

Green Finance Framework

May 2022



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1. Introduction

1.1 About VR Group

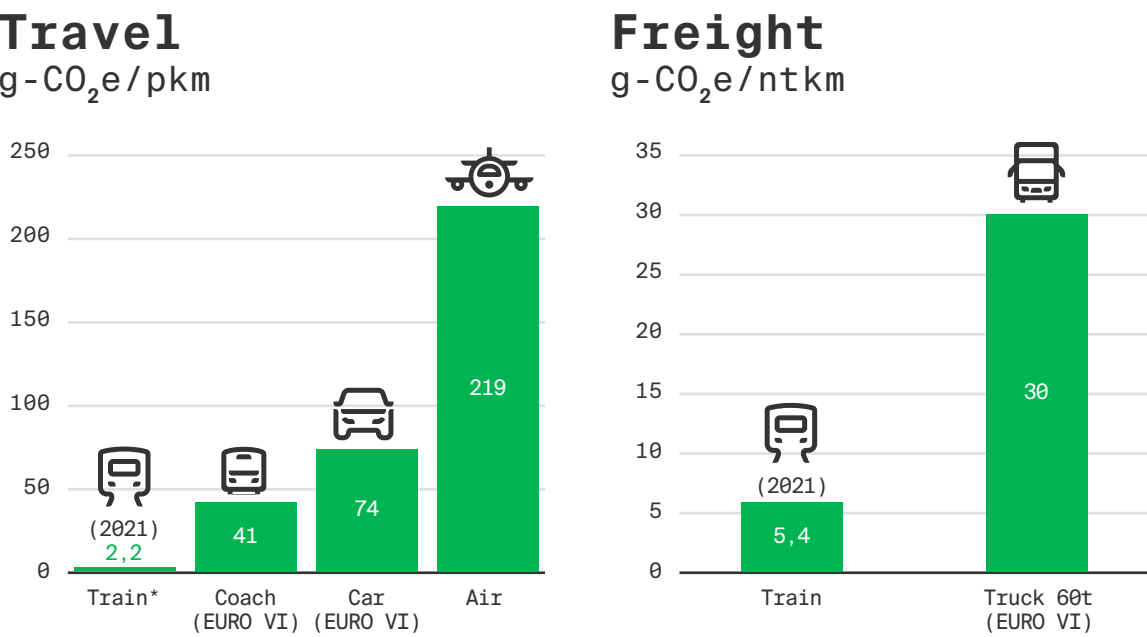
VR Group is a Finnish state-owned service company, operating in the fields of travel, logistics and maintenance. VR provides public transport services in long-distance and commuter traffic through trains, buses and trams. VR Transpoint provides logistic services both on rail and road, and the third business area, VR FleetCare, offers rail fleet maintenance and lifecycle services. Employing approximately 5,600 professionals and generating approximately 840 million euros in revenues, VR Group operates primarily in Finland and to some extent in Russia (currently being discontinued in a controlled way). The parent company is VR-Group Plc.

VR Group - key figures 2021 (2020)

					
Net sales 838.3 million euros	5,620 employees	55.0 million train journeys	28.9 million bus journeys	Goods transported by rail 37.4 million tons	Goods transported by road 5.3 million tons
(791.9)	(5,818)	(59.5)	(29.0)	(36.6)	(4.9)

1.2 VR Group's contribution to Climate Change Mitigation

Rail traffic is, by definition, an environmentally friendly mode of transport as it has a lower climate impact than alternative means of transport, such as passenger cars, aircrafts and trucks. In addition, rail traffic already today allows a large-scale utilisation of renewable electricity in transports.



