

Green Finance Framework



Introduction

This document, Green Cargo — Green Finance Framework, contains information about Green Cargo and the company's criteria, and terms and conditions for using green finance. The document is available in Swedish and English. In the event of any conflict between the two versions, the Swedish version has precedence.

Green finance is a natural part of our sustainability agenda. Sustainability issues have been fully integrated with the management and leadership of Green Cargo in all areas, and will strengthen closer, long-term relationships with lenders and banks.

Since 2002, Green Cargo has reported its sustainability efforts within the framework of its annual report and sustainability report. The sustainability report describes how sustainability issues relate to Green Cargo's long-term strategies, risks and possibilities in the company's various objectives, and aims to increase understanding of the existing challenges and possibilities. The sustainability report is prepared pursuant to the GRI Standards: Core option and the most recent report was published in March 2018. The annual report and sustainability report is available in full on the website www.greencargo.com.

Green Cargo will strive to continuously develop this framework, information and reporting pertaining to green finance and its terms and conditions. CICERO has issued an opinion on the framework, which is available on our website www.greencargo.com together with additional information about our work with sustainable business.

Solna, October 2019

Ted Söderholm
President and Acting CFO

Erica Kronhoffer
Director of Sustainability and
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Background

The Swedish government and the EU have set high targets for reducing climate impact. Sweden aims to become one of the world's first fossil-free welfare nations with no net emissions of greenhouse gases by 2045. Sweden also has a target of reducing emissions from domestic transportation of at least 70 percent by 2030 compared with 2010. Transferring road freight to rail freight is one solution for an immediate reduction in environmental impact.

The transportation sector accounts for about 30 percent of carbon dioxide emissions in Sweden. The environmental impact of transportation is of increasing significance when choosing transportation solutions and Green Cargo already delivers large-scale, fossil-free freight shipments.

The freight strategy presented by the government in 2017 indicates a clear ambition to transfer road freight to rail and marine freight, for which there is potential. Of all freight delivered domestically by road, about 8 percent is driven more than 300 kilometers. This is the threshold where it is deemed profitable to transfer goods to rail or marine freight, but it is also possible to transport good by rail rather than road at an earlier point. So-called harbor shuttles from the Port of Gothenburg are excellent examples of rail logistics solutions that are competitive over significantly shorter distances.

Green Cargo in brief

Green Cargo offers sustainable logistics solutions to Scandinavian trade and industry. We build our customers' freight flows with Europe. As part of this work, we collaborate with other freight operators and modes of transportation.

Green Cargo's share of rail freight in Sweden is over 60 percent (2018). Green Cargo is the single largest rail freight operator in Sweden. We operate 400 freight trains every day in Sweden and have substantial geographic coverage, including a large number of stuffing and stripping facilities nationwide. Our network serves some 300 locations in Sweden, Norway and Denmark, and with our partners we reach all of Europe. The company's customers are found in the basic industries, where forestry, steel and paper dominate. But our customers also represent other sectors such as the chemical, energy, engineering and automotive industries, as well as the grocery retail sector.

The company's locomotive fleet consist of 63 percent electric locomotives and 37 percent diesel locomotives. Slightly more than 95 percent (2018) of our total freight transportation and more than 97 percent (2018) of the rail transportation is conducted with electric locomotives, where the electricity is produced exclusively from renewable sources with low emissions of carbon dioxide and low energy consumption. The climate impact relative to the weight of goods transported is close to zero. Diesel locomotives conduct about 3 percent of the freight shipments and 2 percent is carried out by road transportation. Based on the breakdown by mode of transport, the company's net emissions per net tonne kilometer were 2,95 gram CO₂e (2018).

Together with our business concept and our values, Green Cargo's vision guides everything we do.

VISION: "World-class rail logistics"

BUSINESS CONCEPT: We develop and deliver efficient and sustainable rail logistics with Sweden as our home market.

VALUES: We are competent, We accept the challenge, We care, We deliver

Green Cargo uses an integrated work approach to quality, the environment, work environment and traffic safety. Green Cargo is certified in accordance with ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007.

