



# Nobina

## Green Bond Second Opinion

January 24, 2019

Nobina is the Nordic region's largest public transport company with headquarters in Solna outside of Stockholm city, Sweden.

Overall, Nobina's Green Bond Framework (GBF) from January 2019 provides a clear and sound framework for investments into projects that align with the Green Bond Principles (2018). The green bond framework lists eligible projects within the clean transport category that promotes the transition to low carbon, climate resilient growth and a sustainable development. Proceeds will not be used to finance investments in fossil fuels.

Green bond proceeds can be used to finance both new projects as well as refinance existing eligible projects. A major part of the use of proceeds from Nobina's first green bond issuance are aimed to be used for financing of new Eligible Green Assets.

Nobina has in place a sound management and governance structure, as well as regular and transparent reporting about green bond project achievements to investors and the public. The overall assessment of the governance structure to support the implementation of the green bond framework gives it a rating of Excellent. We note that Nobina is well aware of both physical and political risks and opportunities associated with climate change.

Both electric and biofuel buses can be financed. Use of biofuel for transportation represents in almost all cases environmental improvements compared to use of fossil fuels. However, there are still emissions of greenhouse gases as well as other local pollutants related to the use of biofuels, in particular in a life cycle perspective. Investments in biofuel for transport can therefore potentially represent a lock-in of technologies that becomes obsolete in the longer term. The relative short turn over period for buses mitigate this concern somewhat. All buses on order or to be bought satisfies EURO 6 requirements. Furthermore, the issuer informs us that they observe a strong trend towards use of electric vehicles in their contracts.

Based on the overall assessment of the project types that will be financed by the green bonds and governance and transparency considerations, Nobina's Green Bond Framework receives a Dark Green shading.

### SHADES OF GREEN

Based on our review, we rate the Nobina Green Bond Framework **Dark Green**.

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in Nobina's framework to be **Excellent**.

### GREEN BOND PRINCIPLES

Based on this review, this Framework is found in alignment with the Green Bond Principles (2018).





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# 1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of Nobina's green bond framework dated January 2019. This second opinion remains relevant to all green bonds 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.

The second opinion is based on a review of the framework and documentation of the issuer's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence with the issuer. Second opinions are restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general level. CICERO Green is not responsible for an institution's implementation of a framework, nor does it guarantee or certify the climate effects of investments in eligible projects.

## Expressing concerns with 'shades of green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions of the bonds. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

### CICERO Shades of Green



**Dark green** is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.



**Medium green** is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.



**Light green** is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.



**Brown** is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future.

### Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available



New infrastructure for coal

Sound governance and transparency processes facilitate delivery of issuer's climate and environmental ambitions laid out in the framework. Hence, the governance aspects are carefully considered and reflected in the overall shading of the green bond framework. CICERO Green considers four factors in its review of an issuer's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent.



## 2 Brief description of Nobina's green bond framework and related policies

Nobina is the Nordic region's largest and most experienced public transport company operating mainly buses in Sweden, Norway, Denmark and Finland. Here, Nobina have some 110 contracts in 32 regions operating approximately 3 600 buses and move some 319 million travelers each year.

With head office in Solna, Stockholm in Sweden, it has currently around 11,000 employees. Nobina is a privately-owned company listed on Nasdaq Stockholm's list for medium sized companies.

### **Environmental Strategies and Policies:**

Particle and carbon dioxide (CO<sub>2</sub>) emissions, along with fuel consumption, are the environmental issues that Nobina prioritizes (and measures). It is a Swedish political goal to have 90 percent of the buses in traffic running on renewable fuel by 2020. To reach that goal, traffic companies must adapt bus fleets and increase the share of buses that run on renewable fuel. Of Nobina's vehicle fleet, some 72 percent run on renewable fuel. In Sweden, where most of the buses operate, the percentage of buses operated on renewable fuel exceeds 95 percent, including a sharply growing portion of electric buses. Hence, Nobina has in Sweden already fulfilled the Swedish political goal of having 90 percent of the operating buses running on renewable fuel. In addition, they have a goal of near 100 percent green- or eco-driving (energy-efficient driving techniques) of their vehicles in all countries.

Nobina's business model is aligned to meet and address some of the biggest environmental and political challenges of society – where public transport, is and will become an even bigger part of the solution. Sustainable traffic solutions is a core product and a part of the company DNA in delivering public transport and creating attractive mobility in the society. Nobina takes an active role in driving regulatory and technological change within electric buses (Nobina Electrical solutions), autonomous buses and initiatives for energy efficiency besides daily operations and efforts to increase attractiveness of public transport. Sustainability regarding the environment but also in a wider sense is part of Nobina's corporate strategy and values.