*Fully compensated as of 2019

As the transport sector contributes to about a quarter of Europe's greenhouse gas emissions¹, the investment in climate efficient transportation alternatives should be a key priority. Finland has a target of becoming carbon neutral in 2035² and to reach this target, the Finnish Government made a resolution on reducing domestic transport-related greenhouse

gas emissions in May, 2021³. The target is to halve transport-related emissions by 2030. VR Group's transportation solutions are already a sustainable alternative to other means of transportation, but we are committed to contribute to the achievement of the above targets and strategy and reduce our climate impact even more. We aim to increase railways' share of the mode of transport to 10% of passenger traffic (in 2019 the share was 6.2% of passenger-kilometres, estimate for 2020 share is 4,0% due to COVID-19), and to 30% of freight traffic (in 2020, the share was 25% of tonne-kilometres). By making railway transport more popular, we have already been able to reduce Finland's emissions by an amount equal to the annual emissions caused by a city with approx. 135,000 inhabitants. In addition, we have set ambitious environmental goals for our entire Group for 2021-2025 (see more in section 1.3).

One challenge for VR Group is that the Finnish railway system is a mix of electrified and non-electrified legs. The electrification is underway in several locations and the trend is expected to continue, enabling higher usage of electric locomotives and making the shift from diesel to electric reality. As approximately half of the Finnish railway network still remains accessible only by diesel-powered locomotives, VR Group systematically brings up the environmental benefits of electrification in its dialogue with the local authorities. VR Group has also expressed its view on the parts of the railway network where electrification would be the most beneficial for both passenger and freight traffic.

VR Group is using diesel trains on the non-electrified rails but have transitioned to electrified trains on all rails possible. We are investing in electrified Sr3 locomotives which have a last-mile function that allows work

on short distance shunting work where electricity is not available (Sr3 locomotives' auxiliary diesel-powered engines are not suitable for transports). VR Group stands out by not using diesel-powered locomotives for line drives under the electric overhead lines and provides only hydro powered zero-carbon electric transports as service. Shifting cost-efficiently and energy-efficiently from trucks to trains helps to lower the emissions on a societal level.

Railway system in Finland

56% of the railways are electrified.



Sr3 - Our strongest and most ecological locomotive

- Power 6 400 kW (8 700 hp)
- Reduces emissions by approx. 250t CO₂e per year with the last-mile functionality
- Approx. 25% more energy efficient than the previous Sr2 model
- Recyclability rate of 98 %

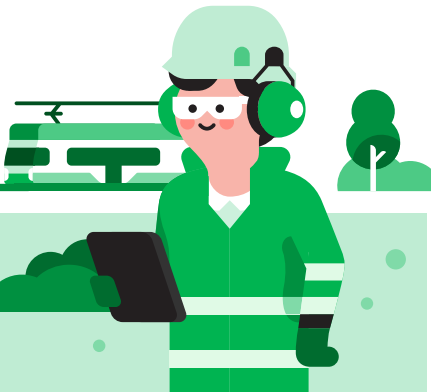


1 https://ec.europa.eu/clima/policies/transport_en
2 <https://ym.fi/en/national-air-pollution-control-programme-2030>
3 <https://valtioneuvosto.fi/en/-/government-decided-on-means-of-reducing-emissions-from-road-transport-emissions-to-be-halved-by-2030>

1.3 Sustainability at VR Group

Sustainability and responsibility are at the core of our strategy, and our vision is “Getting there together for a better world”. Responsibility is a uniting theme of our business operations and growth areas, and we want to be a pioneer of responsible business and set an example, as a company, for others.

Our sustainability strategy consists of five key areas of responsibility (with relevant SDGs):



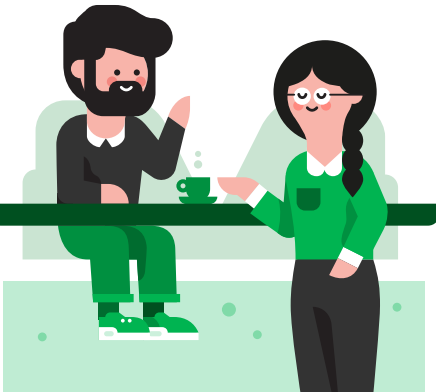
Safety and security

We ensure that people and goods reach their destinations in the safest way possible – safety is our way of doing things



Customer orientation

We are our customers' first choice



Employee experience

Together we build an inspiring workplace where everyone feels comfortable



Environmental responsibility

We reduce the environmental impact of transport and the carbon footprint of society



Corporate social responsibility

We increase Finland's well-being



The main driver for VR Group's climate impact is to increase our carbon handprint by developing the market share of rail traffic and thus helping passenger and freight volumes transition to a greener mode of transport. We are simultaneously improving our own operations and have set new environmental goals for 2021-2025, which are described in the table on the right.

