An aerial photograph of a wind farm. In the foreground on the right, a large white wind turbine is partially visible, with its three blades extending across the top of the frame. In the middle ground, another wind turbine stands on a small hill. The landscape is a dense forest of green trees, with a road winding through it. The sky is a mix of blue and orange, suggesting a sunset or sunrise. A grid of small white plus signs is overlaid on the image.

MAY 2021

# Green Finance Framework

**caruna** | Positive energy.

# Foreword

Energy system revolution is necessary to meet today's ambitious climate targets: transition from fossil energy sources to clean, renewable electricity, significant electrification of the energy system as well as smart solutions for electricity distribution, storage and use. We as a DSO have an essential role in the society to enable climate change mitigation and adaptation activities.

Functioning society is dependent on reliable electricity supply and as such, a strong electricity network is a backbone of the society. Our investments into both the capacity expansion and the increase of elasticity in the energy market enable climate change mitigation measures of the society: the capacity expansion assists with the electrification of the society, while increasing the elasticity of the energy market helps to avoid over-investment. Our smart network enables the sustainable increase of varying, renewable energy production without compromising the security of supply. However, we must adapt to the physical climate change impacts such as extreme weather conditions. Climate change impacts are considered both in our long-term network development plan and strategy.

We help our customers through the energy system transformation by providing and developing services and solutions to help them in their climate & energy

efficiency efforts. Customer solutions are an important elasticity element in the energy system as they become more common.

Skilled staff is our most important resource. We employ directly and indirectly more than 1,700 staff in Finland. We support responsible Finnish actors and ensure, that our and our partners' operations follow high standards. We generate wellbeing to all of our interest groups. We provide safe and motivating work environment to our employees and to our partners. We want people to develop together with us and ensure that Caruna's and our partners' competences are up-to-date and develop in the long-term. We always put people's safety and wellbeing first, and our goal is to prevent all accidents.

The Green debt instruments will provide Caruna the opportunity to highlight our sustainability credentials and demonstrate our commitment. Green bonds have become a market standard instrument to publicly link the company financing strategy to the broader sustainability agenda. We are delighted to be involved in developing the financial markets to become even greener.

