

Green Finance Framework

February 2023

PURMO
GROUP



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1. Introduction

Purmo Group Plc (“Purmo Group”, “Company” or “we”) is a leader in sustainable indoor climate comfort solutions. Our offering covers complete heating and cooling solutions, including underfloor heating and cooling systems, a broad range of radiators, heat pumps, flow control and hydronic distribution, ventilation systems, as well as smart products to residential and non-residential buildings. Our approximately 3,500 employees operate in 24 countries, manufacturing and distributing to more than 100 countries globally.

Purmo Group is at the centre of the global sustainability journey, offering complete solutions and sustainable ways of heating and cooling homes to mitigate global warming.

Our mission is to be the global leader in sustainable indoor climate comfort solutions and we have a key role in the global focus on a sustainable future. Buildings in Europe are responsible for approximately 40% of total energy consumption and 36% of greenhouse gas emissions. Households in Europe make up 26% of the total energy consumption, of which heating and cooling is 17% of Europe's total energy consumption. 240 million buildings in Europe need renovation to meet EU's 2030 energy efficiency objectives.

Sustainability is at the heart of our operations. Our vision is that perfect indoor climates should not cost the planet's climate.



1.1 Purmo Group is at the centre of the global sustainability journey

Climate at the heart of our strategy

The climate crisis is one of the biggest existential threats that humans have ever faced. Unless we change the way we live radically and rapidly, our planet faces serious consequences. Therefore, our strategy puts climate at the heart of every aspect of our business. It addresses what we make, how we make it, how we treat our people and how we support the communities around us.

Our cultural motto, "We are proud of what we do, and we care," is echoed in our sustainability strategy, which we call 'Complete Care'. For us, Complete Care means meeting our business objectives while demonstrating care in the four core areas in our strategy.

Materiality

In 2021, we conducted our first materiality assessment. To support the assessment, we also wanted to find out what sustainability means to our stakeholders, employees, customers and suppliers.

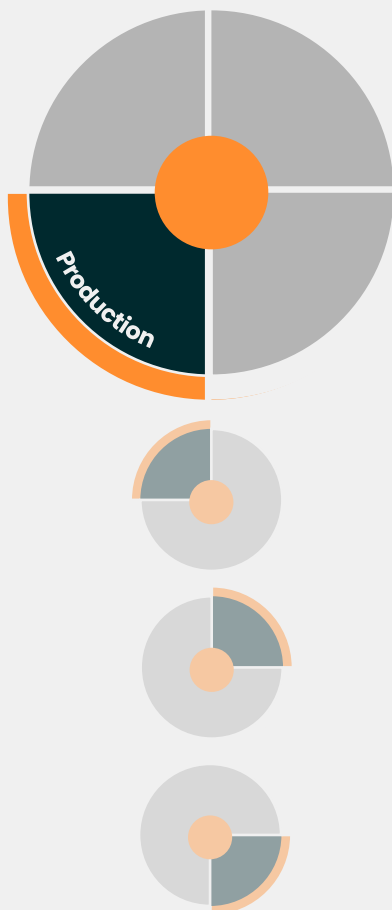
This rigorous stakeholder engagement consisted of over 130 interviews, a landscape assessment and workshops. The exercise allowed us to formulate a strong strategy for sustainable value creation and growth, with key issues prioritised and targets put in place.



- 1 Solutions** – that drive and enable smart, energy efficient and aesthetic indoor climate comfort for our customers.
Key themes: Climate smart choices; circularity and end-of-life.
- 2 Production** – that aims for carbon neutrality throughout our manufacturing network.
Key themes: Emission and energy; resource efficiency and waste; responsible sourcing.
- 3 People** – that deliver as a happy, future-fit and diverse workforce.
Key themes: Diversity, equality and inclusion; engagement at work; employee upskilling; health and safety.
- 4 Communities** – that we enable to be climate resilient.
Key themes: Community engagement and work in locations where we have operations.

