



Fjellinjen AS

Green Financing Second Opinion

November 19, 2021

Fjellinjen AS is a toll collection company based in Oslo, Norway, with collecting tolls in the Oslo region, mainly through an automatic collection system (AutoPASS). All of Fjellinjen's revenues are currently channeled into 'Oslopakke 3', an infrastructure development plan for the capital region. The majority of the toll collected go towards funding public transportation and bicycle and walking lanes. This should be seen against the backdrop of the 2012 initiative by the Norwegian government of zero growth in personal car transport in large cities.

Under this green financing framework, Fjellinjen will allocate the proceeds to financing of new projects associated with railways and public transport, roads for low-carbon and public transport, and bicycle and pedestrian infrastructure. While the issuer aims to focus on fossil free solutions, some projects could include fossil fuel elements such as operation of public transport infrastructure and signaling and safety systems that serve both fossil free and fossil powered public transport services, as well as hybrid buses. The issuer has clarified that new vehicle lanes for public transport and electric transport would not qualify under the framework, but that projects that improve such infrastructure could be financed. There is a risk that parking spaces for cars, e.g., at public transport hubs, could be included.

Fjellinjen effectively operates as a financing entity for Oslopakke 3 and as such has no direct influence on project implementation. The issuer refers to the responsibility of the municipalities and counties with regards to, e.g., life cycle emission consideration of projects as well as climate resilience assessments. Similarly, Fjellinjen does not publish a sustainability report, has no further climate related targets and no environmental policies and strategies that directly pertain to project implementation, e.g., regarding potential controversies, the supply chain or construction impacts. While the issuer committed to pro-rata reporting, the issuer will not measure impacts themselves and, therefore, the reporting might contain inconsistencies, could be subject to data gaps and might be aggregated. Investors should be aware that toll collection has become a contentious issue in Norwegian society in the past couple of years.

Based on the overall assessment of the eligibility criteria in this framework, governance and transparency considerations, the framework receives a **CICERO Dark Green** shading and a governance score of **Fair**. In order to improve the framework, the issuer could increase its engagement on climate resilience, supply chain and construction impacts as well as improve its reporting commitments.

SHADES OF GREEN

Based on our review, we rate Fjellinjen's Green Finance Framework **CICERO Dark Green**.

Included in the overall shading is an assessment of the governance structure of the Green Finance Framework. CICERO Shades of Green finds the governance procedures in Fjellinjen's framework to be **Fair**.



GREEN BOND/LOAN PRINCIPLES

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





Contents

1	Terms and methodology	3
	Expressing concerns with 'Shades of Green'	3
2	Brief description of Fjellinjen's green finance framework and related policies	4
	Environmental Strategies and Policies.....	4
	Use of proceeds.....	4
	Selection.....	5
	Management of proceeds	5
	Reporting.....	6
3	Assessment of Fjellinjen's Green Finance Framework and policies	7
	Overall shading.....	7
	Eligible projects under the Fjellinjen's Green Finance Framework	7
	Background	8
	Governance Assessment.....	8
	Strengths	9
	Weaknesses	9
	Pitfalls.....	9
	Appendix 1: Referenced Documents List	11
	Appendix 2: About CICERO Shades of Green	12



1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated September 2021. This second opinion remains relevant to all green 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.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

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. 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.

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

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the Green Finance 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. 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.



2 Brief description of Fjellinjen's green finance framework and related policies

Fjellinjen AS is a toll collection company based in Oslo, with responsibility for toll collection in the Oslo region. It is owned by Oslo Municipality (60%) and Viken County (40%). Fjellinjen's mandate consists of collecting tolls at government-owned roads, and subsequently delivering contributions to the National Public Road Administration (NPR). All of Fjellinjen's revenues are now channeled into 'Oslopackage 3', an infrastructure development plan for the capital and its surroundings. The goal of zero growth in passenger car traffic constitutes one of the goals for Oslo Package 3.

The NPR is prohibited from issuing debt, and as a result Fjellinjen borrows on its behalf to finance road and public transportation infrastructure. Toll revenues are then used to amortize the debt.

The company has approximately 30 employees and a turnover of about NOK 3 billion annually. Its 83 toll stations collect from 32 million passages per month – mainly through an automatic collection system (AutoPASS). The issuer informed us that National Public Road Administration was responsible for building the toll stations which subsequently have been taken over by Fjellinjen for automated electrical operation.

The majority of the toll collected go towards funding public transportation and bicycle and walking lanes (97% of total expected in the period of 2021-24), but also towards maintenance and improvements of standard roads. Fjellinjen also financed new motorways such as E16 through tolls.