**Jyrki Tammivuori**  
Deputy CEO and CFO



# About Caruna

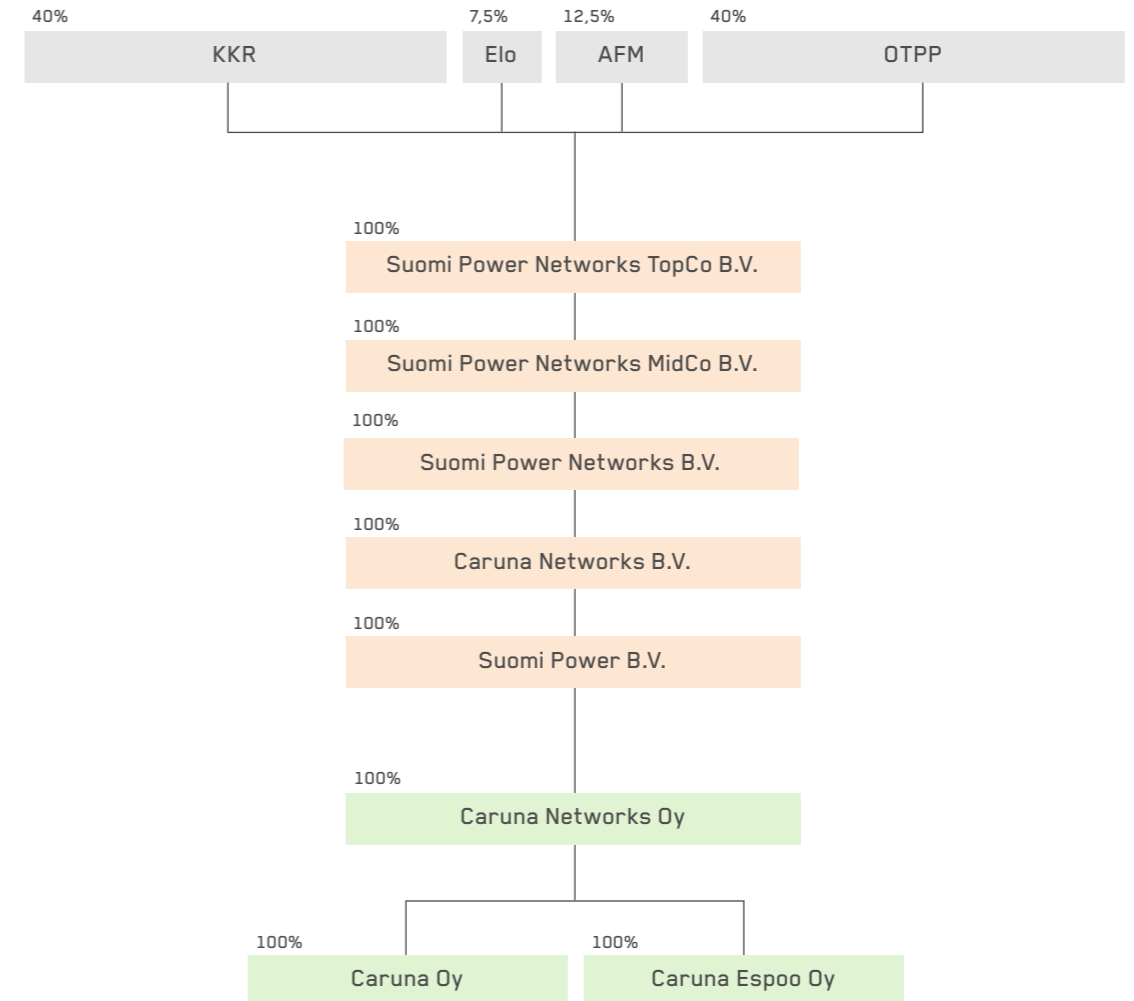
Caruna is Finland’s largest electricity distributor with 20% of electricity in Finland being distributed through our grids. In 2020 Caruna invested €143m in network improvements, had a net sale of €475m and a profit of €35m. Caruna has over 700,000 customers in South, Southwest and West Finland, as well as in the city of Joensuu, the sub-region of Koillismaa and Satakunta. Caruna’s electrical grid network is more than 88,000km long. In addition to the electricity grid Caruna develops new innovative solutions for electrifying society. These solutions can be electric transport, electricity generated by consumers, electronic services and ultra-fast network connection. Caruna has more than 300 employees and additionally employs about 1,000 people nation-wide through building, maintaining and repairing the electricity grid. In addition to that Caruna employs indirectly hundreds of other service providers e.g. office services, material deliveries and ICT services.

The Caruna Group’s history started with the foundation of Fortum Distribution Finland. Fortum Distribution Finland was originally founded in south-west Finland in 1912 as Karunan-Sauvon Sähkö Oy. Karunan-Sauvon Sähkö Oy changed its name to Lounais-Suomen Sähkö Oy and later to Länsivoima Oy. Länsivoima Oy ceased to be an independent company in 2000, with parts of its business being incorporated into Fortum Sähkösiirto Oy, which was established in 2000 and was merged with several other distribution networks. Following Fortum’s acquisition of E.ON Finland, Fortum Espoo Distribution Oy was established in 2006. The Caruna Group, as it stands today, is the result of several corporate restructurings, acquisitions and mergers comprising of Fortum Espoo Distribution Oy and a number of other local electricity distributors.

The current Caruna Group (which came into its current existence on 1 January 2018) comprises Caruna Networks Oy as the parent and its 100 per cent. owned, operating subsidiaries Caruna Oy and Caruna Espoo (the “Caruna OpCos”). Caruna Networks is dependent on the financial performance of the Caruna OpCos as these are the revenue generating entities in the Caruna Group. Issuer of the bonds is the external special purpose vehicle Transmission Finance DAC. More information on the Issuer is available from the Prospectus.

