

**LP Portfolió Vagyonkezelő és Tanácsadó Kft.**

**Green Bond Framework**



**August 2021**

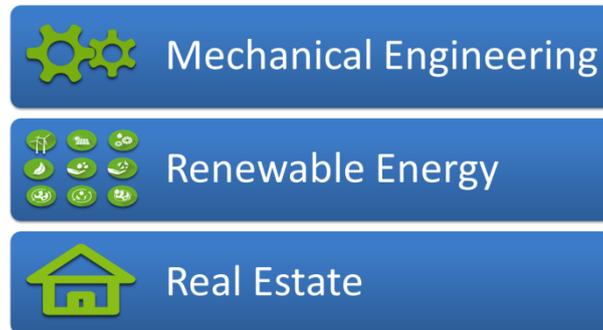


## Contents

1	Company Overview.....	3
1.1	Investments of LP Portfolio .....	3
1.2	Contribution to the UN SDGs.....	4
1.3	Compliance with the EU Taxonomy .....	5
2	Use of Proceeds .....	6
2.1	Exclusions.....	7
3	Process for Project Evaluation and Selection .....	8
4	Management of Proceeds.....	8
5	Reporting.....	9
5.1	Allocation Disclosure .....	9
5.2	Impact Reporting .....	10
6	External Review.....	10

## 1 Company Overview

LP Portfolio (LPP) is a family office with a diversified investment portfolio, with portfolio companies operating in three main sectors:



The companies in the portfolio carry out the following main activities within the three business lines:

1. within the machine manufacturing profile, machine building based on steel raw materials, sheet steel trade and rental of production equipment and real estate serving commercial and manufacturing activities,
2. the renewable energy business includes energy production and sales of solar power plants; and the construction and operation of solar power plants,
3. while the main profile of the subsidiaries operating in the real estate business is the utilization and development of real estate through leasing.

LPP is a holding company with a diversified portfolio of diversified subsidiaries in the mechanical engineering, renewable energy and real estate markets. As a holding company, LPP takes care of the development of the financial, business and financing strategies of the portfolio companies and supports their implementation. The aim of the holding company is to achieve long-term value growth through effective cooperation between the holding company and its subsidiaries. The main purpose of the holding company is not to sell the subsidiaries it owns, but to generate and maintain the wealth growth and value added achieved in the subsidiaries (and of course in the parent company). According to our goal, the holding company is able to provide this increase in value even under changing market conditions due to its diversified nature. The holding company has grown dynamically in recent years, which is also indicated by the 80% increase in total assets at the end of 2019, while equity was 56% higher than at the end of 2016.

### 1.1 Investments of LP Portfolio<sup>1</sup>

LPP's machine industry investments operate in Southern Transdanubia, Kaposvár and Komló, as well as in Budapest. Lakics Gépgyártó Kft.,<sup>2</sup> which plays a key role in the company's

<sup>1</sup> <http://www.lpp.hu/befektetesek>

<sup>22</sup> [www.lakics.hu](http://www.lakics.hu)



portfolio, deals with the production of complex, welded steel structures and their precise machining. The main profile of the family company is the production of motor and generator housings for wind turbines and other energy equipment, which are mainly manufactured and supplied to global multinational companies.

Part of the raw material procurement needs are met by the steel trading company, Acél 235 Kft.,<sup>3</sup> which is also part of the Company Group. Acél 235 Kft. Deals exclusively with the trade of hot-rolled steel sheets, paying special attention to the distribution of thick sheets.

LPP's renewable energy portfolio consists of companies producing energy and constructing and operating solar power plants,<sup>4</sup> which means sufficiently diversified revenue sources for LPP. The already-producing solar projects have a KÁT<sup>5</sup> system, but the company is also actively involved in the development of METÁR<sup>6</sup> projects. Renewable energy is an important element of diversification in LPP's holding-level strategy, with outstanding revenue-generating capacity.

In the real estate segment, LPP seeks internal diversification in developing its business strategy. The Company's investments include commercial real estate located in a large rural town, an apartment hotel in the capital, an office building and hotel development. In addition, further diversification is important, both in terms of the location of the properties and the way they are used.

## 1.2 Contribution to the UN SDGs

LPP endorses the 17 Sustainable Development Goals ("SDG"s) as defined by the United Nations for the period 2015 – 2030 and the 2015 Paris Agreement within the United Nations Framework Convention on Climate Change, to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.<sup>7</sup> The Company contributes to the fulfillment of the SDGs in its operations.

The use of the green bond proceeds of LPP can help the success of the following SDGs:

---

<sup>3</sup> [www.acellemez.com](http://www.acellemez.com)

<sup>4</sup> [www.solarFM.hu](http://www.solarFM.hu)

<sup>5</sup> KÁT (Kötelező Átvételi Tarifa): Mandatory acceptance tariff. This fee must be paid by the electricity supplier for each unit of energy obtained from the use of renewable energy that enters the grid - often for 15-20 years. That is to say, the electricity supplier thus has the opportunity to purchase the electricity produced at home from the consumer in the event of overproduction and to make the surplus available to the service provider.

