. Another analysis, focused on emissions intensity, indicates that annual reductions of 6-7% in intensity from 2019-2030 are required.<sup>27</sup> This scenario should be considered highly ambitious.
- ✓ By comparison, according to WalWil, its SPT translates into an 11% absolute emissions reduction, or an annual average of 1%, between 2019-2030. The SPT itself entails a 2.5% annual emissions intensity reduction from 2019-2030. On this basis alone, and in comparison with the above reference points, we would not consider WalWil's SPT ambitious in terms of Paris or 1.5-degree alignment.
- ✓ However, WalWil also projects that achieving its SPT will lead to a 36% decline in its absolute annual emissions from 2008-2030. In this regard, if achieved, WalWil's SPT would complete a decarbonization trajectory from 2008-2030 that roughly

<sup>23</sup>

<https://www.kline.co.jp/en/csr/environment/data/main/03/teaserItems1/01/linkList/00/link/2021KANKYOMOKUHYOU%20EN.pdf>

<sup>24</sup> [https://www.glovis.net/Eng/common/file/Hyundai%20Glovis%20TCFD%20Framework%20\(English\).pdf](https://www.glovis.net/Eng/common/file/Hyundai%20Glovis%20TCFD%20Framework%20(English).pdf)

<sup>25</sup> <https://www.tandfonline.com/doi/full/10.1080/14693062.2021.1991876>

<sup>26</sup> SBTi notes that this target can be used by companies in all sectors except power generation and forestry, land and agriculture, although it is developing a sector-specific methodology for maritime transport to be released in January 2022. <https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf>

<sup>27</sup> <https://theicct.org/blog/staff/updated-imo-carbon-intensity-target-may2021>



aligns with Bullock et al's 1.5 degree-compatible pathway. Note that WalWil's historical emissions reductions from 2008-2018 are the main reason for this finding, and not the emission reductions that will be entailed by the SPT.<sup>28</sup>

- ✓ The conclusions from comparisons between WalWil's SPT and the pathways described above assume that 1) all ships in the global fleet will also decarbonize as required, 2) WalWil's fleet is not substantially more or less emissions intensive than the global average, and 3) its share of the shipping sector's carbon budget (e.g. represented by market share) has stayed/will stay relatively constant over 2008-2030.

*Benchmarking against IMO targets*

- ✓ The SPT is ambitious in terms of exceeding the IMO's GHG strategy, with regards to both its 2030 target and its short-term guidelines.
- ✓ The IMO's GHG strategy entails a 40% reduction in emissions intensity by 2030, and a 50% reduction in absolute emissions by 2050, both from a 2008 baseline. In June 2021, it released short-term guidelines for CII reductions, requiring an 11% decline in CII by 2026 from a 2019 baseline.<sup>29</sup>
- ✓ WalWil's SPT entails a decline in the KPI of 14% between 2019 and 2026, and a decline of 52% between 2008 and 2030.
- ✓ As noted under 'Methodology', the IMO's CII regulations are for individual vessels, whereas WalWil's KPI is its fleet average.

*Summary of key factors beyond the issuers' direct control that may affect the achievement of the SPTs:*

According to the issuer, 50% of the emissions intensity reductions entailed by the SPT will be realized via the implementation of its asset replacement strategy. The strategy entails commissioning new wind-powered and LNG dual fuel vessels, as well as vessels powered by alternative fuels that are not yet commercially available. If the required alternative fuels are not scaled and commercialized in time, WalWil's achievement of the SPT would be adversely impacted. As WalWil's achievement of the SPT depends on transitioning its LNG dual fuel vessels to alternative fuels, insufficient supply of the required fuel would also impact WalWil's achievement of the SPT.

Each new vessel also requires substantial capital expenditures, for which WalWil will need to secure financing. If WalWil is unable to secure financing for newbuilds, its achievement of the SPT would be impacted.

Finally, successful implementation of operational initiatives such as slow steaming is contingent upon acceptance from customers; this risk is also relevant to WalWil's wind-powered vessels, which sail at slower speeds in order to realize their full emissions reduction potential.

<sup>28</sup> For context, WalWil's actual operational emissions intensity (as measured by EEOI), declined roughly in line with the global fleet over 2008-2018, whereas shipping sector emissions have increased over the same period. See <https://wwwcdn.imo.org/localresources/en/OurWork/Environment/Documents/Fourth%20IMO%20GHG%20Study%202020%20-%20Full%20report%20and%20annexes.pdf>. According to the company, its market share did not change substantially during this time and will likely stay constant between 2020-2030.