**Caruna’s electrical grid network is more than 88,000km long. In addition to the electricity grid Caruna develops new innovative solutions for electrifying society.**

## ORGANISATIONAL CHART



# Sustainability at Caruna

Finland aims to be carbon neutral in 2035 and building access to electricity is crucial to meet this target and the goals of the Paris Agreement. Caruna does recognize that expanding the grid will influence the surrounding environment and Caruna is therefore committed to using land responsibly as Caruna designs, builds, and maintains its electricity network. Further, Caruna takes the environment – nature, biodiversity, and the built and social environment – into considerations throughout the electricity network’s life cycle. Caruna has held the environmental certification of ISO 14001:2015 since 2000, occupational health and safety certification of ISO 45001:2018 since 2016 and asset management certification of ISO 55001:2014 since 2017.

In addition, for a couple of years Caruna has held Great Place to Work certification for being a good workplace and the best rating ‘At the world’s forefront in occupational safety’ by the national Zero Accidents Forum.

Caruna has an extensive and well thought sustainability strategy. Good corporate citizenship is one of Caruna’s strategic focus areas. Caruna promotes common understanding of the company’s critical role in the society and cooperates actively with communities. Security of supply and electrical safety is the company’s top priorities.

Caruna is an industry pioneer in climate topics. Caruna was the first European DSO to complete and publish the carbon footprint calculation including scope 3 (supply chain) emissions. TCFD framework is used to evaluate

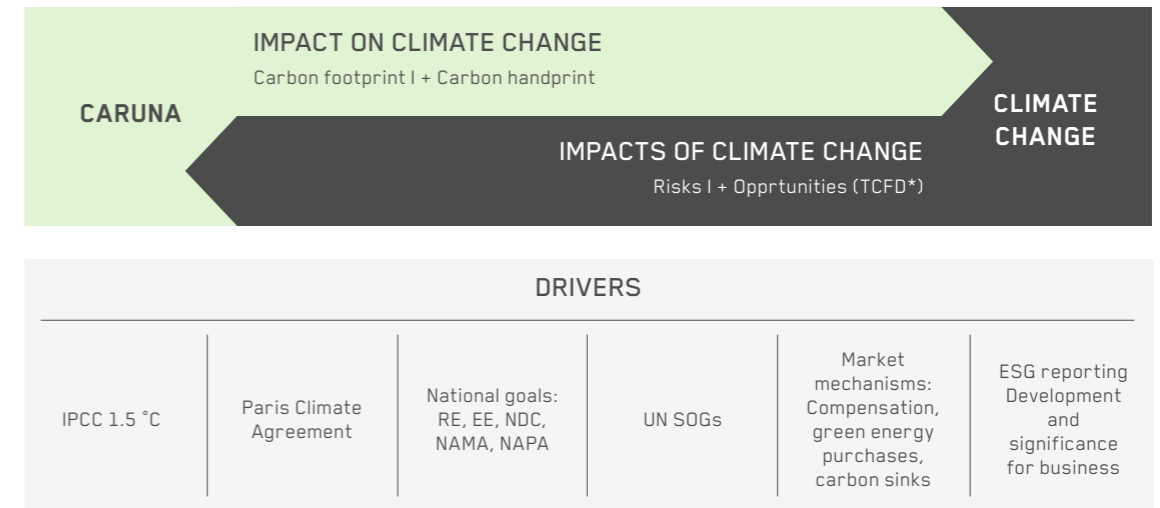
climate-related risk. UN SDG’s, market mechanisms, national goals, ESG reporting, and the Paris Climate Agreement are all examples of drivers in Caruna’s work to reduce its carbon footprint.

In Caruna corporate responsibility is in the strategy and in everyday work. Corporate responsibility is integrated to the strategy, and therefore also to target setting, business planning, monitoring, and reporting. Caruna takes practical actions to target its responsibility themes “Sustainable electricity distribution, combating climate change” and emphasize “work and security”.