Transparency on sustainability

At VR Group, responsibility is part of the daily work and the Group strategy. In the responsibility reporting, we comply with the Government Resolution on Ownership Steering Policy from 2020 and guidelines for reporting on country-specific taxes for majority state-owned companies from 2014. In addition to the annual responsibility report, we prepare a voluntary statement of non-financial information, pursuant to chapter 3a of the Finnish Accounting Act 1336/1997, applied from the European Parliament and Council Directive 2014/95/EU. To ensure comparability, the management has also selected supplementary indicators compliant with the international GRI (Global Reporting Initiative) framework, following the Core level requirements of the GRI standard. Further on, to improve and increase reporting of climate-related information, VR Group considers adopting other reporting frameworks such as TCFD.

VR Group has an environmental management system compliant with the requirements and implementation guidelines of the ISO 14001 standard. The environmental policy, i.e. principles of environmental activities, corresponds to our strategy and responsibility promises. The environmental policy is followed throughout the Group, where everyone is



Reducing emissions

Goal:
Decreasing the Group's greenhouse gas emissions **by 15 per cent** per performance* from 2019 level.

Drivers:
Renewable energy, increased electrification of train and bus transportation, increased energy efficiency, compensation



Increasing energy efficiency

Goal:
Decreasing the Group's consumption of energy **by 15 per cent** per performance* from 2019 level.

Drivers:
Energy efficient driving, fleet planning and traffic flow, increased train sizes, electrification, real estate energy efficiency improvements



Increasing material efficiency

Goal:
Increasing the recycling rate to **80 per cent** (from 60% in 2019). Major suppliers to commit to continuous improvement.

Drivers:
Waste management, guidance and training, procurement management, spoilage reduction, reduced plastic usage, audits, increased fleet and component life cycles, developed internal logistics



Chemical safety

Goal:
No significant leaks in the transport of dangerous goods or when handling chemicals.

Drivers:
Guidance, training, audits, checks, drills

**Emissions and energy consumption per passenger- and tonne-kilometres*

responsible for taking environmental concerns into account in their own work and personnel is trained to act in an environmentally responsible manner. Our management is committed to ensuring responsible operations and taking environmental aspects into account in decision-making.

VR Group adheres to its Code of Conduct that includes anti-corruption guidelines. Each employee in the Group must complete the training on the Code of Conduct and all new employees are instructed to complete the training when they start working in the Group. In order to supply products and/or services to VR Group, suppliers must accept our Code of Conduct for Partners, which deals with ensuring legal compliance as well as conformity with international sanctions, suppliers' ethics, human rights and labour rights and the environment. These terms and conditions are an essential part of VR Group's bidding and contract process, in which suppliers are also required to make sure that their own supply chains are committed to the same terms and conditions. In addition, VR Group requires its key suppliers to fill in a sustainability self-assessment questionnaire that verifies supplier conformance with the Code of Conduct for Suppliers as well as provides further information for example related to the countries, including potential risk countries, from where the supplier and/or its subcontractor is providing

products or services to VR Group. The results of the self-assessment work as a basis for further clarifications and recommendations, including potential supplier audits.

Safety activities are based on the safety policy and strategy approved by the Board of Directors of VR Group, specifying the meaning of safety and related objectives. Annual safety action plans are prepared based on this at the Group and unit levels. The purpose of safety work is to prevent accidents, damage and harm from happening to customers and personnel and to ensure smooth and uninterrupted business operations.

Sustainable financing

In June 2021 VR Group signed a 200m€ revolving credit facility where the margin depends on the achievement of two of our environmental goals:

- Reduction of greenhouse gas emissions
- Improved recycling rate

This Green Finance Framework is a natural next step for VR Group's commitment to our sustainability strategy, which will allow for investors to take part in financing VR Group's green investments.

In the 2021 Sustainable Brand Index, VR was the most sustainable brand in the transport industry and sixth-most sustainable brand in Finland on the whole.



