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Second-Party Opinion * Ald Automotive Positive Impact Bond Framework August 2021	Kalina Dimitrova , Project Manager k.dimitrova@bcra-bg.com
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Company Overview

Ald Automotive is a mobility solutions provider with main business activities concentrated in full-service leasing and fleet management. Its operations are spread across business clients of different sizes, as well as private individuals.

In 2018 the company published its Positive Impact Bond Framework aiming to clarify to investors and market participants its intentions of issuing a Positive Impact Bond with the sole purpose of aiding the company’s fleet transition to sustainable mobility. The Company’s stated intentions are to update its fleet with “green vehicles”, namely vehicles that meet or exceed certain predefined criteria.

Table 1: Federal Republic of Germany Green Bond Framework - Green Bond Scorecard

Evaluation factor	Score	Notes	Weight
Part I	5 (overall)		70% (overall)
Use of proceeds	5	Full alignment with EU GBS and EU taxonomy.	50%
Project evaluation and selection	4	Outdated technical screening thresholds. Very robust methodology.	20%
Proceeds management	5	Clear and transparent policy.	15%
Reporting quality and degree of transparency	5	Excellent level of detail, complemented by additional information.	15%
Part II	4 (overall)		30% (overall)
General information on the entity	5	Excellent alignment with relevant UN SDG.	20%
Alignment and impact of usual business activities	3	Proposed solution for increasing current fleet's sustainability may pose some environmental concerns.	50%
ESG profile of entity	4	Short and simple description of ESG policy. May include more details.	30%
Final score	GR5	Issuer with total alignment with the GBS. Certain achievement of goals if nothing extraordinary emerges. Very large positive impact on the environment.	

Green Bond Framework Analysis

➤ Use of proceeds

Ald Automotive intends to use of all raised funds for investment in sustainability-oriented products, namely “green vehicles”. The company plans to allocate the whole issue amount to growing its fleet of electric and hybrid-electric vehicles. This investment has the following goals:

- Reduce regular business activities impact on the environment by mitigating climate change factors;
- Promote the transition to sustainable means of transportation;
- Improve the well-being of both company employees and the general population.

Formally, the use of proceeds is documented as “exclusively used to finance or refinance “Eligible vehicle” that contribute to the development of clean transportation and the transition to a low carbon future”. The main ways of achieving this goal are reductions in fuel consumption and greenhouse gas emissions.

From the EUGBS standpoint, transportation is an eligible sector under the EU Taxonomy. Its main contribution to the environmental objectives is climate mitigation, which coincides with Ald’s stated goals. GBS alignment requires also that the Do No Significant Harm principle be followed. From this perspective, Ald’s activities satisfy the criteria for Climate Adaptation, Circular Economy and Pollution prevention. This is achieved through the company’s stringent criteria for eligible vehicle models.

Given that the GBF was developed before the publication of the GBS, Ald’s intentions satisfy the use of proceeds criteria partially. The main divergence is due to the slight differences in the standards used for determining vehicle eligibility. Nevertheless, Ald Automotive’s score in this regard is 5 on a scale from 1 to 5 (poor to excellent), because the fundamental goal of the Green Bond issue is completely aligned with the requirements of the particular sector in the EU taxonomy.

➤ Project evaluation and selection

When formulating the GBF the company developed very precise criteria for the “eligible vehicle” models’ selection. This was done using the services of an external company (Quantis – environmental advisory company) with apparent expertise in the matter at hand. Quantis was commissioned to develop a methodology for the selection of specific vehicle models, given Ald’s end goals. From the published GBF it is evident that the methods employed in the development of the methodology were very detailed and exhaustive. What is more, Ald has published the full methodology which has the effect of increased transparency and legibility for other market participants.

For vehicle selection, Ald has established a “Positive Impact” committee which is tasked with overseeing the respect of the principles, laid out in the GBF, as well as the whole issuance process. The committee is composed of people from the CSR department, Financial department and Investor relations, ensuring its expertise and ability to manage the process of project evaluation and selection, proceeds allocation, and so on.

In short, Ald has determined two eligibility criteria which sum up the more detailed analysis done to develop the methodology. These are:

- Electric vehicles (EV) and fuel cell vehicles are automatically considered eligible, due to their fulfillment by the design of Ald’s main objective (GHG reduction)

- Hybrid-electric vehicles (HEV) and plug-in hybrids (PHEV) with tailpipe CO2 emission at or lower than 85 grams per passenger kilometer are considered eligible

The second eligibility criterion is where Ald's GBF deviates from the EU GBS, which requires that the maximum tailpipe emissions do not exceed 50 grams per passenger kilometer until 2025.

The company has also set up exclusion criteria, which are as follows:

- Financial exclusion criteria
- Vehicles already benefiting from a funding program
- Vehicles from Ald's subsidiaries
- Technical exclusion criteria
- Internal combustion engine vehicles
- LPG vehicles
- Biofuel vehicles
- Natural gas vehicles

Apart from the official technical screening criteria, Ald's methodology incorporates two additional KPI's in the process of vehicle selection. These are NOx gas and PM (Particulate matter). What is more, the methodology is built on a "life-cycle" principle meaning that the eligible vehicle selection criteria are determined by analyzing the production, use, and end of life phases of the given vehicles. This is another area where Ald's GBF is fully aligned with the EU taxonomy's technical screening criteria – the vehicles selected will only be deployed in areas, where the predefined degree of components recycling, recovery, or reuse can be achieved: 1) reusable or recyclable to a minimum of 85% by weight; 2) reusable or recoverable to a minimum of 95% by weight.

