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Second Party Opinion

Vegfinans Green Financing Framework

March 18, 2024

Location: Norway

Sector: Transportation Infrastructure

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Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

See [Alignment Assessment](#) for more detail.

Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our [Shades of Green Analytical Approach](#) >

Strengths

Vegfinans is planning to allocate the proceeds raised under this framework to finance projects that contribute to climate-friendly transportation infrastructure in Norway. The transport sector is a significant contributor to climate change, accounting for around one-third of greenhouse gas emissions in Norway according to the International Energy Agency (IEA). National and regional efforts to decarbonize the sector are therefore key in a low-carbon climate resilient (LCCR) future, including through increased use of public transportation and active mobility such as walking and cycling.

Weaknesses

No weaknesses to report.

Areas to watch

Proceeds can be used to finance road lanes for public transport and electric vehicles. However, these lanes could also be used by vehicles running on fossil fuels, such as personal vehicles that meet certain occupancy thresholds, motorcycles, or taxis. Although occupancy restrictions may incentivize car sharing, they do not guarantee emissions savings or eliminate fossil fuel emissions entirely. Moreover, the types of vehicles allowed to use these lanes may evolve over time, and is beyond Vegfinans' direct control. This may bring uncertainty regarding the positive impact of these projects.

Vegfinans has limited ability to influence the implementation of the eligible projects since the projects themselves are implemented by its partners, including the Norwegian Public Roads Administration (Statens Vegvesen). This includes, for example, limited ability to impact the approaches to local environmental risks or climate or environmental requirements for contractors. The full impacts of the projects it is financing will therefore also depend on the policies of its implementing partners, including their requirements for subcontractors in the construction phase.

Eligible Green Projects Assessment Summary

Eligible projects under issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Clean Transportation

 Light green

Public transport lanes: Construction, maintenance, and upgrade of lanes for public transport including buses and taxis. The lanes could also be used for other modes of transportation based on political priorities in the respective area

Clean Transportation

 Dark to Medium green

Infrastructure for low-carbon transport: Construction, maintenance and upgrade of infrastructure supporting low-carbon and zero emission public transport such as bus stops and public transport terminals

Clean Transportation

 Dark green

Infrastructure for passenger ferries: Construction, maintenance, and upgrade of passenger ferry docks and infrastructure for charging of electric passenger ferries

Clean Transportation

 Dark green

Infrastructure for pedestrians and cyclists: Construction, maintenance, and upgrade of lanes, sideways, and pathways (including bridges and tunnels) for pedestrians and cyclists

See [Analysis Of Eligible Projects](#) for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Vegfinans AS (Vegfinans) is one of the five Norwegian regional road toll collection companies, operating in South-Eastern Norway. As of 2024, the company is owned equally by the Norwegian counties of Akershus, Buskerud, Østfold, Vestfold, Telemark, and Innlandet. Vegfinans manages the toll collection and provides financing for infrastructure projects in Norway. However, we note that the implementation of the projects financed under the framework is carried out by its partners, including the owner counties, the Norwegian Public Roads Administration (Statens Vegvesen), and Nye Veier AS, a Norwegian government-run organization responsible for the development of the country's major road networks.

Material Sustainability Factors

Climate transition risk

Transportation is the fastest-growing source of emissions worldwide, and transportation users like autos, airlines, and freight account for more than one-third of global greenhouse gas emissions, according to the IEA. Infrastructure design and condition can affect greenhouse gas emissions and existing transportation infrastructure may require investment to support wider decarbonization trends. Infrastructure development also produces significant emissions due to land use changes and reliance on carbon-intensive materials such as steel and cement. Vegfinans and its partners are exposed to transition risks from increasingly ambitious policies and tighter regulations, such as stricter rules for transportation emissions and implementation of zero-emissions urban environments. Public scrutiny of, and demand for, improved climate performance of transportation infrastructure is likely to rise as the cost of more emissions-intensive modes of transportation increases.