1.2 Our commitment to sustainability

Our sustainability strategy includes four focus areas divided into 10 commitments – our Green Financing focuses especially on the first five commitments



How we make our products has a direct impact on the sustainability of our industry, business and products through reduced embodied energy. Our operations are, therefore, a key factor in our sustainability strategy. Below, we emphasise the five sustainability commitments related to our production and solutions that are especially relevant in the context of this Framework and Eligible Green Assets and Expenditures.

Commitment 1 – We will align with a 1.5 degree future and target carbon neutrality in our Scope 1, 2 and 3 emissions by 2050

To accelerate progress on energy-usage reduction, we have committed to installing energy monitoring devices at all our plants by 2025. Our plants all have sustainability action plans, which include installing LED lighting, taking energy efficiency measures and identifying heat recycling opportunities. Each of our manufacturing sites already manages its environmental impact through ISO 14001-certified environmental management systems and we also aim to achieve ISO 50001 certification across our plants by 2025.

In 2021, we began baselining our GHG emissions with the aim of achieving carbon neutrality across our operations (absolute Scope 1 and 2 emissions). In 2022, we communicated our commitment towards setting Science-Based Targets through the Science Based Targets initiative, reaching net zero emissions by 2050.

In 2023 we will submit near term, long term and net-zero by 2050 targets to the SBTi for approval, covering our own greenhouse-gas emissions as well as those of our supply chain (referred to as scope 1, 2 and 3). The targets will show the rate and magnitude of the required reductions for us to achieve a 1.5°C limit on global warming.

As part of our recently completed baselining activity, we identified renewable energy purchasing as a priority. We are committed to only sourcing clean energy by 2030. We are also investigating how we can use more lower-carbon steel, such as recycled and green steel, in our products. Steel production is highly carbon intensive and is responsible for approximately 7% of global greenhouse gas emissions¹.

Commitment 2 – We will use fewer resources to make products and eliminate waste

Our materiality assessment highlighted packaging, product end-of-life and material efficiency as areas for us to tackle. We have a target of zero waste to landfill by 2030 and we take an integrated approach to reducing waste and promoting circular approaches in our operations and production processes.

We are committing to a 30% reduction in water consumption across our operations by 2030. We have started monitoring water use, and all of our other ESG KPIs, through a system called 'Resource Advisor', which will enable us to track our progress.

We have also committed to sourcing 100% of our packaging from recycled, recyclable or biodegradable materials by 2030. We have launched and completed our sustainable packaging review in 2022, and we will take forward new recommendations together with trials on new sustainable packaging during 2023.

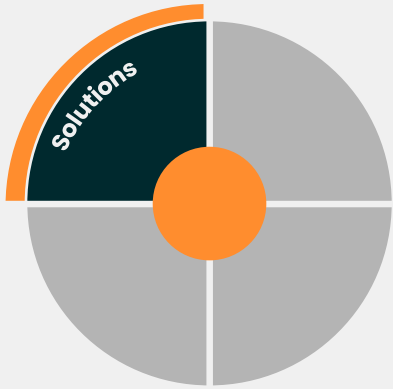
Commitment 3 – We will source our key materials responsibly

Our products are designed and built to last. In many cases, 20 to 30 years, and some of our materials, such as steel, can be infinitely recyclable. Yet we also realise the importance of sourcing these responsibly and minimising the negative impacts on people and environment. In 2021, we continued to extend the use of 'slim steel', a steel alloy that uses less steel without sacrificing product quality or heat output.

We aim to source all our key materials responsibly, including steel, brass, plastic and packaging materials, and ensure we can trace these back to source by 2030.

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Commitment 4 – We will help our customers save energy and make sustainable choices

If we want to advance a climate-smart and resilient indoor climate industry, we need to drastically reduce emissions across the lifecycle of our products.

To do this, we need the help of our customers, suppliers, employees and local communities as we work together to deliver more efficient, circular and integrated systems. To help our customers make more informed choices, we will develop Environmental Product Declarations (EPDs) which provide an overview of our products' environmental impact across their lifecycles.

Commitment 5 – We will apply circular design principles to all products. We will invest in new solutions where circularity is not immediately possible

Since our products are made largely from steel, they have great potential to be made more sustainable through recycling and circular processes. Materials such as polymer pipes, however, are much harder to recycle.