The overall process for eligible vehicle selection is clearly defined and laid out while also considering all important aspects. Thus, the score for this segment of the analysis is 4 out of 5 with the main setback being the now outdated CO2 threshold value.

➤ **Proceeds management**

The Green Bond proceeds will be managed by Ald's Finance department. The intention is to select enough vehicles so that the total net proceeds will be allocated at issue. In case the fleet changes during the life of the bond, new eligible vehicles will be added to utilize the freed funds. Ald' has expressed commitment to allocate all proceeds within 2 years of the issue date.

The management of unallocated proceeds will happen within Ald's internal accounting system and any unallocated proceeds will be managed within its regular cash operations.

Given these circumstances, Ald scores 5 out of 5 in this segment.

➤ **Reporting quality and degree of transparency**

Ald has committed to reporting annually until the Green Bond maturity both on allocation and impact. The company's Corporate Social Responsibility department is tasked with overseeing the reporting process. The allocation reporting is quite straightforward, given the nature of the planned investment as well as the planned full allocation at issue date. The impact reporting, on the other hand, will utilize the tools developed for Ald's methodology which include the following:

- Comparison with a baseline fleet which serves the purpose of establishing the reduction in GHG (CO2 equivalent) emissions, provided Ald's fleet was composed of internal combustion engine (ICE) vehicles
- Given the transitional nature of the industry, Ald will report on annual GHG emissions from its business activities, both in terms of ICE vehicles and GHG produced in the production and end-of-life phases of vehicles.

In addition to the specific details reported, the company will report on supplemental KPI's and metrics, such as:

- Total number and amount of eligible vehicles;
- Ration of new vs. existing vehicles;
- Geographical distribution of eligible vehicles fleet;
- Eligible vehicles drivetrain type (EV, PHEV, HEV).

Given the planned reporting schedule and content, alongside the very detailed publicly available methodology, BCRA views the company's reporting quality and transparency as excellent. This gives Ald a score of 5 out of 5.

Company ESG profile

Ald's Green Bond Framework lists the 4 main driving principles behind its CSR. These can be summarized as:

- A commitment to establishing sustainable future mobility – its main goal is to minimize the environmental impact of its regular operations. The way to achieve this goal is to shift away from the “one user = one car” model. By extension, these actions aim to promote public health.
- Ensuring constant improvement of employees' well-being in line with Ald's business model
- Develop and maintain a responsible business culture in all lines of business with special attention to business ethics. In other words, Ald states a commitment to guiding clients towards low emission cars that will best serve their needs, helping them reduce their overall carbon footprint.
- Reduction and tracking of Ald's energy and resources consumption; usage optimization; strive towards carbon neutrality.

Ald's GBF describes the company's role in the creation of a sustainable mobility model as central, due to its position as a prescriber of vehicle choice. The published information points to a corporate policy and real-world actions of lowering GHG emissions even before the issuance of the Green Bond and the development of the GBF.

The company scores 4 out of 5 in this component of the analysis. A more detailed description of its ESG policy would be a good reference point for a more detailed analysis, promoting a higher score.

Usual business activities

Ald's business focuses primarily on automotive leasing and fleet management. As a result, it is inherently prone to GHG emission generation. The company's evident commitment to the reduction of GHG emissions and the drive towards sustainable mobility well before the issuance of its Green Bond can be considered as a positive factor in its position as a net positive contributor to climate change mitigation.

A more detailed business plan concerning individual customers could increase the company's position strength as a sustainable mobility provider. This would in turn be a potential factor for increasing its score. Another important aspect is Ald's plans for selling some of its "ineligible vehicles" in order to increase the share of "green vehicles", which may not necessarily achieve its goal of GHG reduction on a larger scale. However, the transition to "eligible vehicles" will inevitably lead the company's regular activities towards more sustainable transportation. As of now, it scores 3 out of 5 in this segment.

Other considerations

Ald's GBF does not explicitly comment on possible controversies and does not describe any type of action plan to mitigate these controversies. The described methodology, however, shows a rather deep delving into the problem that the company is trying to solve, which has the potential to avoid most controversies in this type of business activity.

The company's GBF describes alignment with 4 of the UN's Sustainable Development Goals (SDG). This further aids its final Green Rating score, as it shows good coverage of the most urgent issues at hand in the Transportation industry, described both by the UN SDG and the EU GBS.

As a result, the company scores 5 out of 5 on this segment.

General Conclusion: BCRA considers that the Positive Impact Bond Framework of Ald Automotive is in full alignment with the internationally recognised Green Bond Principles as well as with proposed EU Green Bond Standards. The issuer achieves a final Green Score of 5 out of 5.

*** Please note:** *This document is prepared for methodology development purposes, thus, this second-party opinion is unsolicited as neither the green bond issuer nor a related third party has participated in the evaluation process. BCRA uses only publicly available information from reliable sources but cannot guarantee their accuracy, adequacy, or completeness.*