Physical climate risk

Acute physical risks--such as storms, wildfires, and floods--can impair, disrupt, or even destroy assets, limiting the availability of essential infrastructure including roads and mass transit systems. Over time, both acute and chronic risks--changing temperature and precipitation patterns and sea level rise--may shorten the useful life of vehicles and infrastructure. Many service interruptions are regional, but the key role of transportation access in communities and economies can lead to major impacts. The impacts of physical climate risks may extend beyond the assets themselves and play out to an infrastructure provider's region or service area. For companies like Vegfinans and its partners located in northern Europe, extreme precipitation, particularly during the winter, and associated flooding from heavy rainfall or snowmelt, will likely increase. Sea level rise may be a concern in some coastal areas. For Vegfinans' partners and road users, vehicle fuel supply chains, whether for fossil fuels, biofuels, or electricity, can also be disrupted by extreme events such as storms, droughts, heatwaves, or floods.

Privacy protection

Privacy protection is material for toll road operators such as Vegfinans, as these companies process and collect toll road users' data. There are high inherent risks and adverse consequences (reputational damage, legal/regulatory fines, and operational disruptions) if a company fails to protect personally identifiable information (PII). We believe companies entrusted to protect private information shared by clients are prime targets for cyberattacks. The risk stems from potential data breaches that expose the client information. These often result in large settlement payouts and significant investments to better protect IT infrastructure. In Norway, toll road operators and the Norwegian Public Roads Administration (NPRA) jointly control the personal user data held in central systems. The parties have entered into an agreement concerning the handling of this joint responsibility. The toll road operators, such as Vegfinans, are obliged to collect tolls and provide information to those people registered in the toll collection systems. The NPRA provides overall information about the processing of personal data in these systems and notifies the Norwegian Data Protection Authority of any discrepancies in the central toll collection systems.

Impact on communities

Developing infrastructure can be highly disruptive to existing communities, particularly in cases of redevelopment. This may include permanent demolition of existing structures (in some cases involving eminent domain) and temporary service interruptions for essential utilities and existing transportation routes. Greenfield development may reduce the amount of green space, affecting quality of life. Also, during operation, projects may cause hinderance to communities, notably due to noise pollution. Conversely, projects may also improve or extend service for select communities or for the nation, bolstering economic productivity. However, these may still face adversity from local opposition if benefits or compensation are not sufficiently balanced. This can cause extended construction delays or litigation, increasing project costs and challenging a project's financial viability. It can also lead to future government counterparties ending their contractual commitments.

Issuer And Context Analysis

The framework envisages financing of projects related to clean transportation, including development of public transport lanes and other activities related to developing transport infrastructure. These projects aim to address climate transition risk, which we consider to be one of the most material sustainability factors for Vegfinans. Eligible projects will also be exposed to physical climate risk, which could affect the operability of the infrastructure being financed if not managed adequately. In addition, physical climate risk could also affect Vegfinans' own assets (i.e., tolls, cameras). Moreover, in case roads are damaged, this would prevent car traffic, and may temporarily impact Vegfinans' collected tolls. Communities are affected by the road infrastructure developments in the respective area.

The transport sector is a main contributor to climate change globally, accounting for about one-quarter all of greenhouse gas emissions in Norway (source: IEA, Norway 2022 Energy Policy Review). National and regional efforts to decarbonize the sector are therefore key in a LCCR future. Vegfinans' green financing framework therefore provides an opportunity for investors to contribute to climate-friendly transportation infrastructure projects in Norway.

Vegfinans' ability to have a positive environment impact occurs mainly through financing of low-carbon infrastructure transportation assets and the enhancement of public transportation. Although Vegfinans does not directly influence the sustainability aspects of the infrastructure it funds, it may contribute to the consideration by its partners of the green financing opportunities, stakeholder concerns, and impact reporting data requirements. We note positively that in 2023, one of Vegfinans' main project implementation partners, the NPRA, adopted an action plan aiming to reduce direct emissions from construction activities by 55% by 2030 (2020 benchmark), for instance through the increased use of electrical machinery in its construction activities.