For more information about Green Cargo, go to www.greencargo.com

Sustainable business

Sustainability has long been a natural part of Green Cargo's operations. For us, the concept encompasses a holistic approach to responsible and sustainable business – that we assume societal, environmental and financial responsibility. This also forms the basis for creating long-term profitability.

Green Cargo's operations are crucial for Sweden's trade and industry. Round the clock, our freight trains transport raw materials from forests and mines to the processing industries, and consumer goods to the retail sector. The logistic system is the foundation of Sweden's prosperity and consumption, and in many cases, the products take the train before arriving in the hands of consumers. We are a sustainable logistics partner and by entering a partnership with us, our customers can rest assured in the knowledge that their shipments are delivered with minimal climate impact, good working conditions, a safe work environment and long-term economic sustainability.



Societal responsibility

We always take our environment into consideration and we are responsible for promoting a well-functioning society and Swedish industry. Our operations comprise a safe and attractive workplace, and we welcome and maintain an open dialogue with our stakeholders.



Small climate impact

We work continuously to minimize the climate impact of our operations. We offer our customers climate-smart and clear logistics solutions and create increased insight into and understanding of freight transporters impact on the environment.

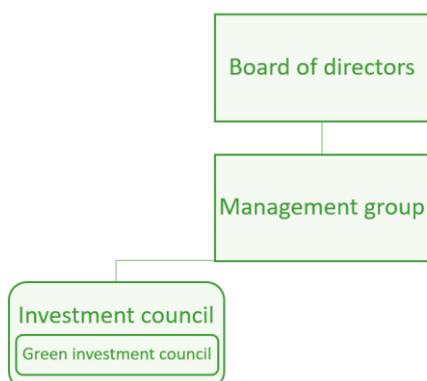


Economic sustainability

The sustainable undertakings in our offering lead to long-term customer relationships based on trust with the aim of achieving a sustainable financial result.

Board and management

Green Cargo is wholly owned by the Swedish State and administered by the Ministry of Enterprise and Innovation. The Board is comprised of seven independent members. The President leads the Group Management, which administers and monitors the company's operations.



- The Board issues strategic guidelines based on the owner directive
- The Group Management sets and monitors goals, and allocates responsibility
- The Director of Sustainability has overall responsibility for coordinating and implementing the company's sustainability agenda
- The Investment Committee follows up and takes decisions on various business initiatives

Ensuring sustainable business

As a state-owned company, Green Cargo is to set a positive example for sustainable business. In Green Cargo's case, this entails applying a holistic approach to the control and leadership of the company. Sustainable business operations in terms of societal, environmental and economic sustainability are ensured by using the company's vision, business concept and values as a foundation.

To ensure sustainable business, Green Cargo works with five objectives of significance to our operations: Safety, Employees, Environment, Customers & Quality, and Finance. We measure and monitor our operations using a balanced scorecard (Måltavlan), which is part of our three-year business plan. As a whole, Måltavlan comprises Green Cargo's aggregate sustainability goals.

Safety Objective

Traffic safety forms the basis for quality in terms of Green Cargo's deliveries to customers; it provides employees with a safer work environment and reduces costs as well as any environmental impact. In addition to compliance with the Railways Act and the requirements of the national transport authorities, our safety efforts aim to prevent all types of accidents in our operations.

Employee Objective

Our employees are key to the company's ability to achieve its vision of world-class rail logistics. We want to offer an attractive workplace and ensure that everyone in the organization has the requisite competence and motivation to deliver efficient sustainable logistics.

Environment Objective

The transportation sector accounts for about 30 percent of carbon dioxide emissions in Sweden. Transferring road freight to rail freight is a key component in achieving the Swedish climate goals. The environmental impact of transportation is of increasing significance when choosing transportation solutions and Green Cargo already delivers large-scale, fossil-free freight shipments. Despite an already favorable environmental performance, we need to work systematically to reduce our remaining environmental impact.

Customer & Quality Objective

High-quality deliveries will ensure Green Cargo's long-term capacity for profitability and new business. The Customer & Quality Objective aims to ensure we meet and surpass customers' expectations for transportation and logistics services. We know that together with accurate information about disruptions and stable deliveries, punctuality and regularity — meaning that we arrive at customers within the appointed hour and that we operate the trains we had planned to operate — are the most important parameters for our customers.