Caruna has a climate action plan to contribute to the national carbon neutrality objective. The action plan focuses on three key areas: promotion of renewable electricity production, low-carbon solutions to customers and active cooperation, partnerships, and business models. Caruna also continuously reduces its own carbon footprint.

Caruna employs directly or indirectly about 1.700 persons nation-wide. Caruna takes care of competence and knowledge by wide internal and external training programs. Safety and wellbeing are a priority. Caruna is a member of the national Zero Accidents Forum and has received the best safety level classification ‘At the world’s forefront’ for many years. Caruna develops safety culture also in the partner companies and strives towards injury-free sites. Caruna’s contractor safety performance is clearly better than the industry average in Finland.

## CARUNA’S CARBON FOOTPRINT AND HANDPRINT



\*Task Force on Climate-related Financial Disclosures

## How caruna will contribute to a sustainable future

Caruna is contributing to a sustainable future in several ways. Building out the electricity network in Finland is the main contribution, but also innovation and R&D is an important part. Caruna LAB is a channel for trying out, developing, and commercializing new solutions in practice. This infrastructure platform enables the solutions Caruna needs to make a more sustainable future.

The Finnish government has set a goal that Finland will be carbon neutral by 2035. A strong and smart electricity grid has a significant role to play here. It will not be possible to carry out the energy revolution without investment and development of the electricity networks. In addition, smart and reliable electricity networks are needed as a fundamental pillar of a functioning society. In addition to improving the security of electricity supply, the investments are driven by an increase in the need for capacity related to the electrification of society's operations.

Society is increasingly dependent on high-quality and secure electricity distribution. Functional telecommunications connections are needed everywhere, and, in turn, they require a functioning electricity distribution platform. Climate change will increase extreme weather conditions and increase the need for weather-proof electricity distribution.

The Finnish electricity network was built in many respects in the 60s, 70s and 80s. The lifespan of the network is already being met in many respects, meaning the network needs to be renewed anyway. The electricity distribution network plays an important role in supporting and developing society. The development of electricity networks, primarily means connecting

renewable energy production to the grid and promoting the electrification of transport, heating and industry.

Climate change and the transition towards renewable energy sources are creating new requirements for the balance of the electricity system. Together with the company's partner partner, Fortum, Caruna has developed battery solutions to safeguard the security of supply in the future. The cooperation has led to the creation of a battery system of significant size by Nordic standards. The system improves the reliability of electricity distribution and the quality of supply. The development project reached tangible results in August 2020, when a battery-based energy storage facility whirred into life in Inkoo. The sea container-sized battery is connected to Caruna's medium-voltage network, and it is used in the event of power cuts caused by maintenance or faults. Fortum uses the battery on the balancing power market to keep the national electricity system in balance. Batteries can also be a solution for areas where the need for electricity suddenly increases and the network needs to be strengthened, for example as the number of electric buses increases. The battery is used to ensure electricity distribution during maintenance work, and it also helps in the event of an unforeseen power cut. Even if the electricity supply to the battery is cut off, it can continue to power nearby homes, summer cottages and shops for several hours. The area of influence of the battery, which is located next to Main Road 51, extends from about Stubböle to the island of Vormö. The battery has the capacity to store 1,028 kWh of energy. This amount of energy could move an electric car back and forth from Helsinki to Berlin or heat a two-bedroom terraced house for about six months.

Caruna aims to accelerate the energy transition and therefore promote solar power production and use of electric vehicles. These topics are also of the

customers' interests, as shown by the large number of enquiries Caruna's customer service team received in 2020. Caruna decided to build a one-stop shop service to provide information related to the energy transition. In March, Caruna launched the digital Virtane service, which helps the private customers switch to producing and consuming renewable energy and use electronic solutions more quickly and easily. The service enables the customers to utilise information about their electricity consumption, helping them to identify the most suitable solution. The service also offers an independent platform that consolidates products from different suppliers for transparent comparison. The Virtane service is free for customers and partners to use.

Climate change and the transition towards renewable energy sources are creating new requirements for the balance of the electricity system.