Due to its business model, Vegfinans' direct exposure to climate and other environmental risks is limited. Vegfinans is Eco-Lighthouse certified since 2017 and as part of it, it prepares greenhouse gas accounting annually. Eco-Lighthouse is Norway's most widely used certification scheme for enterprises seeking to document their environmental efforts and demonstrate social responsibility. Since 2018, the company has had its operations certified according to Miljøfyrtårn, equivalent to ISO14001 as a tool for environmental management. Vegfinans strives to minimize emissions linked to avoidable employee travel which is required by its internal travel policy. We note positively that in 2022, Vegfinans registered a 21% decrease in air travel compared with 2019.

While Vegfinans does not conduct physical climate risk assessments, these risks are considered by its partners, in accordance with relevant regulation. For instance, the NPRA has laid out priorities under the National Transport Plan (Nasjonal transportplan), which comprise prerequisites for systematic climate risk and vulnerability assessment as part of road planning, at a national level, in Norway.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond and Loan principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

All the framework's green project categories are shaded in green, and the issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green projects. Please refer to Analysis of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds. The green bond eligible project category of clean transportation contributes to the environmental objective of climate change mitigation. Vegfinans has set a maximum look-back period of three years for operational expenditures, while no limits apply for capital expenditures. We note positively that the issuer commits to disclose proportion of funds used for financing vs re-financing of the existing projects.

✓ Process for project evaluation and selection

The framework sets out project evaluation and selection processes. The company has a dedicated Green Finance Committee (GFC) responsible for reviewing assets and projects to be funded and ensure that only assets and projects aligned with the eligibility criteria are selected. This GFC is comprised by the company's CEO, CFO and Head of Sustainability and Public Contact, and is responsible for ensuring that only assets and projects (or parts of projects) that are aligned with the criteria for Eligible Green Projects are selected. A unanimous consensus among the committee members is required for the decision to categorize a project or asset as eligible, which we view favorably. We also view positively that Vegfinans has outlined an exclusion list, ensuring that proceeds of Green Finance Instruments will not be used to finance activities related to fossil fuel and nuclear energy generation, gambling or tobacco, among others.

✓ Management of proceeds

The issuer commits to credit an equivalent amount to the net proceeds of any green financing to a dedicated account (green account). The GFC will document and monitor the allocation of net proceeds to ensure that they support only the financing of the specific eligible projects. If an Eligible Green Project no longer qualifies or the asset is divested or lost, an amount equal to its allocated funds, will be re-credited to the green account. The framework also states that proceeds will be periodically adjusted to match allocation to eligible projects during the term of any Green Finance Instrument. Furthermore, the unallocated proceeds will be temporarily saved in the company's ordinary account, and Vegfinans will strive to allocate them within the next one year.

✓ Reporting

Vegfinans commits to reporting annually on the allocation of proceeds and the impact of the green financing instruments in the form of a Green Finance Report, until full allocation of the net proceeds, and in the event of any material changes, until the relevant maturity date of the green bond issued. The report will, among other aspects, provide information on the allocation of the proceeds, including examples of the financed projects and assets' adherence to the relevant criteria. The framework comprises examples of impact indicators which the issuer may report on, including number of kilometers of new train lines, pedestrian pathways, bicycle lanes and tunnels; and number of charging points for electric vehicles and ferries installed. We view positively that Vegfinans will appoint an external independent auditor to review the allocation of proceeds reporting in the form of a Limited Assurance Report.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Over the three years following issuance of the financing, Vegfinans expects to allocate 56% of proceeds to finance infrastructure for pedestrians and cyclists, 33% to infrastructure for low-carbon transport, 8% to public transport lanes and 3% to infrastructure for passenger ferries. The issuer expects roughly the same amount of proceeds to be allocated to financing projects and refinancing projects.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in Vegfinans Green Bond Framework, we assess the framework Dark Green.

Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our [Shades of Green Analytical Approach](#) >

Green project categories

Clean Transportation

Assessment

 Light green

Description

Public transport lanes: Construction, maintenance and upgrade of lanes for public transport including buses and taxis. The lanes could also be used for other modes of transportation based on political priorities in the respective area

Analytical considerations

- Investments infrastructure for public and low-carbon transport is well aligned with the low carbon transition. Nonetheless, the project category receives a Light green because the issuer will finance lanes which, alongside electric buses and vehicles, are allowed to be used by vehicles potentially running on fossil fuels (buses, taxis, motorbikes, vehicles with multiple occupancy).
- Proceeds can finance road lanes which, as well public transport and electric vehicles, can be used by vehicles potentially running on fossil fuels, such as personal vehicles meeting occupancy thresholds, motorcycles, or taxis. Although occupancy restrictions may incentivize car sharing, they do not guarantee emissions savings or eliminate fossil fuel emissions entirely. Moreover, the types of vehicles allowed to use these lanes may evolve over time, and is beyond Vegfinans' direct control, which may bring uncertainty regarding the positive impact of these projects.
- Most of the lanes under this category will be included in the Nedre Glomma city package, which allows use by buses (all electric), taxis, motorcycles, personal cars with several passengers, and electric cars. The remainder of the lanes to be financed will be part of the Grenland City package. According to the issuer, buses in Grenland using these lanes will be electric/zero emission, by 2024/2025.
- Vegfinans has limited ability to influence the implementation of the eligible projects, for example approaches to local environmental risks or climate or environmental requirements for contractors. The full impact of the projects it is financing will therefore also depend on the policies of its implementing partners, including their requirements for subcontractors in the construction phase.
- The physical risk of the financed projects is the responsibility of Vegfinans' partners and in accordance with relevant regulation. While Vegfinans does not conduct physical climate risk assessments, we note that NPRA sets priorities under the National Transport Plan (Nasjonal transportplan), which includes the requirements for nationwide systematic climate risk and vulnerability assessment as part of road planning.

Clean Transportation

Assessment

 **Dark to Medium green**

Description

Infrastructure for low-carbon transport: Construction, maintenance, and upgrade of infrastructure supporting low-carbon and zero emission public transport such as bus stops and public transport terminals

Analytical considerations

- We view measures to improve accessibility to public transportation infrastructure and to facilitate the increased use of low-carbon public transport as part of a Dark green solution. Nonetheless, we note that some infrastructure could also be used by buses currently running on fossil fuels or biogas, which we therefore view as Medium green (representing significant steps toward an LCCR scenario).
- The majority of proceeds under this project category will be used for the construction of the Lysaker public transport terminal. The terminal aims to promote public and low carbon transport through a more efficient public transport hub, connecting railway, buses, and cycling lanes. The Lysaker terminal is planned to be finished in 2029, hence by the time it opens, the majority of buses using the terminal will be emission-free. We note that this terminal will be, according to the issuer, a connection point for transferring from one mode of transport to the other, and not built with the intent of being focused on other activities, such as restaurants or shopping. Moreover, the issuer has shared that proceeds will not finance such elements.
- According to the issuer, the other investments expected under this project category will comprise mostly bus stops and sheds, for all types of buses, including electrical and biogas. Most of the bus infrastructure under this category will be included in the Nedre Glomma city package, where all buses are electric. The remaining bus infrastructure is part of the Grenland City package, where buses will be electric/zero emission, by 2024/2025.
- We view positively that infrastructure dedicated to vehicles running on fossil-fuels, such as fueling stations, will not be financed under the framework.
- Vegfinans has limited ability to influence the implementation of the eligible projects, for example approaches to local environmental risks or climate or environmental requirements for contractors. The full impact of the projects it is financing will therefore also depend on the policies of its implementing partners, including their requirements for subcontractors in the construction phase.
- The physical risk of the financed projects is the responsibility of Vegfinans' partners and in accordance with relevant regulation. While Vegfinans does not conduct physical climate risk assessments, we note that NPRA sets priorities under the National Transport Plan (Nasjonal transportplan), which includes the requirements for nationwide systematic climate risk and vulnerability assessment as part of road planning.