<sup>6</sup> METÁR (Renewable Support Scheme): With the exception of the brown premium and small household-sized power plants, METÁR support is available for renewable electricity production that is related to a new investment and the implementation of the investment has not yet started at the time of applying for the support. Mixed-fired or waste-to-energy plants can only receive support for the part that qualifies as a renewable energy source (proportional to heat). <http://www.mekh.hu/megujulo-tamogatasi-rendszer-metar>

<sup>7</sup> <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>



### 1.3 Compliance with the EU Taxonomy<sup>8</sup>

The EU Taxonomy is a classification system which lists the environmentally sustainable economic activities. Since the EU Green Deal aims to reduce net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels, and would like to achieve the world's first climate-neutral continent by 2050, it is essential to invest in sustainable projects and assets. The EU Taxonomy can help define the activities that are in line with the EU's climate goals.

The Taxonomy has 6 environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

LPP's use of green bond proceeds can contribute to the following objectives:

- **Renewable Energy:** Climate change mitigation, climate change adaptation, Circular economy, Ecosystems
- **Green Buildings:** Climate change mitigation, climate change adaptation, Water, Circular economy, Pollution, Ecosystems
- **Clean Transportation:** Climate change mitigation, climate change adaptation, Circular economy, Pollution
- **Energy Efficiency:** Climate change mitigation, climate change adaptation, Pollution.

Future changes in the Green Bond Principles may be implemented in updated versions of this Green Bond Framework. Any updated version of this framework will either keep or improve

<sup>8</sup> [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en)

the current levels of transparency and reporting disclosures, including the corresponding review by an external consultant.

## 2 Use of Proceeds

The use of proceeds for the LPP green bonds are intended to be in line with the ICMA<sup>9</sup> Green Bond Principles (GBP), which state that all Green Assets and Projects should provide clear environmental benefits, which should be assessed and – when feasible – quantified by the Green Bond Issuer.

It is also important to highlight that the allocation of proceeds for the Mechanical Engineering business segment of LPP is only possible if the project/asset is in line with the relevant EU Taxonomy categories and the GBP.

LPP can contribute to the following categories and the related UN SDGs by the use of green bond proceeds:

GBP Eligible Category	Eligibility Criteria	Supported SDGs
<p><b>Renewable Energy</b></p>	<p>Investments in or expenditures on the installation of solar power or heat pump or stand-alone solar farms, and related infrastructure investments (e.g. grid connections, electric substations or networks)</p>	   
<p><b>Green Buildings</b></p>	<p>Acquisition, construction or refurbishment of buildings that meet the following, recognized standards, such as:</p> <ul style="list-style-type: none"> <li>• BREEAM (Very good or above), or</li> <li>• LEED (Gold or above), or</li> <li>• At least 10% better than the minimum Hungarian energy performance certificate (EPC) for nearly zero energy buildings (category BB or above), and at least category AA from 2026</li> </ul> <p>Reuse of existing infrastructure, use of resource-saving construction methods or</p>	

<sup>9</sup> International Capital Market Association

	<p>use of recycled material (concrete, wood, insulation materials).</p> <p>Financing of renovation, acquisition or otherwise completed low-energy properties that have, or will, achieve at least a 30% decrease in overall energy consumption or achieves the required energy efficiency in line with the applicable national building code for newly-built properties.</p>	
<p><b>Clean Transportation</b></p>	<p>Financing of/investments in supportive infrastructure services (charging stations for electric vehicles or other investments supporting low-carbon transportation methods)</p>	
<p><b>Energy Efficiency</b></p>	<p>Investment in/expenditures on the R&amp;D, operation, distribution and maintenance of equipment or technology helping reduce energy consumption and increase energy savings, such as:</p> <ul style="list-style-type: none"> <li>• energy storage,</li> <li>• district heating,</li> <li>• smart grids,</li> <li>• efficient lighting.</li> </ul> <p>New or existing buildings belonging to the top 15% most energy-efficient buildings in Hungary.</p> <p>Major renovations or refurbishment of existing properties that result in a minimum 30% reduction in carbon emissions intensity or a two-grade upgrade in the Hungarian energy performance label.</p>	

## 2.1 Exclusions

LPP will not allocate the bond proceeds for gambling, coal-fired power generation, nuclear energy generation, pornography, tobacco, weapons and defense industries and potentially negative resource extraction operations.

### 3 Process for Project Evaluation and Selection

LPP establishes a Green Finance Council (GFC) to assess and select the Eligible Projects and Assets and evaluates the overall sustainability impact, in line with the ICMA Green Bond Principles (GBP). The nominated Eligible Projects and Assets are selected based on external certifications (e.g. the EPC label of the refurbished/renovated property, the capacity of the solar panel) to ensure that the Eligible Projects and Assets contribute to at least one of the UN SDGs, also considering the Do No Significant Harm (DNSH)<sup>10</sup> principle. The GFC consists of the following members:

- CEO
- CFO
- a technical expert.