Finance Objective

For Green Cargo, sustainability entails a holistic approach to responsible business. This means that the company's operations must be economically sustainable, and achieve adequate profitability, in order to manage future investments and development.

Long-term sustainability targets

In accordance with *The state's ownership policy and guidelines for state-owned enterprises 2017*, the Board of Directors has a duty to integrate sustainable business into the company's business strategy and business development and to set strategic targets for sustainable business. The targets should be few in number, comprehensive, value-creating, and relevant to the company's business operations and sustainability challenges. The targets should also be long-term, challenging and trackable, while being distinct and easy to communicate.

In 2019, the Board determined that Green Cargo's long-term sustainability targets are as follows:

- Traffic-safety index (Safety Objective)
- Commitment index (Employee Objective)
- Number of women at Green Cargo (Employee Objective)
- kWh/net tonne kilometer (Environment Objective)
- Punctuality, wagon to customer (Customer & Quality Objective)
- Growth target for intermodal/number of trailers using rail (Finance Objective)

During the updating process of the business plan for the period 2020-2022, more long-term goals will be set for each sustainability target. The goals are set with a time horizon of ten years.

Other key areas for sustainable business

Ethics and anti-corruption

For Green Cargo, sustainability means shipments with a minimal climate impact, a safe and healthy work environment, respect for human rights, good and decent working conditions, and sustainable finances. It also encompasses good business ethics and working actively with equal opportunity issues as well as taking diversity aspects into consideration.

Green Cargo has a whistleblower function, which can be used by the company's employees to report hazards or suspicions that something is out of line with the company's ethics policy or ethical guidelines, conditions that could negatively impact the company or that pose a hazard to someone's life or health.

Sustainable relationships

Green Cargo both wants and is expected to live up to the stringent requirements set by many of our stakeholders. While customers, employees and the owner are at the core, many more participants are involved in Green Cargo's daily operations. Read more about our stakeholders in our [Annual Report and Sustainability Report](#).

Code of conduct for suppliers

We want our operations to be associated with high moral standards and good ethics, which should also apply to our suppliers. Our customers must be able to rely on our suppliers meeting the same standards that apply for us. Green Cargo's code of conduct applies for all suppliers that we work with. The aim is to ensure that the products and services we provide from our business partners are produced in an ethically, societally, environmentally and financially sustainable manner.

Green Cargo prioritize to perform audits at our strategic suppliers as well as suppliers in risk countries or risk business sector. An audit plan is made yearly where the executive management prioritizes focus areas in addition to safety that is always has our highest priority. A majority of our suppliers are located in Sweden, Norway and Denmark where most of our production is carried out.

Green Cargo's strategic suppliers are mainly linked to our production processes. The suppliers can be categorized into the following categories:

- Supplier that ensures the condition of the locomotives and wagons during production, such as maintenance suppliers, suppliers of leased wagons and/or locomotives, suppliers of electricity and diesel, infrastructure owners and vehicle manufacturers.
- Suppliers that provide services that ensures that the goods reach the customer, such as trucking companies, truck and lifting services, boat transport and train driving companies.
- Suppliers that provide services to ensure that the production-critical IT systems work.

Code of conduct for employees

Similarly, to the code of conduct for suppliers, an internal code of conduct is in place for our employees. This provides guidance and is to be used as a tool in daily operations. It builds on our values and provides guidance in how we act and meet each other and our stakeholders. The code of conduct clarifies the principles that guide us in our relationships with other employees, customers, suppliers, business partners and society in general.

Fleet strategy for more efficient logistics solutions

As part of the company's fleet strategy, Green Cargo has strengthened its fleet of assets and purchased new electric locomotives. The locomotives create possibilities for more efficient logistics solutions with increased capacity and safety. Moreover, the increased tractive power means a lower environmental impact since, in total, less energy is used compared with running a higher number of lighter trains.

The UN's Sustainability Development Goals

At the UN summit in autumn 2015, heads of state from around the globe adopted the 17 Sustainable Development Goals (SDGs) and the resolution Agenda 2030 for Sustainable Development. From 1 January 2016, countries around the world undertook up to 2030 to lead the world towards a more sustainable and just future.