Nobina's sustainability agenda is based on external guidelines and targets (e.g. UN's Global Compact and the Sustainable Development Goals), legislation and certifications as well as internal values and guidelines. In Norway and Finland, Nobina has had ISO 9001 quality certification and ISO 14001 environmental certification for several years. In Denmark, all traffic areas have had ISO 14001 environmental certification since 2013. Since 2009, efforts have been underway in Sweden to obtain ISO certification for all traffic areas. At the end of the 2016/2017 financial year, nine out of 17 traffic areas in Sweden had obtained ISO certification.

Suppliers and partners to Nobina need to have as a starting point documented work that should be well-established throughout the organization about sustainability and the aspects that are attributable to the specified regulations. There must be documented and established control or target documents or policies, management decisions, strategies or equivalent that concern sustainability based on these perspectives.



### **Use of proceeds:**

Proceeds from Nobina's Green Bonds will be used to finance or re-finance, in part or in full, Eligible Green Assets (as defined below) providing distinct environmental benefits in accordance with the below defined main category for Clean transportation. A major part of the use of proceeds from Nobina's first green bond issuance are aimed to be used for financing of new Eligible Green Assets.

Eligible Green Assets relevant for use under the Framework include Clean Transport in the form of electric vehicles and vehicles powered by biofuels as well as charging infrastructure for buses. A major part of the proceeds will be used for investments in vehicles powered by biofuels and electric vehicles. Examples of biofuels are rapeseed oil methyl esters /RME or hydrotreated vegetable oil/HVO.

### **Selection:**

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green bond funding. The broader the project categories, the more importance CICERO Green places on the governance process.

The selection of Eligible Green Assets is managed by a dedicated group within the CFO Office. The group consists of several people including the Head of Treasury and Investor Relations, the Head of Strategy and Mergers & Acquisitions as well as the Fleet Financing Manager. This group has good sustainability expertise and knowledge of requirements for clean transportation and renewable energy. Decisions are made by consensus.

### **Management of proceeds:**

Net proceeds from Nobina's Green Bonds will be credited to a designated account in order to be tracked in an appropriate manner. A list of Eligible Green Assets is kept by the Finance Department and the Head of Finance is responsible for keeping this list up to date. The list of Eligible Green Assets is monitored on a regular basis during the term of the Green Bond to ensure that the proceeds are sufficiently allocated to Eligible Green Assets.

All Green Bonds issued by Nobina will be managed on a portfolio level. This means that a Green Bond will not be linked directly to one (or more) pre-determined Eligible Green Assets. Nobina will keep track and ensure there are sufficient Eligible Green Assets in the portfolio. Assets can, whenever needed, be removed or added to/from the Eligible Green Assets portfolio.

Any unallocated proceeds temporarily held by Nobina will be placed on the company's ordinary bank account or in the short-term money market. The proceeds of Nobina's Green Bond issuance will not be used to finance any transportation solutions requiring fossil fuel.

### **Reporting:**

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green bond programs. Procedures for reporting and disclosure of green bond investments are also vital to build confidence that green bonds are contributing towards a sustainable and climate-friendly future, both among investors and in society.



To be fully transparent towards the Green Bond investors and other market stakeholders, Nobina commits to regular reporting on an annual basis until no green bonds are outstanding. The report will be made available on Nobina's website and cover the following areas:

Use of Proceeds:

- Total amount of Green Bonds issued
- A list of Eligible Green Assets in the portfolio including allocated amounts and a brief description per type of asset
- Share of Green Bond financing of approved Eligible Green Assets
- Share of proceeds used for financing/re-financing as well as distribution of the allocations between categories
- Total amount of unallocated proceeds

The need for monitoring specific environmental issues is assessed as part of Nobina's sustainability review. Nobina will publish a list of Eligible Green Assets per type of asset including, where feasible, the below criteria indicating the environmental impact. Additional criteria indicating environmental impact may be added depending on availability.

Clean transportation:

- Estimated annual greenhouse gas emissions reduced or avoided from total investments, in metric tons of carbon dioxide equivalent (tCO<sub>2</sub>e). Emission factors are based on information from the producer of the biofuels and the issuer considers these to be conservative estimates. Emission associated with the running of electric vehicles is based on the national grid factor for electricity in the country of operation.
- Estimated number of passengers travelling by fossil free vehicles such as electric and/or vehicles powered by biofuels.

Nobina is committed to appointing an external auditor to provide an annual assurance of the internal tracking method and allocation of funds.



### 3 Assessment of Nobina’s Green Bond Framework and policies

The framework and procedures for Nobina’s green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

#### Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Nobina’s green bond framework, CICERO Green rates the framework **Dark Green**.

#### Eligible projects under Nobina’s green bond framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the “overall environmental profile” of a project should be assessed and that the selection process should be “well defined”.

