Finance Policy

DSB

Telegade 2, DK-2630 Taastrup, CVR no. 25050053

Department responsible: Finance & Insurance

Approved by: The Board of Directors **Date**: 14 November 2024

1. Introduction

DSB performs a variety of transactions involving its capital structure, financing, liquidity, interest rates, foreign exchange rates, energy and counterparty risk. These transactions give rise to financial risks. This Finance Policy is drafted to ensure that financial risks are managed efficiently and to reduce the effects of fluctuations in the financial markets.

The Finance Policy contributes to supporting DSB in living up to its corporate social responsibility pledge to provide a safe and sustainable mode of transport.

The Finance Policy is approved once annually by the Board of Directors and applies until a new policy is available.

2. Purpose

The purpose of the Finance Policy is to set the framework for acceptable financial risks, including the responsibility for organising, managing, monitoring and reporting such risks.

The Finance Policy applies to the entire DSB Group.

3. Our ambition and targets

The Finance Policy aims to set a framework that will ensure optimum and cost-efficient management of financial risks, including reducing the effects of fluctuations in interest rates, exchange rates, raw materials prices, etc. to an acceptable level.

4. How we achieve our ambition and/or reach our targets

Finance & Insurance is responsible for managing, organising, monitoring, calculating and reporting DSB's financial risks. Finance & Insurance acts and makes decisions on behalf of the entire DSB Group.

Speculative transactions are not permitted. All transactions must be made for the purpose of hedging financial risks arising as a result of DSB's operations and balance sheet position.

Key figures for gearing and solvency ratio are targets, and any deviations must be reported to the Board of Directors. All other limits set out in the Finance Policy must be complied with at all times.

Any exceedances of the Finance Policy must be reported immediately to the CFO and also to the Board of Directors in the event of significant exceedances.

Any deviations from the limits set out in the Finance Policy must be approved by the Chair of the Board of Directors and subsequently by the Board of Directors.

Description of the elements of the Finance Policy

Capital structure and financing

In order to maintain access to the lending markets and support DSB's external credit rating, DSB wants to maintain a credit quality at the high end of the 'investment grade' spectrum. Credit quality is managed using the key figures debt/EBITDA (gearing), solvency ratio and liquidity reserve, as well as the dividend payout policy.

Objectives:
- Net interest-bearing debt/EBITDA of 5 or less
- Solvency ratio of not less than 30%
- Dividend policy – *afventer tilbagemelding fra Transportministeriet*

The following limits must be complied with at all times:
- Average loan maturity must not exceed 15 years, though 2.5 years as a minimum
- Diversification on at least three lenders and at least two financial markets

In order to support DSB's corporate social responsibility and environmental and climate targets for the period to 2030, we aim for the largest possible share of future financing to be procured through sustainable loans and/or bond issues, for instance green bonds.

Liquidity reserve

The liquidity reserve must ensure liquidity for operations, investments and refinancing.

Limits:
- The liquidity reserve must correspond to at least the change in net debt plus DKK 200 million, though DKK 1.0 billion as a minimum
- At least DKK 1.0 billion must be confirmed facilities
- The interest rate duration of surplus liquidity must not exceed two years

Interest rates

Limits:
- Within a 12-month period, interest rate sensitivity is not to exceed DKK 100 million (one percentage point change in interest rates)
- At least 25% of the portfolio of liabilities must be at a fixed interest rate
- The interest rate duration must be less than 15 years

Currency

Limits:
- Balance sheet items must be hedged (hedging of EUR not required)
- Average hedging of 30–70% of future cash flows for 12 months in the relevant currency (excluding EUR); for energy, however, up to 24 months
- Small foreign exchange positions representing the equivalent of up to DKK 10 million per currency need not be hedged

Energy

Effects of fluctuations in energy prices must be reduced to be within the following limits:

- 100% of the hedging rate[1] at the beginning of a budget year. Hedging transactions are distributed evenly over the year up to the budget year. No hedging transactions will be concluded for periods longer than the coming budget year
- PPAs[2] with fixed prices and terms of up to ten years may be entered for hedging of up to 50% of the expected future electricity consumption

Counterparties

At the time of conclusion of the transactions with financial counterparties, the following applies:

- Maximum exposure: DKK 400 million
- Minimum long-term ratings A-/A-/A3[3]
- Long-term ratings BBB/BBB/Baa2 are acceptable, provided the counterparty is domiciled in a country with a minimum rating of AA/AA/Aa2
- If the counterparty has been credit-rated by three agencies, the assessment is based on the middle rating, otherwise the lowest rating is used
- In the event of exceptionally large payments, for instance loan disbursements or payments from the Danish Ministry of Transport, the counterparty risk may total DKK 1.0 billion for up to three weeks
- Contracts for swaps, repo transactions, etc. are subject to conclusion of a relevant framework agreement, e.g. an ISDA master agreement
- For purposes of reducing counterparty risk, an agreement on collateral security for counterparty exposure on derivatives may be made in addition to the ISDA master agreement Security may be provided in the form of cash and/or bonds Bonds may be: (1) government bonds issued by eligible sovereigns with long-term ratings of at least A-/A-/A3, (2) bonds issued by supranational entities with long-term ratings of at least A-/A-/A3 and (3) Danish mortgage bonds with long-term ratings of AAA/AAA/Aaa

Subsidiaries

- The profit for the year is generally distributed by way of dividend based on an overall assessment of DSB's capitalisation.
- Capitalisation, guarantees and loans are granted by the Board of Directors according to a separate recommendation.
- Positions, loans and banking matters are managed by Finance & Insurance.
- Companies under the auspices of Commercial Property Development are managed through joint venture agreements. Finance & Insurance acts as adviser on financial matters.

[1] 100% corresponds to hedging of the underlying exposure measured in terms of expected consumption in the budget year, less a small margin of uncertainty to avoid excess hedging. The exposure includes expected non-exempt VAT.
[2] Power Purchase Agreement
[3] Assigned by Standard & Poor's, Fitch Rating and Moody's, respectively

Approved financial products and markets

Loan agreements

Bank loans, loan facilities, loan and bond issues through capital markets, mortgage loans and repo transactions.

Placement agreements

Bank deposits, Danish treasury bills, government bonds and treasury notes, liquid Danish mortgage bonds and liquid German government bonds, reverse repo transactions and own issues.

Eligible sovereigns

Denmark, Norway, Sweden, Finland, Germany, the Netherlands, Belgium, Luxembourg, France, Austria, Switzerland, the UK, the USA, Canada and Australia.

Hedging contracts

FRAs, futures, spot/forward contracts and swaps based on interest rates, foreign exchange, energy price indices (oil and gas), aluminium price indices or other relevant raw materials price indices, wage/inflation indices or price indices for mechanical engineering parts.

PPAs may be used to hedge electricity consumption. The requirements for counterparties do not apply to PPAs.

4.1. Impacts, risks and opportunities
Finance & Insurance provides a Finance Policy status report to the Executive Team every month.

5. Organisation, responsibility and approval
The Board of Directors has overall responsibility for approving the Finance Policy, which is approved once annually and applies until a new Finance Policy is available.

6. Interaction with other policies and guidelines
Agreement between DSB, the Danish Ministry of Transport and Housing, the Danish Ministry of Finance and Danmarks Nationalbank on government guarantees.

Guidelines for financial transactions applicable to companies with access to re-lending and/or government loan guarantees managed by Danmarks Nationalbank on behalf of the Danish government.