

JSC Russian Railways

The JSC Russian Railways green bonds are issued by RZD Capital PLC

PROGRAMMATIC POST-ISSUANCE VERIFICATION LETTER

LOW CARBON TRANSPORTATION CRITERIA OF THE CLIMATE BONDS STANDARD

Type of engagement: Assurance Engagement

Period engagement was carried out: April 2021

Approved verifier: Sustainalytics

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Scope and Objectives

In March 2020, RZD Capital PLC, a special purpose entity that issued a green bond (the “2020 Green Bond”, the “2020 CHF Green Bond” or, in this document, the “Green Bond”) aimed at refinancing low-carbon land transportation purchased by Joint Stock Company Russian Railways (“JSC Russian Railways” or “Russian Railways” or “RZD”). In April 2021, Russian Railways engaged Sustainalytics to review the Eligible Green Assets or (the “Assets”) refinanced in 2020 through the Green Bond and provide an assessment as to whether the Eligible Green Assets purchased in 2018 and 2019 met the Post-Issuance Requirements of the Climate Bonds Standard Version 3.0¹ and the Low Carbon Transportation criteria.^{2,3}

Eligible Green Assets include:

- 33 refinanced “Lastochka” passenger electric trains

Schedule 1 provides details of the disbursement of proceeds.

Post-Issuance Evaluation Criteria

Post-issuance Requirements of the Climate Bonds Standard Version 3.0:

- Use of Proceeds
- Evaluation and Selection of Projects & Assets
- Management of Proceeds
- Reporting

Issuing Entity’s Responsibility

Russian Railways is responsible for providing accurate information and documentation relating to the details of the Eligible Green Assets that have been refinanced, including description of the Assets, total development cost of each project, and disbursed amounts.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Russian Railways’ Green Bond, issued to refinance low carbon land transportation, and provided an independent opinion informing Russian Railways as to the conformance of the Green Bond with the Post-Issuance Requirements and Low Carbon Transportation criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by Russian Railways with respect to the Eligible Green Assets. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions,

¹ Climate Bonds Initiative, Climate Bonds Standard Version 3.0. See more, at:

https://www.climatebonds.net/files/files/Climate%20Bonds_Standard_Version%203_0_December%202017.pdf

² Climate document, Transport Criteria (Version 2) under the Climate Bonds Standard. See more, at: https://www.climatebonds.net/files/files/CBI-Transport_Criteria-04B.pdf

³ CBI document, “The Land Transport Criteria for the Climate Bonds Standard & Certification Scheme (Version 2)”, at

https://www.climatebonds.net/files/files/standards/Land%20transport/CBI%20Transport%20Criteria%20document_Jan2020%281%29.pdf

findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Russian Railways.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

Verifier's Responsibility

Sustainalytics conducted the verification in accordance with the Climate Bonds Standard Version 3.0 and with International Standard on Assurance Engagements 3000 (ISAE 3000) – Assurance Engagements other than Audits or Reviews of Historical Financial Information.

The work undertaken as part of this engagement included conversations with relevant Russian Railways employees and review of relevant documentation to confirm the conformance of Russian Railways' Green Bond with the Post-Issuance Requirements of the Climate Bonds Standard Version 3.0.

Exceptions

No exceptions were identified. All Eligible Green Assets aligned with the Post-Issuance Requirements of the Climate Bonds Standard Version 3.0 and were in conformance with the Low Carbon Transportation criteria.

Conclusion

Based on the limited assurance procedures conducted and evidence obtained, nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the allocation of CHF 250 million (RUB 19.1 billion) from the Green Bond, issued to fund Eligible Green Assets, is not in conformance with the Post-Issuance Requirements of the Climate Bonds Standard.

Schedule 1: Detailed Overview of Eligible Green Assets

JSC Russian Railways' 2020 CHF Green Bond proceeds were allocated towards refinancing "Lastochka" passenger electric trains purchased in 2018 and 2019. See details of allocation below:

Year	Eligible Green Assets	Allocated Proceeds	
	Refinanced with the 2020 CHF Green Bond	Million CHF	Billion RUB ⁴
2018	11	83	6.4
2019	22	167	12.7
Total	33	250	19.1
	Green Bond size	250	19.1
	Balance of unallocated proceeds	0	0

⁴ CHF/RUB exchange rate - 76.4570 as at 12th March, 2020, in accordance with the Central Bank of Russia exchange rates.