If this is to be achieved in every country, companies are also expected to analyze the goals and identify how their operations can contribute to meeting the goals. Green Cargo has reviewed the key issues pertaining to Agenda 2030 and the UN SDGs, to see how the company can help meet the goals.

The three following goals are most relevant in the forthcoming business plan period which encompasses the period from 2019 to 2021. For each of these goals, Green Cargo has the capability to be part of the solution or to enable our customers to do so.



Promote inclusive and sustainable economic growth, employment and decent work for all.



Properly functioning and sustainable infrastructure generates a number of positive effects and promotes economic growth and development. An interim goal is to build a resilient infrastructure, to promote inclusive and sustainable industrialization and to foster innovation.



Climate change is one of the greatest challenges of our times. A considerable share of the increased atmospheric GHG emissions derive from the way we extract, convert and use fossil energy. One interim goal includes the integration of climate measures into national policies, strategies and planning.

Green Finance Framework

This Green Finance Framework is based on the 2018 version of the Green Bond Principles and the 2018 version of the Green Loan Principles, published by the International Capital Market Association (ICMA) and the Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA) and the Loan Syndications and Trading Association (LSTA) respectively.

Green Cargo aims to align any sustainability linked instrument with the latest version of the Sustainability Linked Loan Principles (SLLP), published by the LMA, APLMA and LSTA. This Framework provides the background for positioning the rationale for sustainability linked instruments within Green Cargo's overarching sustainability strategy. For each sustainability linked instrument, Green Cargo will set out specific sustainability performance targets (SPTs) that are aligned with its overall sustainability objectives and strategy.

To avoid any misunderstanding, sustainability linked instruments and green debt are neither synonymous nor mutually exclusive transaction types, and there may be times when an instrument can be both sustainability linked and green debt. However, green debt is always defined by the green eligible assets and projects criteria described in this Framework. Green Cargo aims at providing information regarding the type of the instrument in connection to any sustainability linked instrument or green debt issued.

Green terms and conditions

Use of Proceeds

An amount corresponding to the net proceeds will be used to finance green eligible assets in accordance with this green finance framework.

The net proceeds of green finance will be used exclusively to finance or re-finance investments and projects that are eligible pursuant to the criteria contained in the general rules for green finance and which have been evaluated and selected by Green Cargo in accordance with this green finance framework.

The net proceeds are expected to be allocated to new and existing projects and assets. The total proceeds, from one or more funding sources, allocated to any specific green asset may not exceed the asset's value. The proportion of the net proceeds that has been allocated to new projects and assets is attached as an appendix to the annual report.

Green Cargo operates mainly in the Swedish market but also operates its own traffic in Norway and Denmark and, accordingly, the proceeds are used to finance or refinance investments in these markets. Only tangible assets (without age restriction) are eligible for financing or refinancing.

Limitations

The net proceeds will not be allocated or linked to any investments or projects pertaining to fossil fuel.

Performance indicators

Green Cargo works systematically to reduce its climate impact. Therefore, the company reports its carbon emission reductions and energy efficiency on an annual basis. The indicators were reviewed as part of preparing the forthcoming business plan.

Indicators	Score 2018	Score 2019	Goals 2019	Goals 2020	Goals 2021
gram CO ₂ e/tonne km*	2,95	–	2,80	2,66	2,53
kWh/tonne km electric rail traffic	0,037	–	0,036	0,035	0,033

*Tonne kilometer is the same as net tonne kilometer, which is defined as one tonne of goods transported a distance of one kilometer. Accordingly, ten tonnes of goods transported 100 kilometers corresponds to 1,000 net tonne kilometers.

Reduced carbon emissions

Rail transportation is by far the most effective method to reduce CO2 emissions from transportation. All modes of transport are needed in a sustainable transportation system, but the differences in emissions between these various modes are considerable. If Sweden is to reach the climate goals, more goods and people must travel by rail.

Improved energy efficiency

The energy efficiency of each completed shipment is important, and we have to use electricity where it provides the greatest benefit and efficiency.

Investment projects

The net green finance proceeds will be used to fully or partially finance or re-finance investments and costs that promote fossil-free transportation. Initially 100 % of the net proceeds will be used to finance new energy efficient electric locomotives. No funds will be allocated to investments or projects older than two years.