# UN Sustainable Developments Goals

There is an increasing expectation from stakeholders on businesses to take an active role in tackling global sustainability challenges. In 2015 all members of the UN came together and agreed on 17 sustainable development goals to act as guide for countries and companies in developing their own sustainability strategy. Caruna recognizes the importance of all 17 SDGs but has a specific focus on six SDGs in this framework; 11 (Sustainable cities and communities), 9 (Industry, innovation, and infrastructure), 7 (Affordable and clean energy), 13 (Climate action), 8 (Decent work & economic growth) and 4 (Quality education).

Caruna's electricity network is a part of critical infrastructure. Sustainable electricity distribution is a

prerequisite for a functional society and a viable business sector. Caruna enables sustainable increase of renewable energy without compromising the security of supply and helps the customers through the essential energy system disruption. (SDG's 7, 9, 11, 13)

Caruna works with an extensive network of partners and generates wellbeing to all its interest groups. Caruna provides safe and motivating work environment to its employees and partners, and ensures that their competences are up-to-date and develop together with the company. (SDG's 4, 8)

Caruna's electricity network is a part of critical infrastructure. Sustainable electricity distribution is a prerequisite for a functional society and a viable business sector.



# Framework Structure

As part of Caruna's continued commitment to sustainability, a Green Finance Framework (the "Framework") has been developed. The structure of the Framework is developed to be in line with both the ICMA Green Bond Principles (GBP) 2018, as well as the LMA and APLMA Green Loan Principles (GLP) 2018, and therefore consists of the four key pillars and recommended External Review component.

## THE GREEN BOND PRINCIPLES

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting
5. External Review

It is Caruna's intention to follow best practices, in relation to Green Bonds and Loans, as the market standards develops and as the EU classification of environmentally sustainable economic activities and thresholds (the Taxonomy) and the EU Green Bond Standard enter into force. Therefore, Caruna Green Finance Framework may be amended and/or updated to reflect the changes in market practice or the company's overall sustainability focus.



## EXCLUSIONS

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

# Green Finance Framework

The international Capital Markets Association (ICMA) Green Bond Principles (GBP) are a set of voluntary guidelines that recommend and promote transparency and disclosure. GBP promote integrity in the development of the green bond market by clarifying the approach for issuing a green bond. This Green Finance Framework is based on the 2018 version of GBP. It is Caruna's intention to follow best practices in the market as the standards develop and as such the Framework may be updated from time to time.

In addition to Green Finance Instruments issued by Caruna in the capital market, the company may have Green Loans provided by lending institutions. The same criteria for Eligible Projects specified in the Green Finance Framework applies for Green Loans. Green Loans taken by Caruna may be provided by lending institutions that finance these by issuing Green Bonds. Caruna will report the aggregate amount of Green Loans taken and specify each Eligible Project that has been financed by a Green Loan in a separate section of the Green Finance Investor report.









## 1. Use of Proceeds

The net proceeds of the Green Bonds or Loans issued by Caruna will be used to finance or re-finance Eligible Projects that have been evaluated and selected by Caruna in accordance with this Green Finance

Framework. Refinancing of Eligible Projects will have a look-back period of no longer than 5 years from the time of issuance. The table below will define the criteria for projects in which Caruna can spend Green Use of Proceeds under this framework. These projects will be defined as "Eligible Projects".