Category	Eligible project types	Green Shading and some concerns
Clean transportation 	<ul style="list-style-type: none"><li>Fossil free vehicles such as electric and/or vehicles powered by biofuels</li><li>Charging infrastructure for buses</li></ul>	<b>Dark Green</b> <ul style="list-style-type: none"><li>✓ Biofuels are not strictly CO<sub>2</sub> neutral.</li><li>✓ The representativeness of the national grid factors for electricity should be considered.</li></ul>

Table 1. Eligible project categories

#### Background

Global transport emissions grew by only 0.6% in 2017 (compared to 1.7% annually over the past decade), as efficiency improvements, electrification and biofuels helped limit the growth in energy demand. To meet the 2-degree C target goals, however, direct transport emissions must peak around 2020 and then fall by more than 9% by 2030.<sup>1</sup> The largest amount of carbon savings come from switching from inefficient modes of transport (e.g. private cars) to mass transit.<sup>2</sup> For projects aimed at like-for-like replacement of transport infrastructure, the improvements in environmental performance depend on the fuel type and efficiency. We consider public

<sup>1</sup> <http://www.iea.org/tcep/transport/>

<sup>2</sup> [https://www.ipcc.ch/pdf/assessment-report/ar5/wg3/ipcc\\_wg3\\_ar5\\_chapter8.pdf](https://www.ipcc.ch/pdf/assessment-report/ar5/wg3/ipcc_wg3_ar5_chapter8.pdf)

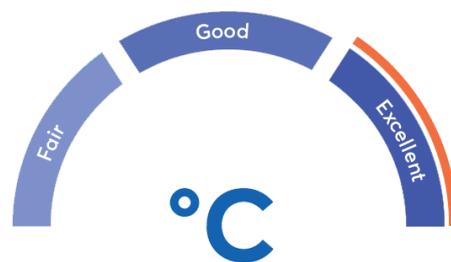


transport projects that include fossil fuel elements such as hybrid buses as bridging technologies, and not a long-term solution. While electric modes of transportation are preferable to those that directly use fossil fuels, we should nevertheless be aware of the indirect GHG emissions stemming from the production and use and strive to keep increasing their efficiency. Also, one should observe complex impacts of some biofuels including life cycle emissions and negative impacts on biodiversity.

### Governance Assessment

Four aspects are studied when assessing the issuer's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent.

Nobina has in place a sound management and governance structure, as well as regular and transparent reporting about green bond project achievements to investors and the public. Nobina also has in place environmental goals and targets in the form of goals for use of renewable fuels and green- or eco-driving. Furthermore, Nobina is well aware of and takes into account both the risks and opportunities confronting the issuer when it comes to



climate change. The overall assessment of the governance structure of Nobina gives it a rating of Excellent.

### Strengths

#### Governance

Nobina plans to report the impacts of its green bond investments on a portfolio basis. We are encouraged to see that Nobina is actively pursuing efforts to include impact reporting on the green bond. In reporting emission reductions Nobina is utilizing the national grid factors for electricity in the country of operation and emission factors provided by the producers of biofuels used in vehicles using these fuels. Generally, the emission factors are chosen to give a conservative estimate of emission reductions compared to the use of fossil fuel vehicles. Nobina is also committed to appointing an external auditor to provide an annual assurance of the internal tracking method and allocation of funds.

#### Project Categories

It is a strength that the proceeds of Nobina's Green Bond issuance will not be used to finance any transportation solutions requiring fossil fuel. Generally, the Eligible Project Categories are good, but we note that in general biofuels are not CO<sub>2</sub> neutral and can vary a lot depending on where and how the biomass is produced. Nevertheless, common biofuels offer large CO<sub>2</sub> reductions compared to fossil fuels. All buses on order or to be bought satisfies EURO 6 requirements. Furthermore, the issuer informs us that they observe a strong trend towards use of electric vehicles in their contracts.



## Weaknesses

We find no material weaknesses in Nobina's Green Bond Framework.

## Pitfalls

### *Project Categories*

Use of biofuel for transportation represents in almost all cases solid environmental improvements compared to use of fossil fuels. Ideally the fuel should comply with e.g. EU's sustainability criteria<sup>3</sup>. However, there are still emissions of greenhouse gases and local pollutants related to the use of biofuels, in particular in a life cycle perspective. Investments in biofuel for transport can therefore potentially represent a lock-in of technologies that becomes obsolete in the longer term. The relative short turn over period for buses mitigate this concern somewhat.

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<sup>3</sup> <https://ec.europa.eu/energy/en/topics/renewable-energy/biofuels/sustainability-criteria>



# Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Green Bond Framework, January 2019	Nobina's Green Bond Framework
2	Sustainable business	A web site describing Nobina's most important aspects of sustainability, environmental and social responsibilities: <a href="https://www.nobina.com/en/hallbarhet/">https://www.nobina.com/en/hallbarhet/</a>
3	Årsredovisning 2017/2018	Nobina's Annual Report 2017/2018: <a href="https://www.nobina.com/globalassets/koncernen/arsredovisning/20172018/nobina_swe_ar17-18_final.pdf">https://www.nobina.com/globalassets/koncernen/arsredovisning/20172018/nobina_swe_ar17-18_final.pdf</a>



## 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 and the International Institute for Sustainable Development (IISD).