To maximise the circular potential of our products, we have developed a training programme in 2022, showing how we can introduce sustainability in our solutions, followed by more specific circularity approach later on. We aim to incorporate circular design principles in all new products by 2025.

We intend to increase sales of our sustainable products year-on-year. This aim will build on our product development and innovation work, which has involved collaborating with European experts and universities to conduct a comprehensive study on deep renovation in different European climate areas. As a result, a select range of solutions have been developed to renovate and transform the existing building stock in Europe to meet the energy requirements for nearly zero-energy buildings (NZEBs). This work aligns with the EU taxonomy.

1.3 Alignment with international initiatives

UN Sustainable Development Goals (UN SDGs)

UN SDGs are 17 sustainability goals with 169 targets that all UN Member States have agreed to work towards achieving by the year 2030. For businesses it is as a universal framework for businesses to communicate performance, set targets and actions, engage with various stakeholders, including investors and gain access to new market opportunities. The framework fosters collaboration to solve the world's most challenging tasks in sustainability.

UN Sustainable Development Goals are used as our key external sustainability framework to align our activities on the most impactful areas. The key SDGs guiding our work include SDG 8 (Decent work and economic growth), SDG 11 (Sustainable cities), SDG 12 (Sustainable consumption and production), SDG 13 (Climate action).

In 2021, we performed a UN SDG materiality study to better understand how we could make the biggest contribution to tackling the SDGs most materially relevant to us. We believe our business, products and solutions, strengthened by our ESG targets, can make a material difference to four of the UN's Sustainable Development Goals. These are:



The image shows four UN Sustainable Development Goal icons arranged horizontally. From left to right: 1. SDG 8: Decent Work and Economic Growth, represented by a red square with a white bar chart and an upward-pointing arrow. 2. SDG 11: Sustainable Cities and Communities, represented by an orange square with white icons of a house, a skyscraper, and a smaller building. 3. SDG 12: Responsible Consumption and Production, represented by a yellow square with a white infinity symbol. 4. SDG 13: Climate Action, represented by a green square with a white globe icon.

EU Taxonomy

During 2021, we conducted an EU taxonomy eligibility assessment, and during 2022 we carried out an alignment assessment for product groups identified as being eligible in 2021. Whilst the portion of the aligned turnover is lower than that of the eligible products, we believe our strategic focus on solutions selling will increase this through 2023 and beyond. This Framework will also support us in our ambition.

The EU Taxonomy Regulation defines whether an economic activity carried out by a company can be classified as environmentally sustainable. An economic activity is classified as such when it meets the technical screening criteria:

- Contributes substantially to one or more of the taxonomy's six environmental objectives, these are: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems;
- Does not do any significant harm to any other environmental objective;
- Complies with minimum safeguards related to UNGP, OECD Guidelines and ILO Conventions.

UN Global Compact

We are committed to making the UN Global Compact and its principles on human rights, labour, environment, and anti-corruption part of the strategy, culture and day-to-day operations of our company and for a more sustainable future.

Joining the UN Global Compact mirrors our 'Complete Care' sustainability strategy, focusing on our environmental impacts and also ensuring fair working conditions in the markets we operate in.



2. Green Finance Framework

This Green Finance Framework (“Framework”) is done in alignment with the Green Loan Principles (GLP)² from February 2021 and with the June 2021 version of the Green Bond Principles (GBP)³. In addition, Purmo Group has taken into account market expectations, voluntary standards and recent regulatory developments in the preparation of this Framework.

The four core components of Green Bond/Loan Principles are:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The Framework is applicable, but not limited to, for issuance of green debt instruments including green bonds, green hybrid bonds, green commercial papers, green loans and other types of debt instruments where an amount equal to the net proceeds will be applied to finance or re-finance, in part or in full, new and/or existing expenditures and assets with clear environmental benefits, as defined in this Framework (“Green Financing”).

In relation to the EU Taxonomy alignment, this Framework refers to the EU environmental objectives. The Use of Proceeds section builds upon our EU Taxonomy eligible activities, and we aim to reassess the eligibility criteria presented below once the EU Taxonomy is completed and widely adopted in the financial markets.