CATEGORIES	ELIGIBLE PROJECTS	UN SDG'S
Energy Efficiency	<p><b>Capacity Expansion</b> Construction, reconstruction and upgrading of electricity networks to connect new electricity production or consumption to the grid in Finland such as but not limited to</p> <ul style="list-style-type: none"> <li>New cables connecting residential and commercial sites to the grid</li> </ul>	<p> <b>7 AFFORDABLE AND CLEAN ENERGY</b> Ensure access to affordable, reliable, sustainable and modern energy for all</p>
	<p><b>Cable or Overhead Line Network Upgrades</b> Upgrading of electricity networks to decrease losses and/or enhance capacity for electricity distribution such as but not limited to</p> <ul style="list-style-type: none"> <li>Improving existing cable lines or overhead lines</li> <li>Moving overhead lines to underground cables</li> <li>Transformer substations</li> </ul>	<p> <b>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</b> Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</p>
	<p><b>Storage and Technology</b> Development and construction of energy storage, energy recovery and smart grids such as but not limited to:</p> <ul style="list-style-type: none"> <li>Storage solutions</li> <li>Smart grid installations</li> </ul>	<p> <b>11 AFFORDABLE AND CLEAN ENERGY</b> Make cities and human settlements inclusive, safe, resilient and sustainable</p>
	<p><b>R&amp;D</b> R&amp;D into creating new and/or improving old charging technologies and/or increasing the accessibility of such technologies to customers such as but not limited to</p> <ul style="list-style-type: none"> <li>Investments done through Caruna LAB</li> </ul>	<p> <b>13 CLIMATE ACTION</b> Take urgent action to combat climate change and its impacts</p>

## 2. Selection and Evaluation of eligible projects

Caruna will establish a Green Finance Committee (GFC) to evaluate and select Projects 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 Environment, Health and Safety Manager, Electricity Network Business Controller and Treasury Manager.

### THE GREEN FINANCE COMMITTEE IS RESPONSIBLE FOR:

**Evaluating** the compliance of proposed Projects with the eligibility criteria outlined in the Use of Proceeds section above.

**Ensuring** that the pool of Eligible Projects is aligned with the categories and criteria as specified in the Use of Proceeds section.

**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 GFC is also responsible for on a best effort basis, reviewing and updating the content of the Green Finance Framework and managing any future updates of this document to reflect relevant changes in the Company's corporate strategy, technology, and market developments.



### 3. Management of proceeds

Caruna will establish a Green Finance Register with the purpose to monitor Eligible Projects financed by the Green Bonds and Loans issued by Caruna 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 Finance Register will at least equal the aggregate net proceeds of all outstanding Caruna 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 Finance Register. Proceeds yet to be allocated towards Eligible Projects will be held in accordance with Caruna liquidity management policy and managed as such. The Green Finance Register will form the basis for the impact reporting.

### 4. Reporting

To enable investors to follow the development and to provide insight to prioritized areas, Caruna will provide a Green Finance Investor Report on an annual basis. Caruna intends to report on quantitative impact indicators where feasible and relevant data information is available. The Green Finance Investor Report will include the two following reports:

#### ALLOCATION REPORTING

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



#### IMPACT REPORTING

The impact reporting aims to disclose the environmental impact of the Eligible Projects financed under this Framework, based on Caruna’s financing share of each project. As Caruna can finance large and small Eligible Projects in the same Project Category, impact reporting will, to some extent, be aggregated.

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. The impact assessment will, if applicable, be based on the Key Performance Indicators (KPIs) presented in the table below.

GBP Categories	Examples of impact indicators
Energy Efficiency	Capacity expansions in connecting new electricity to the grid (MWh). Amount of underground cables installed (in km) Amount of yearly grid losses (in MWh) Number of smart grid installations in the last 12months Reduction of CO2e due to low-carbon/energy efficient services, such as but not limited to charging infrastructure for EV’s, small-scale solar panel systems and related services both for consumers and communities, load management services Renewable production in Caruna’s network (in MWh) A list of projects financed and a qualitative explanation as to why they are sustainable and how they contribute, including geographical location.

### 5. External Review

#### SECOND PARTY OPINION (PRE-ISSUANCE)

To secure alignment with national and international guidelines, Caruna has engaged CICERO Shades of Green to act as an external verifier of this Green Finance Framework and the Eligible Projects.

#### THIRD-PARTY REVIEW (POST-ISSUANCE)

Caruna will appoint an external independent auditor to annually assure that the selection process for the financing of Eligible Projects and that the allocation of the net proceeds of the Green Financing are done in accordance with Caruna’s Green Finance Framework.

#### PUBLICLY AVAILABLE DOCUMENTS

The Green Finance Framework, the second party opinion, the third-party review, and the Green Finance Investor Report will be publicly available on Caruna’s website.