2. Green Finance Framework

For achieving our environmental targets, we need investments to improve and renew our transportation fleet and energy efficiency. The purpose of this Green Finance Framework (the “Framework”) is to raise green debt to support these investments. This Framework has been established to support future issuance of sustainable financing instruments, including Green Bonds and Loans alongside other types of debt instruments (together the “Green Finance Instruments”).

This Framework is aligned with the Green Bond Principles published by the International Capital Markets Association (ICMA) in 2021 and the Green Loan Principles published by the Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and the Loan Syndications and Trading Association (LSTA) in 2021.



2.1 Use of Proceeds

The net proceeds of the Green Finance Instruments issued by VR Group will be used to finance or re-finance, in part or in full, Eligible Assets and Projects that have been evaluated and selected in accordance to this Framework. Refinancing of eligible operating expenditures will have a look-back period of no longer than 3 years from the time of issuance. Green assets will qualify without a specific look-back period provided that at the time of issuance they follow the eligibility criteria listed below.





Eligible Assets are on a best effort basis aligned with the EU Taxonomy’s Technical Screening Criteria, substantially contributing to Climate Change Mitigation.

4 Sr3 locomotive is VR’s first electric locomotive equipped with radio remote control function and auxiliary diesel engine units. These additional functions are intended for carrying out shunting work where electricity is not available, in which case the entire transport chain can be operated with one and the same locomotive. Sr3’s can switch directly from electric to diesel, which means old diesel locomotives are no longer needed in either end of the transport chain.

5 SmX electric trains will have almost double the passenger capacity compared the older Sm2 trains. Focus on the design of the train will be high recyclability and recoverability rates of the vehicle. The vehicle will be designed and built on the use of lightweight components that are easy to replace and dismantle which is regarded as crucial for and environmentally friendly rail transport. New trains include new highly developed systems which can for example help driver to reduce energy consumption compared to older train models.

6 European Train Control System (ETCS) is a signalling and control component of the European Rail Traffic Management System (ERTMS). ERTMS and, as part of it, ETCS will be a mandatory interoperability and safety-enhancing system in Europe. EU Member States are obliged to move gradually from the current more than 40 separate access control systems to one ETCS system.

Eligible Assets and Projects

Categories	Description of projects	UN SDG Mapping	Environmental objective
<div>Clean Transportation</div> <div></div>	<p>Investments in locomotives, train sets and wagons Investments into new locomotives, train sets and wagons, and renovation, improvements and maintenance of existing rolling stock. Examples of investments in this category are last-mile equipped Sr3⁴ locomotives and Smx⁵ electric trains. Investments made in locomotives solely run on diesel will not be considered Eligible Assets and Projects</p> <p>Investments in other clean transportation solutions Investments into other clean transportation solutions such as fully electrified buses and related bus charging stations</p> <p>Investments in control systems Investments into control systems (ETCS⁶) for the train operations. Investments will not be used to finance control systems related to diesel locomotives</p>	(11.2) Provide access to safe, affordable, accessible and sustainable transport systems for all	Climate change mitigation
<div>Renewable energy</div> <div></div>	<p>Investments in renewable energy projects Investments into solar power systems for buildings owned by VR Group and solar power plants</p>	(7.2) By 2030, increase substantially the share of renewable energy in the global energy mix (11.6) Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality, municipal and other waste management	Climate change mitigation
<div>Energy efficiency</div> <div></div>	<p>Investment in energy efficiency for VR Group owned or operated buildings Investments into projects related to energy efficiency of buildings owned or operated by VR Group. This includes, but are not limited to lightning fixtures, replacements of air handling units</p>	(7.1) By 2030, ensure universal access to affordable, reliable and modern energy services (7.3) By 2030, double the global rate of improvement in energy efficiency	Climate change mitigation

2.2 Selection and evaluation of Eligible Assets and Projects

VR Group has designed and implemented a process to ensure that only projects aligned with the criteria set out above will be selected as Eligible Assets and Projects for its green financing. To oversee this a Green Finance Committee has been established with members from management, treasury, sustainability, fleet management, real estates and business control. CFO is the chair of the committee and the sustainability representatives hold a veto regarding selection of Eligible Assets. The Green Finance Committee will meet at least once a year.