2: The Green Loan Principles are published by the Loan Market Association (“LMA”), Asia Pacific Loan Market Association (“APLMA”) and the Loan Syndications and Trading Association (“LSTA”) respectively

3: The Green Bond Principles are published by the International Capital Markets Association (“ICMA”)

2.1 Use of proceeds

An amount equivalent to the net proceeds from Purmo Group's Green Financing will be used to finance or re-finance, in part or in full, Eligible Green Assets and Expenditures (as defined in the table on the right) that enable distinct environmental benefits as described in the defined eligibility criteria.

Financing and refinancing of tangible assets (with no specific age restriction) and capital and operational expenditure (with up to three (3) year lookback period before the issuance of any Green Financing), such as research and development costs related to energy efficient product development, can qualify. The combined allocated amount to a specific asset or expenditure, by one or several sources of financing through eligible use of proceeds, may not exceed its value.

Purmo Group currently operates in 24 countries. This Framework and listed Eligible Green Assets and Expenditures cover all of our operations.

Eligible Green Assets and Expenditures under the Framework are presented in the table on the right-hand side.

Energy Efficiency

Contribution towards European Union Environmental Objective:

Climate change mitigation

The following products, enabling energy efficiency improvements, and associated expenditure, including energy efficiency improvements in the production lines, may qualify as Eligible Green Assets and Expenditures:

- Underfloor heating systems, radiators, convectors and other equipment for central heating and for space heating
- Cooling and ventilation systems, including heat pumps
- Components enabling smart controlling and monitoring of heating and ventilation systems, such as zoned thermostats

Each above being 'enabling activity', meaning that the solutions we provide enable our end-customers and installer clients to fulfil the EU Taxonomy's economic activity 7.3 'Installation, maintenance and repair of energy efficiency equipment' and we enable in broader sense greening of the built environment.

In addition to the positive contribution, each above activity will include the following considerations, where relevant, available and feasible, to minimise any negative environmental impacts:

- Designing products for high durability and recyclability
- Minimising waste in the manufacturing process
- Minimising water consumption in the manufacturing process
- Refusing to source conflict minerals⁴



⁴: Purmo Group does not source minerals such as tin, tungsten, tantalum and gold, often referred to as 'conflict minerals'. These derive from politically unstable areas and their trade may be used to finance illegal or unethical practices. As such, these would need to be responsibly sourced, in compliance with local regulations, such as the EU Conflict Minerals Regulation

2.2 Process for project evaluation and selection

Selection of Eligible Assets and Expenditure

The evaluation and selection process for Eligible Green Assets and Expenditures is a key process in ensuring that an amount equal to the net proceeds from Green Financing is allocated to assets and expenditure that meet the criteria in this Framework.

The selection of Eligible Green Assets and Expenditures is managed by a dedicated group, the Purmo Group ESG Steering Group (“PG ESG SG”). Members of the PG ESG SG consist of members from Core Leadership Team, including CEO and CFO, Product Managers, Operations Directors and Head of CSR and Sustainability. Chairman of the committee is the Head of CSR and Sustainability. Purmo Group will ensure that sustainability expertise always resides within the PG ESG SG. All decisions are made in consensus; however, Head of CSR and Sustainability holds veto right on decisions related to the definitions of Eligible Green Assets and Expenditures. The PG ESG SG will meet at least twice a year to analyse, validate and report Eligible Green Assets and Expenditures and will keep track of all decisions made.

A list of Eligible Green Assets and Expenditures is kept by the Group Finance, and the CFO is responsible for keeping this list up to date.

The PG ESG SG will continuously exercise its professional judgement, discretion and sustainability expertise when identifying the Eligible Green Assets and Expenditures.

The PG ESG SG follows the below process when selecting and evaluating potentially Eligible Green Assets and Expenditures:

1. Any PG ESG SG member, or their respective unit, may propose a potential asset and/or expenditure to the PG ESG SG
2. The Head of CSR and Sustainability, or other appointed person, evaluates that the proposal is aligned with the eligibility criteria defined in the Green Finance Framework and removes asset(s)/expenditure(s) that do not meet the criteria
3. PG ESG SG verifies the eligibility of the asset or expenditure
4. Eligible assets and expenditures are booked into the Green Financing Register, which is further specified in section 2.3

Exclusions

The proceeds of Purmo Group’s Green Financing will not be used to finance fossil fuel energy generation, nuclear energy generation, the weapons and defence industries, gambling or tobacco.