Category	GBP/GLP ¹ category	Project description	Impact on SDGs
Fossil-free transportation solutions <i>Impacts</i> gram CO2e/tonne km kWh/tonne km	Clean Transportation	<i>New energy efficient electric locomotives</i> The locomotives creates possibilities for more efficient logistics solutions, particularly for heavier shipments and gives almost no greenhouse gas emissions . The increased tractive power means a lower environmental impact since, in total, less energy is used compared to running a higher number of lighter trains. This also gives significant positive effects on kwh/tonne km. <i>Existing fleet of assets</i> An electric locomotive fleet that is outdated to some extent requires inspection and maintenance investments.	 
Energy-efficient transportation solutions <i>Impacts</i> gram CO2e/tonne km kWh/tonne km	Energy efficiency	<i>New wagons</i> For example, in consultation with stakeholders, various wagon evaluation projects are ongoing with the aim of increasing the weight or volume per train-meter and regarding equipping wagons with disc brakes to reduce wear on wheel discs and to extend the life of wheels. <i>Eco-driving</i> ECO-driving entails driving more efficiently. It reduces climate impact and saves money. The company has training modules for courses in ECO-driving for all types of locomotives. The training modules are part of standard training for our train drivers.	 

¹ Green Bond Principles, Green Loan Principles

Selection and evaluation of eligible projects

Green Cargo has a process whereby investments in assets and projects are assessed from a sustainability perspective by an Investment Council. The members of the Investment Council are: the CFO, Director of Sustainability and Communications, Legal Counsel, Head of Purchasing, Head of Treasury and the Controller responsible for investment cases. The CFO is chairman of the Council.

The Investment Council has a Green Investment Council, which determines whether an asset is eligible for green finance and can be allocated funds under this framework. The group consists of the Director of Sustainability and Communications, the Head of Treasury as a specialist in green finance, and the Controller responsible for investment cases, where the Director of Sustainability and Communications holds a veto with regard to which assets can be allocated funds from green finance.

Within the framework of its normal investment monitoring, Green Cargo will prepare a register of the investments eligible for financing with green debt. This is performed by the Controller responsible for investment cases. The register of green debt and the assets selected for financing with specific debt instruments is maintained by Treasury.

Management of proceeds

Green debt is credited to accounts administered and monitored by Treasury. Over the tenor of green debt outstanding, Green Cargo compiles and maintains a register of investments and projects on a portfolio level at an accumulated amount that at a minimum corresponds to the loans raised and outstanding.

In cases where green debt raised may periodically exceed the value of eligible assets and projects, these funds will be allocated to bank accounts or managed in accordance with Green Cargo's normal short-term liquidity management. No funds will be allocated to assets related to fossil fuels.

Reporting and transparency

Within the scope of this framework, Green Cargo has published a report at www.greencargo.com which describes in detail the allocation of green funds and compliance with the green terms and conditions. The report will include information about the green assets funded with green finance, show how the funds have been allocated based on the investment categories stated in the framework and the breakdown between new finance and refinancing.

The first report of this type is expected in the year after the company has received funds. The report will be available in Swedish and English. In addition to annual reporting, quarterly reports are published that detail the total of green finance outstanding and the total value of green assets.

Green Cargo strives to promote transparency and clarity in terms of data pertaining to improved environmental performance. The reporting will include an account of the performance indicators presented in the framework and endeavor to illustrate the effects based on the green finance share of the total investment. Green Cargo will emphasize energy savings and reductions in carbon dioxide relative to the conducted transportation as the most relevant performance indicators.

We only report data that can be verified with reliable documentation for the categories defined in the document. Cases where the boundaries or accounting policies for the reported data have changed are described together with the disclosed data. The report is checked internally and the key performance indicators pertaining to improved environmental performance are reviewed by an authorized accounting firm.

Effects from investments with green finance

Among modes of transport, rail is the most energy efficient and has the least negative impact on the environment. Our shipments are carried out with low energy consumption using renewable energy. All our electricity is 100 percent renewable and sourced from hydro- and wind power. We apply international standards that specify how to calculate transport emissions, such as EN 16258, in terms of the electricity we buy as a basis for our calculations.