Clean Transportation

Assessment

 **Dark green**

Description

Infrastructure for passenger ferries: Construction, maintenance, and upgrade of passenger ferry docks and infrastructure for charging of electric passenger ferries.

Analytical considerations

- The project aims at phasing out fossil fuel-related transportation by investing in ferry docks for electric ferries and infrastructure for charging of ferries. Fully electric ferries are necessary for the water transport industry's transition to a low carbon future, and therefore we view this project category as dark green. We note that electrical ferries enable significant emissions savings when compared with internal combustion engine ferries, especially when the manufacturing and charging processes are powered by renewable electricity. The issuer has shared that the ferry dock may be used by non-electric ferries as a backup in case of technical problems.
- In Norway, as of 2023, about 2% of the electricity generation comes from fossil fuel while around 98% comes from renewable sources, mostly hydropower (source: IEA). Thus, we view that charging stations dependent on the local energy mix of the grid

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have low life-cycle emissions. We note that Norway had an above-average share of primary energy consumption from renewable sources, when compared with the global average.

- We view positively that use of the ferry docks will be limited to ferry boats used as public transportation, and not recreational boats.
- Vegfinans has limited ability to influence the implementation of the eligible projects, for example approaches to local environmental risks, or climate and environmental requirements for contractors. The full impact of the projects it is financing will therefore also depend on the policies of its implementing partners, including their requirements for subcontractors in the construction phase. The physical risk of the financed projects is the responsibility of Vegfinans' partners and in accordance with relevant regulation.

Clean Transportation

Assessment

 **Dark green**







Description

Infrastructure for pedestrians and cyclists: Construction, maintenance, and upgrade of lanes, sideways, and pathways (including bridges and tunnels) for pedestrians and cyclists.

Analytical considerations

- Lanes or pathways that enable walking and cycling safely are key in an LCCR future, including when considering that 50% of car journeys in Europe cover less than 5 km (source: World Health Organization).
- Vegfinans has limited ability to influence the implementation of the eligible projects, for example approaches to local environmental risks or climate and environmental requirements for contractors. The full impact of the projects it is financing will therefore also depend on the policies of its implementing partners, including their requirements for subcontractors in the construction phase. While the issuer does not control factors such as embodied emissions, we note positively that the NPRA, one of its main implementation partners, has set the target to reduce direct emissions from construction activities by 55% by 2030 (2020 baseline), through the increased use of electric machinery in its construction activities.
- The physical risk of the financed projects is the responsibility of Vegfinans' partners and in accordance with relevant regulation. While Vegfinans does not conduct physical climate risk assessments, we note that NPRA sets priorities under the National Transport Plan (Nasjonal transportplan), which includes the requirements for nationwide systematic climate risk and vulnerability assessment as part of road planning.

S&P Global Ratings' Shades of Green

Assessments					
Dark green	Medium green	Light green	Yellow	Orange	Red
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

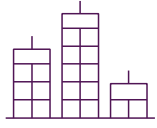
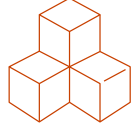


Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs			
Clean Transportation	 11. Sustainable cities and communities*	 9. Industry, innovation and infrastructure	 13. Climate action	 3. Good health and well-being

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- [Analytical Approach: Second Party Opinions: Use Of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions](#), July 27, 2023
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023
- [S&P Global Ratings ESG Materiality Maps](#), July 20, 2022

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