<sup>29</sup> <https://www.imo.org/en/MediaCentre/PressBriefings/pages/MEPC76.aspx>



*Comments on Financial Characteristics, Reporting and Verification*

<b>Component</b>	<b>CICERO Green Comments</b>
Financial Characteristics	<ul style="list-style-type: none"><li>✓ CICERO Green has not reviewed to what degree the variation in the financial characteristics of instruments issued under the framework is commensurate and meaningful.</li><li>✓ Investors are encouraged to review the terms sheets in detail and conduct their own assessment of the financial characteristics of the SLBs.</li></ul>
Reporting	<ul style="list-style-type: none"><li>✓ Transparency, reporting, and verification of impacts are key to enable investors to follow the performance of the KPIs selected. Procedures for reporting and disclosure are also vital to build confidence that the SLB/SLL is contributing towards a sustainable and climate-friendly future, both among investors and in society.</li><li>✓ WalWil is committed to transparent and regular reporting on its performance against the SPT that includes relevant contextual information.</li><li>✓ Due to the characteristics of the KPI (see notes on methodology), it will be important for WalWil to also continue reporting on its actual emissions intensity to allow direct comparison with the KPI. Although not a target under the framework, we also encourage WalWil to report on its absolute emissions reductions, as these underpin its degree of alignment to a Paris Agreement compliant decarbonization pathway.</li><li>✓ It is positive that WalWil is committed to reporting on regulatory changes that are relevant to its SPT and to explaining the main factors behind changes in its KPI performance. We also encourage WalWil to monitor and report on important technological developments in the shipping sector that are relevant to its strategy for achieving the SPT.</li></ul>
Verification	<ul style="list-style-type: none"><li>✓ The KPI is externally verifiable and WalWil has committed to obtaining external and independent verification on its performance against the KPI. A verification report will be included in WalWil's Progress Report for its KPI/SPT.</li></ul>













### 3 Terms and methodology

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

This assessment is based on a review of documentation of the client’s policies and processes, as well as information provided to us by the client during meetings, teleconferences and email correspondence. In our review we have relied on the correctness and completeness of the information made available to us by the company.

The structure of Sustainability Linked Bonds (SLBs) linking financial returns with environmental performance can provide security around environmental impacts. However, SLBs can vary widely in terms of robustness depending on what KPIs are selected and how they are measured. We provide transparency on 1) the relevance, materiality and reliability of selected KPIs, 2) the rationale and level of ambition of the proposed Sustainability Performance Targets, 3) the relevance of selected benchmarks and baselines, as well as transparency on how well the strategy outlined to achieve them fits with a low carbon and climate resilient future. By considering these factors, we provide context to consider the ambition level of the SLB. Please note that CICERO Green does not evaluate any financial aspects of transaction, including to what degree the variation in the financial characteristics of an SLB is commensurate and meaningful.

Incorporated into the sustainability-linked bond assessment is our company climate risk assessment approach. We allocate a shade of green, yellow or red (see figure below) to revenues or portfolio value which reflect alignment of the underlying activities to a low carbon and climate resilient future and taking into account governance issues.

SHADES OF GREEN	EXAMPLES
 <b>Dark green</b> is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future.	 Solar energy projects
 <b>Medium green</b> is allocated to projects and solutions that represent steps towards the long-term vision but are not quite there yet.	 Green buildings with a high level of certification and energy efficiency
 <b>Light green</b> is allocated to transition activities. These projects and solutions could have lower emissions, but do not by themselves represent or contribute to the long-term vision.	 Substantially more efficient manufacturing of fossil fuel intensive materials
 <b>Yellow</b> is allocated to projects and activities that do not actively contribute to the transition. These activities could have some emissions and be exposed to climate risks. This category also includes those with too little information to assess.	 Manufacturing of consumer goods with some emissions
 <b>Red</b> is allocated to projects and activities that have no role to play in a low-carbon and climate resilient future. These are heaviest emitting assets, with the most potential for lock-in of investments and risk of stranded assets.	 New infrastructure for fossil fuels

In addition to shading from dark green to red, CICERO Shades of Green also includes a governance score to show the robustness of the company’s sustainability governance structure. When assessing the governance of the company, CICERO Green looks at five elements: 1) strategy, policies and governance structure; 2) lifecycle



considerations including supply chain policies and environmental considerations towards customers; 3) the integration of climate considerations into their business and the handling of resilience issues; 4) the awareness of social risks and the management of these; and 5) reporting. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



# Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Sustainability-Linked Financing Framework (January 2022)	
2	Annual Report (2020)	
3	Sustainability Report (2020)	
4	Emissions Reduction Trajectory (November 2021)	Non-public; outlines decarbonization initiatives and trajectory
5	Environmental Policy (June 2020)	
6	Sustainable Procurement Policy (September 2021)	
7	Supplier Code of Conduct (n.d.)	
8	Responsible Vessel Recycling Policy (October 2019)	





## Appendix 2: About CICERO Shades of Green

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

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

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