Environmental Strategies and Policies

Fjellinjen does not have targets or policies related to GHG emissions or other environmental impacts. It does not measure its GHG emissions and instead refers to official emissions measured and reported from road traffic. The issuer defines its contributions to environmental objectives by financing traffic solutions of the future by collecting tolls efficiently and reliably.

It is company policy for meetings to be held using digital platforms or, if travel is required, encourages that employees use public transportation. Sub-contractors have to meet Fjellinjen's ethical guidelines, but environmental issues are not mentioned in these guidelines.

Fjellinjen does not publish a sustainability report. According to its Green Financing Framework, the company wants to contribute to all 17 SDGs but the Framework has a specific focus on goals 9 (Industry innovation and infrastructure), 11 (Sustainable cities and communities) and 13 (Climate action).

Fjellinjen has not implemented TCFD recommendation. The issuer informed us that Fjellinjen does not go beyond resilience screening prescribed by law which is the responsibility of the respective municipality or county.

Use of proceeds

The net proceeds of the Green Bonds or Loans issued by Fjellinjen will be used to finance or re-finance eligible projects that have been evaluated and selected by Fjellinjen in accordance with its Green Financing Framework.



It is expected that 100% of proceeds will be allocated to financing of new projects. Refinancing of Eligible Projects will have a look-back period of no longer than 3 years from the time of issuance.

The eligible project categories are: Railways and public transport; Roads for low-carbon and public transport, and; Enabling carbon neutral solutions (bicycle and pedestrian lanes, tunnels etc.). Table 1 provides further detail on these categories.

Exclusions: Green Bonds and Loans net proceeds will not be allocated to projects for which the purpose is fossil energy production, nuclear energy generation, weapons and defense, potentially environmentally harmful resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco.

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 finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Fjellinjen will establish a Green Finance Committee (GFC) to evaluate and select assets that are in line with the criteria set out in the use of proceeds section. The committee meets at least on an annual basis or when needed. The Green Finance Committee is comprised of representatives from Treasury, Group Sustainability and Business Control. The sustainability function will have a veto right. The issuer informed us that the responsibility for the sustainability function is assigned to the communication department and that the appointed employee is currently undergoing training in sustainability issues.

The Green Finance Committee is responsible for evaluating the compliance of proposed assets with the eligibility criteria, ensuring that the pool of Eligible Assets is aligned with the categories and criteria as specified in the Use of Proceeds section, and replacing investments that no longer meet the eligibility criteria (e.g. following divestment, liquidation, concerns regarding alignment of underlying activity with eligibility criteria etc.). The issuer clarified that Fjellinjen does not set further requirements to address, e.g., lock-in and rebound effects, controversial projects, life-cycle analysis (of GHG emissions) or the environmental credentials of contractors, construction methods or building materials (supply chain).

Management of proceeds

CICERO Green finds the management of proceeds of Fjellinjen to be in accordance with the Green Bond Principles.

Fjellinjen will establish a Green Financing Register with the purpose to monitor Eligible Projects financed by the Green Bonds and Loans issued by Fjellinjen as well as provide an overview of the allocation of the net proceeds from the Green Bonds and Loans issued to the respective Eligible Projects.

The value of the Eligible Projects detailed in the Green Financing Register will at least equal the aggregate net proceeds of all outstanding Fjellinjen Green Bonds and Loans. There may be periods when the total outstanding net proceeds of Green Bonds and Loans exceed the value of the Eligible Projects in the Green Financing Register. The issuer informed us it will disclose the amount of unallocated proceeds (if any). Proceeds yet to be allocated towards Eligible Projects will be held in accordance with Fjellinjen liquidity management policy and managed as such. While the issuer informed us it does not expect to not be able to allocate all proceeds to projects it confirmed



that should there be any unallocated proceeds they would be kept in Fjellinjen's account and not be invested to fossil fuel or environmentally harmful projects.

Reporting

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

Fjellinjen will provide a Green Financing Investor Report on an annual basis. The report will contain an Allocation Report and an Impact Report and will be available on the company's website.

The Allocation Report will contain the following:

- A description of the portfolio of Eligible Assets;
- Type of financing instruments utilized and respective outstanding amounts;
- Information on the split between new financing and re-financing;
- A list of Eligible Assets including the amounts allocated, including allocated and disbursed amounts per category and geographical distribution.

The Impact Report aims to disclose the environmental impact of the Eligible Assets financed under the Framework, based on Fjellinjen financing share of each project. As Fjellinjen can finance large and small Eligible Assets in the same Project Category, impact reporting will, to some extent, be aggregated (e.g., for smaller projects for cycling/walking paths). The reporting will be linked to individual instruments (bonds, loans). The impact assessment is provided with the reservation that not all related data can be covered and that calculations therefore will be on a best effort basis. Fjellinjen intends to report on quantitative impact indicators where feasible and relevant data information is available.