Energy efficiency is based on our total shipments in actual traffic and is stated in kWh/NTK. Emission factors and heat values are collected from the Swedish Energy Agency. Where we have a changed or improved vehicle fleet, emission factors are adjusted based on our existing fleet. Green Cargo always reports the key performance indicators detailed in this framework relative to the shipments carried out.

Emission factors by mode of transport:

Carbon dioxide constants			Energy constants	
Electric trains*	0,0022	gram/NTK	0,037**	kWh/NTK
Diesel trains	19,75	gram/NTK	0,086	kWh/NTK
Road (truck w trailer 50-60 t)	64	gram/NTK	0,258	kWh/NTK
Marine (RoRo 14 000 dwt)	40	gram/NTK	0,139	kWh/NTK

* product-specific electricity in Sweden

Sources:

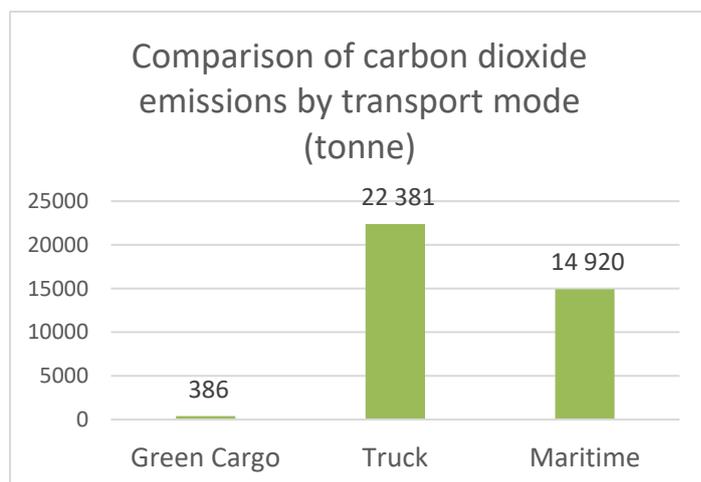
Electric trains – Vattenfalls EPD

Others – NTM, Network for Transport Measures

Category: Fossil-free transportation (Clean Transportation)

New locomotives create even more efficient and better logistics solutions for the environment. If we compare the new locomotives with our traditional RC locomotives, the energy efficiency is approximately one to one. Our new six-axle locomotives have a larger abutment surface against the rails as well as a sophisticated slip protection and electric recirculation. This means, among other things, that the locomotive has traction power of up to 3,000 tonnes. In comparable transport arrangements, we must use three RC locomotives to achieve the same traction power. Replacing the RC locomotive with new six-axis locomotives increases energy efficiency by two-thirds.

On behalf of an existing forestry sector customer in 2018, Green Cargo completed total shipments of 374,652,460 net tonne kilometers with an emission of 386 tonnes of carbon dioxide. If the same quantity of goods had been transported by road, the customer would have created emissions of 22,479 tonnes of carbon dioxide and transported by marine shipping 14,986 tonnes of carbon dioxide.



Since not all Swedish railway tracks are electrified, it is necessary to use diesel locomotive to carry out part of our transport work. In 2018, Green Cargo carried a total of 295 million net tonnes with the help of diesel locomotives in rail traffic. With the emission factors listed in the table above, the total carbon dioxide emissions amount is set to nearly 5,800 tonnes of carbon dioxide for our transport work. If these transports instead went by road cargo, the climate would have been more negatively affected and the emissions would have been almost 19,000 tonnes of carbon dioxide.

Green Cargo's ambition and goal is to increase the proportion of transport work by rail and enable Swedish companies to move more of its transportations from road to rail. This would increase our energy consumption, but at the same time reduce total energy consumption and reduce CO2 emissions for the society as a whole. The railway is the most energy efficient traffic type and has an obvious part in a sustainable transport system - both today and in the future.

External review

Green Cargo has engaged CICERO to issue an independent opinion on the green finance framework, which is available on our website www.greencargo.com together with additional information about our work with sustainable business.

Together with the performance indicators referred to in this framework, Green Cargo's compliance with the green finance framework, its use and monitoring of funds are reviewed each year by an authorized accounting firm within the scope of the work with Green Cargo's annual report and sustainability report.