The GFC is headed by the CEO, the allocation of the bond proceeds requires a consensus decision. In addition, all selected Projects and Assets must be compliant with the applicable national laws and regulations, as well as the internal policies of LPP. The GFC holds a meeting at least annually.

LPP also manages the Environmental and Social (ES) risks emerging during the process for the selection of Eligible Projects and Assets. The Company consults the relevant stakeholders and takes into account the possible environmental and social issues before the selection of a project or asset. The GFC is responsible for ES risk management, while it also monitors the status of the relevant sustainability KPIs, with the inclusion of external sustainability experts – when required.



### 4 Management of Proceeds

The green bond proceeds will be earmarked for Eligible Projects and Assets defined in the Use of Proceeds section of the Framework in. If a Project or Asset no longer qualifies as eligible

<sup>10</sup> Activities that do no significant harm to the following six environmental objectives: Climate change mitigation, Climate change adaptation, Sustainable use and protection of water and marine resources, Transition to a circular economy, Pollution prevention and control, Protection and restoration of biodiversity and ecosystems.



during the life of the bond, the Project/Asset will be replaced by another Eligible Project or Asset according to this Green Bond Framework.

The green bond proceeds will be tracked by the GFC of LPP in a spreadsheet, in the Green Bond Register.

The Green Bond Register will contain relevant information to identify each Green Bond and the Eligible Projects and Assets relating to it, including the country, category and nature of the Green Bond Assets. The Green Bond Register will be the basis of the allocation and impact reporting.

If an Eligible Project or Asset no longer qualifies or if the underlying project or asset is divested or lost, an amount equal to the allocated funds will be reinvested in one of the Framework's Use of Proceeds categories.

LPP intends to invest the Green Bond proceeds as soon as possible after issuance; however, there may be periods when a sufficient aggregate amount of Green Bond Assets has not yet been allocated to the Green Bond Register to fully cover the bond proceeds. In that case, the excess liquidity will be held in cash, cash equivalents or other short-term, liquid interest-bearing securities, in line with the Company's liquidity and/or liability management activities.

## 5 Reporting

In order to be fully transparent towards the market stakeholders, LPP intends to create and maintain and publish up to date information on the use of Green Bond proceeds, annually until full allocation. The Company plans to publish its annual green bond report on its website that will include the Allocation Report and – if feasible<sup>11</sup> – the Impact Report.

### 5.1 Allocation Disclosure

The Allocation Report will contain:

- Total amount of Green Bond proceeds
- Remaining balance of unallocated bond proceeds
- Sum of the Green Bond Register balance, including the unallocated amount
- Geographical distribution of the projects/assets
- Share of financing/refinancing
- Status of the Eligible Projects and Assets

---

<sup>11</sup> If the relevant Impact Indicators are available.

## 5.2 Impact Reporting

LPP aims to create an Impact Report that discloses information with indicators – where feasible – according to the Harmonised Framework of Impact Reporting.<sup>12</sup>

The following metrics are examples of indicators that are likely to be used by the Company in the Impact Reporting:

GBP Eligible Category	Impact Indicator
<b>Renewable Energy</b>	<ul style="list-style-type: none"> <li>• Estimated yearly renewable energy production (MWh)</li> <li>• Capacity of renewable energy plant(s) constructed or rehabilitated by LPP green bond proceeds (MW)</li> </ul>
<b>Green Buildings</b>	<ul style="list-style-type: none"> <li>• Type of certification and degree of certification for buildings (e.g. LEED, BREEAM, EPC)</li> <li>• kWh/m<sup>2</sup> of GBA<sup>13</sup> p.a.; and % of energy use reduced/avoided vs the local building code</li> <li>• kgCO<sub>2</sub> /m<sup>2</sup> of GBA</li> <li>• Annual GHG emissions reduced/avoided (tCO<sub>2</sub>e)</li> </ul>
<b>Clean Transportation</b>	<ul style="list-style-type: none"> <li>• Number of clean (e.g. electric) vehicle chargers deployed</li> <li>• Annual Absolute (gross) GHG emissions in (tCO<sub>2</sub>e)</li> <li>• EV charging station total power (MWh)</li> </ul>
<b>Energy Efficiency</b>	<ul style="list-style-type: none"> <li>• Annual energy savings in MWh/GWh (electricity) or GJ/TJ (other energy savings)</li> <li>• Annual GHG emissions reduced/avoided (tCO<sub>2</sub>e)</li> </ul>

## 6 External Review

As the GBP 2021 recommend, LPP appointed an external reviewer to assess through a pre-issuance external review (SPO) the alignment of the Company’s Green Bond Framework with the four core components of the GBP.

The Green Bond Framework and the Second Party Opinion will be published on the website of LPP.

<sup>12</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

<sup>13</sup> Gross Building Area