Planned impact indicators:

- Added passenger capacity of public transportation, as measured by amount of capacity measured in number of people per year as a result of the investments
- Estimated added passenger kilometres, as measured by km of projects build

Fjellinjen informed us that it does not measure impacts themselves but that impacts will be measured in 'Oslopakke 3'. In addition, the issuer informed us it will report on a pro-rata basis. Fjellinjen will have the Allocation Report externally verified, but no verification will be performed on the Impact Report.



3 Assessment of Fjellinjen’s Green Finance Framework and policies

The framework and procedures for Fjellinjen’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 Fjellinjen 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 Fjellinjen’s Green Finance Framework, we rate the framework **CICERO Dark Green**.

Eligible projects under the Fjellinjen’s Green Finance 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	<p><u>Railways and public transport:</u> Construction, reconstruction and upgrading of railroad, trams and supporting infrastructure</p> <p>The issuer has chosen the following eligible subcategories from ‘Oslopakke 3’:</p> <ul style="list-style-type: none"> • B361 “Bane og bussfremkommelighet Fornebu” • B221/B362 “Drift av kollektivtrafikken” • B361 “Signal- og sikringsanlegg T-bane” • B360 “Røabanen” <p><u>Roads for low-carbon and public transportation:</u> Construction, reconstruction, maintenance and upgrading of road lanes dedicated to public transportation and low-carbon vehicles, known as “Kollektivfelt” and/or “Sambruksfelt”</p>	<p>Dark to Medium Green</p> <ul style="list-style-type: none"> ✓ All construction projects have environmental and social impacts. The projects’ management plan should seek to minimize these. ✓ While financing aims at fossil free public transportation such as electric buses and trains, some proceeds can also be allocated to operate fossil fuel powered public transport operations as well as infrastructure supporting fossil fuel powered public transportation (e.g., signaling infrastructure). The issuer informed us that the all buses and ferries are expected to be electric by 2028. ✓ Lanes dedicated to public and low-carbon transportation can be used by electric cars but not hybrid vehicles. The issuer clarified that it will not finance



The issuer has chosen the following sub-categories from 'Oslopakke 3':

- B340 "Trafikksikkerhetstiltak"
- B360 "Kollektivtiltak"

Enabling carbon neutral solutions:

Development and maintenance of bicycle lanes and pedestrian pathways and supporting infrastructure such as tunnels, fences etc.

roads itself with green bond proceeds. However, expenditures associated with public transport and electric vehicle lanes such as safety and signaling expenditures are included.

- ✓ Proceeds can include construction of parking facilities at public transport hubs ("Innfartsparkering").

The issuer has chosen the following sub-categories from 'Oslopakke 3':

- B330 "Gang og sykkelveger"

Table 1. Eligible project categories

Background

According to the IEA, global transport emissions increased by less than 0.5% in 2019 (compared to 1.9% annually since 2000) owing to efficiency improvements, electrification and greater use of biofuels. Nevertheless, transportation is still responsible for 24% of direct CO₂ emissions from fuel combustion. Road vehicles – cars, trucks, buses and two- and three-wheelers – account for nearly three-quarters of transport CO₂ emissions¹.

The transport sector is in a critical transition. Existing measures to increase efficiency and reduce energy demand must be deepened and extended for compliance with the Sustainable Development Scenario (SDS). This process should be set in motion in the upcoming decade, as any delay would require that stricter measures be taken beyond 2030, which could noticeably raise the cost of reaching climate targets. Combined efforts across all transport modes, accompanied by power sector decarbonisation, will be crucial to achieve SDS goals 3.

The largest amount of carbon savings come from switching from inefficient modes of transport (e.g., private cars) to mass transit². 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 transport projects that include fossil fuel elements such as hybrid buses as bridging technologies, and not a long-term solution. And 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.

Norway has one of the highest electric vehicle penetration rates in the world. In 2020, 22.9% of passages through Fjellinjen's toll stations were by electric vehicles. As a result of the Covid-19 pandemic, there has been a switch away from public transport to private vehicles, and it is too early to say for how long this trend will continue.