The Green Finance Committee follows the below process when selecting and evaluating projects for the Eligible Projects.

- VR Group’s Investment Board will propose potential Eligible Assets and Projects to the Green Finance Committee
- VR Group’s Sustainability unit evaluates eligibility of the proposals according to the eligibility criteria described in the table of Eligible Assets and Projects. The Sustainability unit will remove projects that do not meet the criteria
- The Green Finance Committee verifies the eligibility of the remaining proposed Assets and Projects and makes the final approval.

2.3 Management of proceeds

VR Group will establish a Green Finance Register in relation to Green Finance Instruments issued by the group for the purpose of monitoring the Eligible Assets and Projects and the allocation of the net proceeds from Green Finance Instruments to Eligible Assets and Projects.

VR Group will over the duration of the outstanding Green Finance Instruments build up and maintain an aggregate amount of Asset and Projects in the Green Finance Register that is at least equal to the aggregate net proceeds of all outstanding Green Finance Instruments. Assets and Projects will be removed, and if needed replaced, from the Green Finance Register if they cease to meet the Eligibility criteria of this Framework.

There may be periods when the total outstanding net proceeds of Green Finance Instruments exceed the total value of the Eligible Assets and Projects in the Green Finance Register. Any unallocated proceeds temporarily held will be placed on the company's ordinary bank account or in the short term money market. VR Group will take ESG criteria in to the account in the short term money market.

The Green Finance Register will form the basis for the impact reporting.

2.4 Reporting

Under responsibility of the CFO, VR Group will annually publish a report on the allocation and impact of Green Bonds issued under this framework. Where relevant, the company will seek to align the reporting with the latest standards and practices as identified by ICMA and the guidelines in the Nordic Public Sector Issuer's Position Paper on Green Bond Impact Reporting, as well as with the EU Taxonomy. The impact report will, to the extent feasible, also include a section methodology, baselines and assumptions used in impact calculations.

Allocation Report

The allocation report will, to the extent feasible, include the following components:

- A list of all Eligible Assets and Projects funded including amounts allocated and unallocated, if any
- Detailed descriptions and case studies of selected Eligible Assets and Projects financed
- Amounts invested in each category as defined in the Use of Proceeds section and the relative share of new financing versus refinancing
- A list of Green Finance Instruments outstanding

Impact Report

VR Group will strive to report on the actual environmental impact of the investments financed by their Green Finance Instruments. If/when actual impact for some reason is not observable, or unreasonably difficult to source, estimated impact will be reported.

The impact indicators may vary with investment category, as defined in this Framework. The impact metrics selected may include the following:

- Clean transportation
 - Annual GHG emissions reduced/avoided, from cars and other vehicles, due to the investment (by comparison to average emissions by km for alternative transportation)
 - Energy savings (MWh)
 - Kilometres or passenger-kilometres in new means of transportation (e.g. electric buses)
- Renewable energy
 - Annual renewable energy generation, MWh
 - Annual GHG emissions reduced/avoided, Tonnes, CO₂
- Energy efficiency
 - Annual energy reduced/avoided, MWh
 - Annual GHG emissions reduced/avoided, Tonnes CO₂e

In addition, VR Group may, to the extent feasible, report on the EU Taxonomy alignment of assets and projects financed.

VR Group may choose to report the impact and allocation of other Green Finance Instruments than bonds directly, and non-publicly, to the lenders or counterparts. For the avoidance of doubt, a green asset will not be financed by several Green Finance Instruments at the same time.

2.5 External review

VR Group has engaged CICERO Shades of Green to act as an external verifier of this Green Finance Framework and the Eligible Assets and Projects. Amongst other things, it confirms the alignment of this Framework with the Green Bond Principles set out in 2021 by ICMA and the Green Loan Principles set out in 2021 by LSTA, ALM and APLMA. CICERO rated the Framework with a Dark Green shading.

This Framework, the Second Party Opinion and a third-party review on the allocation report will all be publicly available on VR Group's website.