2.3 Management of proceeds

Approach to Managing Proceeds

Amount equal to the net proceeds from Purmo Group's Green Financing will be tracked by Group Treasury using a register where all issued amounts of green debt instruments will be monitored (the "Green Financing Register"). The purpose of the Green Financing Register is to ensure that an amount equal to the Green Financing net proceeds only support the financing or refinancing of Green Assets and Expenditures.

Purmo Group will maintain a possibility to choose, at its own discretion, the most suitable allocation method for any Green Financing net proceeds. Commonly used approaches, as described in the Green Bond Principles, are based on a portfolio approach and bond-by-bond approach. Purmo Group will maintain high level of transparency in its reporting to investors and will always state the chosen allocation method at the latest in connection to the first allocation and impact reporting of each Green Financing instrument.

The list of Eligible Green Assets and Expenditures is monitored on a regular basis during the term of green debt instruments to ensure that the proceeds are sufficiently allocated to Eligible Green Assets and Expenditures. Assets and expenditures can, whenever needed, be removed or added to/from the Green Financing Register.

Temporary Holdings

Any unallocated proceeds temporary held by Purmo Group will be placed in the liquidity reserve and managed accordingly by the Company, taking also account the Exclusions stated under section 2.2.



2.4 Reporting

To enable investors, lenders, and other stakeholders to follow the development of the assets and expenditure (re-) financed by Green Financing, an investor letter will be made available on the Company's website ("Green Finance Report"). First such report will be made available for investors approximately 12 months after the issuance of Purmo Group's inaugural bond transaction under this Framework and may be integrated with Purmo Group's annual report thereafter.

The Green Finance Report will include an allocation report and an impact report. The Green Finance Report will be published annually as long as there are Green Financing outstanding or until full allocation of proceeds. Each Green Financing instrument will have at least one Green Finance Report available during its lifetime, and multiple Green Finance instruments may be combined in one Green Finance Report. Allocation of proceeds will be subject to an external auditor's review, either in connection to Purmo Group's Annual Report or separately as a part of a Green Finance Report.

In case Purmo Group has Green Financing outstanding in a form of bank loans, the Company may report necessary annual details related to such bank loans directly to its lenders, as may be required in respective loan documentation.

Allocation Reporting

- Total amount of Green Financing outstanding
- Share of proceeds used for financing and re-financing
- Share of co-financing (if any)
- Share of unallocated proceeds (if any)
- Types of temporary unallocated funds placements (if any)
- Chosen allocation method (portfolio or bond-by-bond)

Impact Reporting

The impact report includes metrics related to the environmental impact of the Green Eligible Assets and Expenditures financed under this Framework. Given the enabling nature of Purmo Group's products and solutions, the impact report may, to some extent, be dependent on the data collected from end-customers, and the reporting may be aggregated due to large number of eligible activities. Depending on data availability, calculations will be made on a best effort basis. The impact report may include some of the below listed metrics, and the reporting will always include methodologies used.

- Energy efficiency improvements and/or savings achieved through products and solutions
- CO2 emissions from the use of products and solutions, if available and reasonable to calculate without sacrificing reliability
- Number of new R&D projects related to Eligible Assets and Expenditures
- Number of new green products and solutions
- Examples of selected projects and solutions, together with the achieved energy efficiency benefits

3. Second Party Opinion



To confirm the transparency, robustness and alignment with market standards of this Framework, Purmo Group has engaged Moody's to act as an external reviewer of this Green Finance Framework. 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 LMA, LSTA, and APLMA. Moody's has assessed the Framework to be Aligned with Green Bond and Loan Principles, and to have a Good sustainability quality score, with the Use of Proceeds having High relevance.

This Framework and the Second Party Opinion will both be publicly available on Purmo Group's website at <https://investors.purmogroup.com/greenfinance>.

PURMO

G R O U P

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