Governance Assessment

Four aspects are studied when assessing the Fjellinjen's governance procedures: 1) the policies and goals of relevance to the Green Finance 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

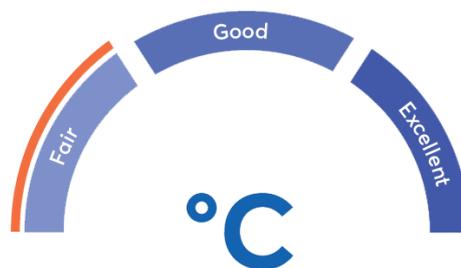
¹ See <https://www.iea.org/topics/transport> and <https://www.iea.org/reports/tracking-transport-2020>

² See https://www.ipcc.ch/site/assets/uploads/2018/02/WG1AR5_Chapter08_FINAL.pdf



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.

Fjellinjen does not have targets or policies related to GHG emissions or other environmental impacts. Fjellinjen does not publish a sustainability report and does not report in accordance with TCFD recommendations. Regarding the selection process, the issuer has set up a selection committee with the sustainability function having a veto right. However, the sustainability function is assigned to the communication department and is currently undergoing sustainability training. In addition, the issuer does not carry out screenings for lock-in and rebound effects, controversial projects, life-cycle analysis (of GHG emissions) or the environmental credentials of contractors (supply chain) as Fjellinjen considers these to be the remit of the project responsible (municipality). Fjellinjen will provide a Green Financing Investor Report on an annual basis and will report on a pro-rata basis, but will not obtain an external review on their impact report. As Fjellinjen themselves do not measure impacts themselves it is unclear to which extent Fjellinjen will be able to ensure consistency from various data sources.



The overall assessment of Fjellinjen's governance structure and processes gives it a rating of **Fair**.

Strengths

It is a strength that Fjellinjen is focusing its green financing framework on zero emission public transportation as well as pedestrian and cycling solutions.

Weaknesses

We find no material weaknesses in Fjellinjen's green finance framework.

Pitfalls

As a financing company for projects included under 'Oslopakke 3' the issuer is largely driven through political decisions on infrastructure plans. Whilst the green financing framework, with its eligibility criteria and selection committee, provides a certain level of control over how proceeds are distributed there remains some areas which are beyond the control of the issuer and hence could pose a risk to the integrity of the green finance framework. These risks include those related to certain definitions of eligibility (e.g. what constitutes 'low carbon transport lanes' (kollektivfelt or sambruksfelt in Norwegian)), as well as how projects are implemented (project responsibility lies with the relevant municipality or county and not with Fjellinjen). In addition, proceeds can include construction of parking facilities at public transport hubs ("Innfartsparkering") which might be supporting individual fossil fuel based transportation.

As a financing entity, Fjellinjen clarified that it is not able to set additional requirements for project design and implementation, e.g., for building materials and construction processes. While the issuer refers responsibility to address life cycle impacts etc. to municipalities and counties, this constitutes a pitfall as the issuer cannot screen for low climate impacts of project implementation.

The impacts of the projects it is financing can arguably only be as good as the policies of its implementing partners, including policies towards subcontractors in the construction phase. A particular concern in this respect is the extent to which resiliency thinking is taken into consideration when constructing or improving infrastructure in weather and climate-exposed surroundings. The issuer informed us that Fjellinjen does not go beyond resilience



screening prescribed by law which is the responsibility of the respective municipality or county. As Fjellinjen is financing infrastructure projects we encourage the issuer to require or conduct additional screenings for climate resilience and climate scenario analysis. Fjellinjen has not implemented TCFD recommendations.

Due to the nature of Fjellinjen's business, the meaningfulness of its impact reporting will depend on the collaboration of municipalities and other implementing agencies supplying the data. The issuer informed us that it will report pro-rata as well as depending on data availability. As the issuer does not measure impacts themselves and may report on an aggregate level, the reporting might follow different methodologies and have various level of reliability. Finally, many projects will be co-investments and investors should therefore take care when interpreting impact indicators as only a share of these will be attributable to the green financing.

Investors should be aware that toll collection has become a contentious issue in Norwegian society in the past couple of years. The debate has centered around the level of the tolls as well as distributional aspects (in some regions households and businesses may end up being charged many times in the course of a day for what is considered basic transportation needs).



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Fjellinjen AS - Green Finance Framework	
2	Fjellinjen årsrapport 2020	Annual Report 2020
3	20_60310-13Bevilgning av bompenger til Oslopakke 3 2021	
4	20_60310-21Rekvirering av bompenger til Oslopakke 3 for august 2021 med vedlegg	
5	Fjellinjen årsrapport 2020	
6	Fjellinjen Finanspolicy	
7	Fjellinjen Rating 2021	
8	Fjellinjens seriøsitetsbestemmelser - 2021	
9	Policy for etikk	
10	Handlingsprogram O3 2022	
11	Handlingsprogram-oslopakke-3-2021	
12	Hva skal rapporteres?	Project impact overview



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).