Schedule 2A: Post-Issuance Requirements of the Climate Bonds Standard

<p>Use of Proceeds</p>	<p>5.1 The Net Proceeds of the Bond shall be allocated to the Nominated Projects & Assets.</p> <p>5.2 All nominated Projects & Assets shall meet the documented objectives of the Bond as stated under Clause 6.1.1 and shall be in conformance with the requirements of Part C of the Climate Bonds Standard.</p> <p>5.3 The Issuer shall allocate the Net Proceeds to Nominated Projects & Assets within 24 months of issuance of the Bond, or the Issuer shall disclose in post-issuance reporting as per clause 8.3 the estimated timeline for allocation of net proceeds to Nominated Projects & Assets. Net proceeds may be reallocated to other Nominated Projects & Assets at any time while the Bond remains outstanding.</p> <p>5.4 Nominated Projects & Assets shall not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments (such as social bonds or SDG bonds) unless it is demonstrated by the Issuer that:</p> <p>5.4.1. distinct portions of the Nominated Projects & Assets are being funded by different Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments or;</p> <p>5.4.2. the existing Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument is being refinanced via another Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument.</p> <p>5.5 Where a proportion of the Net Proceeds of the Bond are used for refinancing, the Issuer shall track the share of the Net Proceeds used for financing and refinancing and identify which Nominated Projects & Assets may be refinanced. This may also include the expected look-back period for refinanced Nominated Projects & Assets.</p> <p>5.6 The Net Proceeds of the Bond shall be tracked by the Issuer following a formal internal process which is documented in accordance with Clause 3.1.</p> <p>5.7 The Net Proceeds of the Bond shall be no greater than the Issuer's total investment exposure or debt obligation to the Nominated Projects & Assets, or the relevant proportion of the total Market Value of the Nominated Projects & Assets which are owned or financed by the Issuer.</p> <p>5.8 Additional Nominated Project & Assets may be added to, or used to substitute or replenish, the portfolio of Nominated Project & Assets as long as the additional Nominated Project & Assets are eligible under Part C of the Climate Bonds Standard and are consistent with the Bond's objective as set out in Clause 6.1.1.</p> <p>5.8.1. Where additional Nominated Projects & Assets are covered by Sector Eligibility Criteria which were not included in the scope of either the Pre-Issuance Verification or the Post-Issuance Verification engagements, the Issuer shall engage a Verifier to provide a Verifier's Report covering at least the conformance of the additional Nominated Projects & Assets with the relevant Sector Eligibility Criteria under Part C of the Climate Bonds Standard.</p>
<p>Process for Evaluation and Selection of Projects & Assets</p>	<p>6.1 The Issuer shall document and maintain a decision-making process which it uses to determine the continuing eligibility of the Nominated Projects & Assets. This includes, without limitation:</p> <p>6.1.1. A statement on the climate-related objectives of the Bond;</p> <p>6.1.2. How the climate-related objectives of the Bond are positioned within the context of the Issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability;</p> <p>6.1.3. The Issuer's rationale for issuing the Bond;</p> <p>6.1.4. A process to determine whether the Nominated Projects & Assets meet the eligibility requirements specified in Part C of the Climate Bonds Standard;</p>

