Last January, Odfjell SE successfully completed a new sustainability-linked four-year senior unsecured bond issue of NOK 850 million (~$100 million). Priced at the tight end of initial price talk and ~0.5% lower than its trading curve during the last six months, the bond carries a coupon of three-month NIBOR plus 5.75% p.a. with quarterly interest payments. It is also the first to be issued under Odfjell’s newly established Sustainability-Linked Finance Framework of 2020. The sustainability feature offers issuers a carrot/stick by linking the redemption price of the bonds to the company’s ambition to reduce carbon intensity. Proceeds will be used for the refinancing of an existing NOK 700 million bond maturing in the same month, and for general corporate purposes. Details of the offering are shown in the Guts of the Deal on the following page.

A tribute to the credit, the environmental goal and strong capital markets, the issue was well-received. The first of its kind, sustainability-link had a clear positive impact on investors’ interest and demand. The book was more than two times covered, and approximately 1/3 of the investors were thought to be entirely or significantly dependent on the sustainability-link, reversing a negative trend with some investors scaling back their shipping exposure due to among other reasons ESG risk. With the road show having been extended by a day, the joint lead managers opened the books with an expected deal size of NOK 750 million and initial price talk (“IPT”) of three-month NIBOR + 575-600 bps. The indications of interest exceeded the expected deal size within the IPT. The books closed two hours after opening with the initial size set at NOK 850 million and a maximum borrowing limit of NOK 1.25 billion. The book was dominated by Scandinavians led by Norwegian investors with a significant influx of ESG focused investors from Sweden and Finland that were not invested in Odfjell prior to this issue. Asset managers and pension funds led the book.

As we suggested earlier, this is not your traditional Norwegian bond. In this new format, sustainability shares the spotlight with credit. Odfjell’s new bond issue will be the first of its kind not only in the shipping space, but also in the entire Nordic bond market. The sustainability component in the proposed bond issue will be linked to the company’s fleet transition plan and its ambition to reduce the carbon intensity of its controlled fleet by 50% by 2030 compared to 2008 levels. From the sustainability perspective, the bond’s key structural highlights include the following:

- **Penalty:** Step-up in maturity price of 1.5% if Odfjell fails to meet its targets
- **Key performance indicator:** Average Efficiency Ratio (AER) – CO2 emissions per tonne mile travelled for its controlled fleet
- **Sustainability performance targets:**  
  1) AER ≤ 8.18
- **Confirmation by external verifier:** that the company is on track to reach the 2030 Fleet Transition Plan Target of 50% AER reduction
- **Target Observation Date (test date):** 30 June 2024
- **Sustainability reporting:** Annually, to include sustainability-linked progress report, verification and Fleet Transition Plan review

Sustainability bonds need to be distinguished from green bonds which have been present in the
markets for some years. In contrast to green bonds, this structure focuses on the company’s operations as a whole, rather than specific assets. As a result, the use of proceeds is not limited to certain eligible projects, as is the case for green bonds. In fact, the new product works better for shipping with the new taxonomies in the EU.

While the immediate focus is on 2030, Odfjell established new and ambitious climate targets which go beyond those established by the IMO. The company is committed to pursuing a zero-emissions strategy and will only order vessels that utilize zero-emissions technology from 2030, with the intention of having a climate neutral fleet by 2050. The timeline of the fleet transition plan is aggressive given the available solutions. As of 2019, the company reduced its intensity-based emissions by 26% relative to 2008. This was largely achieved through significant investments in energy saving devices on existing vessels, as well as the fleet renewal program which was finalized last year. The goal is to achieve a 31% reduction by 2024. Again, this will be achieved through more than 100 investments in energy saving devices across the existing fleet. No significant changes to the fleet composition are expected, largely due to the uncertainty regarding the choice of propulsion technology. With the goal to reduce carbon intensity by 50% in 2030, the company intends to utilize a combination of retrofitting existing vessels, phasing out old vessels, and including new and more efficient vessels. To achieve carbon neutrality by 2050 will require zero-emission vessels or, potentially, the purchase of carbon credits as an offset.

Will 1.5% make a difference? Odfjell believes so, as it is the right thing to do. Did someone suggest a moral imperative? In case you were wondering, the company was within its AER trajectory as of year-end 2021.