	6.1.5. Other information provided by the Issuer as described in Clause 2.2
Management of Proceeds	<p>7.1 The Net Proceeds of the Bond shall be credited to a sub account, moved to a sub-portfolio or otherwise identified by the Issuer in an appropriate manner, and documented.</p> <p>7.2 The Issuer of the Bond shall maintain the earmarking process to manage and account for allocation of Net Proceeds to the Nominated Projects & Assets as described in Clause 3.1.3</p> <p>7.3 While the Bond remains outstanding, the balance of the tracked Net Proceeds shall be reduced by amounts allocated to Nominated Projects & Assets. Pending such allocations to Nominated Projects & Assets, the balance of unallocated Net Proceeds shall be:</p> <p>7.3.1. Held in temporary investment instruments that are cash, or cash equivalent instruments, within a Treasury function; or</p> <p>7.3.2. Held in temporary investment instruments that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy; or</p> <p>7.3.3. Applied to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to Nominated Projects & Assets.</p>
Reporting – Post-issuance	<p>8.1 The Issuer shall prepare an Update Report at least annually while the Bond remains outstanding.</p> <p>8.1.2. The Update Report shall be made available to holders of the Bond and to the Climate Bonds Standard Board.</p> <p>8.1.3. The Issuer should provide an Update Report to holders of the Bond on a timely basis in case of material developments.</p>

Schedule 2B: Conformance to the Post-Issuance Requirements of the Climate Bonds Standard

Evaluation Criteria	Factual Findings	Error or Exceptions Identified
Use of Proceeds	<p>5.1 A list of Eligible Green Assets is provided in Schedule 1.</p> <p>5.2 The Eligible Green Assets meet the documented objectives of the bond and are in conformance with the requirements of Part C of the Climate Bonds Standard.</p> <p>5.3 The Net Proceeds have been allocated to Eligible Green Assets at the time of issuance of the bond.</p> <p>5.4 Russian Railways confirms that Eligible Green Assets have not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments (such as social bonds or SDG bonds).</p> <p>5.5 Russian Railways confirms that it has tracked the share of the Net Proceeds used for financing and refinancing.</p> <p>5.6 Russian Railways' Green Bond Framework documents that the Net Proceeds are tracked following a formal internal process.</p> <p>5.7 Russian Railways has confirmed that the Net Proceeds raised are no greater than the total investment exposure or debt obligation to Eligible Green Assets which are owned or financed by the Issuer.</p> <p>5.8 The 2020 CHF Green Bond finances new assets that are of the same type as those financed by the prior green issuance.</p> <p>5.8.1 Sustainalytics has confirmed that these assets continue to comply with the sector criteria.</p>	None
Process for Evaluation and Selection of Projects & Assets	<p>6.1 Russian Railways' Green Bond Framework documents a decision-making process which it uses to determine the continuing eligibility of Eligible Green Assets. This includes, without limitation:</p> <p>6.1.1 A statement on the climate-related objectives of the financing;</p> <p>6.1.2 How the climate-related objectives of the financing are positioned within the context of the Russian Railways' overarching objectives, strategy, policy and/or processes relating to environmental sustainability;</p> <p>6.1.3 Russian Railways' rationale for issuing the bond;</p> <p>6.1.4 A process to determine whether Eligible Green Assets meet the eligibility requirements specified in the Climate Bonds Standard;</p> <p>6.1.5 Other information provided by Russian Railways as described in Clause 2.2</p>	None
Management of Proceeds	<p>7.1 Russian Railways confirmed that Net Proceeds of the bond were credited to a sub account, moved to a sub- portfolio or otherwise identified by Russian Railways in an appropriate manner, and</p>	None

	<p>documented.</p> <p>7.2 Russian Railways confirmed that it maintained an earmarking process to manage and account for allocation of Net Proceeds to Eligible Green Assets.</p> <p>7.3 Russian Railways has confirmed that while the financing remained outstanding, the balance of the tracked Net Proceeds were reduced by amounts allocated to Eligible Green Assets. Pending allocation, the Net Proceeds were held in bank deposits in cash or invested in liquid securities, and/or used for the repayment of short-term indebtedness, where such holdings, investments and/or repayments are not directly linked to the financing of activities which may conflict with the environmental objectives of the Russian Railways Green Financing Instrument.</p>	
Reporting – Post-issuance	<p>8.1. Russian Railways is committed to preparing an Update Report at least annually while the financing remains outstanding.</p> <p>8.1.2. The Update Report will be made available to the lenders and to the Climate Bonds Standard Board.</p> <p>8.1.3. Russian Railways will provide an Update Report to the lenders on a timely basis in case of material developments</p>	None

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2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider



The
Green Bond
Principles