



VGP Group

Green Finance Second Opinion

March 28, 2021

VGP is a pan-European logistics real-estate group, specialised in the acquisition, development, and management of logistics real estate. VGP is headquartered in Belgium and has operations in 11 countries across Europe. The company focuses on strategically locating plots of land suitable for development of logistics and semi-industrial business parks, optimizing the operational performance of the portfolio and the activities of its tenants, growing the different joint ventures which have been entered into, and offering solutions and act as an enabler to help VGP's tenants and other third parties in their green energy transition through the roll-out of the renewable energy business line.

Proceeds will be allocated to renewable energy, green buildings, energy efficiency, waste management, clean transportation and sustainable water and wastewater management. The proceeds of the inaugural transaction will be allocated mainly to green buildings and renewable energy. The overall shading assumes that proceeds will be allocated in a balanced way. A substantial share of VGP's buildings use natural gas from existing gas networks for heating, however, efficiency improvements in such heating systems are not eligible under this framework according to the issuer. Buildings with gas-fired heating systems are eligible under the green building category. VGP informed us that it will remove the expenses related to natural gas heating from the allocable amount. VGP has tenants coming mostly from the light industrial sectors, including e-commerce, automotive, logistics and robotics. VGP does not select the tenants based on their emissions.

The issuer has appropriate policies in place to support the updated framework. The development of a photovoltaic power generation capacity and the mandatory BREEAM "very good" certification for all new buildings since January 2020 have been implemented, but no additional targets for energy efficiency have been added. VGP targets to become net carbon neutral under scope 1 and 2 by 2025 and to reduce scope 1 and 2 emissions by 50% by 2030. The selection process is clearly defined but would benefit from systematically including environmental expertise with veto power. The issuer will provide annual reporting on a portfolio basis and discloses climate-related information through Carbon Disclosure Project (CDP). The company's emissions are disclosed on the annual Corporate Responsibility Report. VGP has however not yet reported the emissions of new building projects.

Based on the overall assessment of the project types that will be financed by the green finance, governance, and transparency considerations, VGP Group's updated green finance framework receives a **CICERO Medium Green** shading and a governance score of **Good**. The framework would benefit from adding energy efficiency targets to its buildings, and from reporting according to the TCFD recommendations with regards to the use of climate scenarios.

SHADES OF GREEN

Based on our review, we rate the VGP's green finance framework **CICERO Medium Green**

Included in the overall shading is an assessment of the governance structure of the green finance framework. CICERO Shades of Green finds the governance procedures in VGP's framework to be **Good**.



GREEN BOND and GREEN LOAN PRINCIPLES

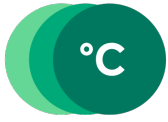
Based on this review, this Framework is found in alignment with the Green Bond and Green Loan Principles.





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1 Terms and Methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated **March 2021**. This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green	Examples
 Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.	 Wind energy projects with a strong governance structure that integrates environmental concerns
 Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.	 Bridging technologies such as plug-in hybrid buses
 Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.	 Efficiency investments for fossil fuel technologies where clean alternatives are not available

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



2 Brief Description of VGP's Green Finance Framework and Related Policies

VGP is a developer, manager and owner of logistics and semi-industrial real estate (i.e. buildings suitable for light industrial activities, including e-commerce, automotive, logistics and robotics). VGP is headquartered in Belgium and has operations in 11 countries across Europe, among them Czech Republic, Germany, Latvia, Spain, Austria, Hungary, Italy, Romania, Slovakia, Netherlands, and Portugal. VGP issued its first Green Finance Framework in 2019.

VGP focuses on: (i) strategically located plots of land suitable for development of logistics and semi-industrial business parks of a particular size, in order to build up an extensive and well-diversified land bank and property portfolio on top locations; (ii) optimizing the operational performance of the portfolio and the activities of its tenants via providing asset- property and development services; (iii) growing the different joint ventures which have been entered into, and (iv) offering solutions and act as an enabler to help VGP's tenants and other third parties in their green energy transition through the roll-out of the renewable energy business line.

VGP Group informed us that they entered into three 50:50 joint ventures with Allianz (the Allianz Joint Ventures) and one 50:50 joint venture with Roozen, a Dutch developer, (the LPM Joint Venture). The first two Allianz Joint Ventures (the First Joint Venture and the Second Joint Venture) are focusing on acquiring income generating assets which are being developed by the Group (these are unchanged since we discussed them back in 2019). The third Allianz Joint Venture (the Third Joint Venture) relates to the development of VGP Park München. The LPM Joint Venture relates to the development of VGP Park Moerdijk. The issuer further informed us that new joint ventures might also be considered in the future.

Environmental Strategies and Policies

According to the issuer, VGP has been paying increased attention to climate and environmental matters over the past years. The driving forces behind this were tenants, expressing growing interest and demands for improving the environmental footprint of facilities, and the management leadership of VGP, which wants to position VGP as an active contributor to the climate-related transition as the company focuses on continuously optimizing its buildings in accordance with the demands of the market and the latest technical developments. According to the issuer, ambitions for building certifications, renewable energy installations and other environmental investments are strategic and will be pursued irrespective of obtaining green financing.

Based on the company's methodology for calculation, the total CO₂e emissions (fully calculated scope 1 and 2 and partially calculated scope 3) for VGP Group over the year 2019 were estimated at 2,308 tCO₂e according to its 2020 Corporate Responsibility Report. This emission represents a total CO₂e emission per full time employee (FTE) and per m² office surface of 9,7 tCO₂e/FTE and 0,6 tCO₂e/m². Both are KPIs that were not monitored prior to 2019, thus not allowing the company to provide comparison on emissions at this point, however they will be monitored by the company going forward. VGP has further announced as a target to become net carbon neutral by 2025 by compensating its emissions. In addition, VGP commits to reduce scope 1 and 2 GHG emissions by 50 % by 2030. To reduce its emissions scope 1 and 2, VGP aims at transitioning towards electric cars, introducing a business travel policy that encourage displacements via train and/or meeting via teleconferencing, promoting commuting, and digitalizing communications. Furthermore, the emissions for all new construction projects are recorded for each new construction project as part of the BREEAM certification process. The company's emissions (including full scope 1 and 2 and partially scope 3) and methodology for calculation (compliant with PAS 2060 and GHG Protocol, and validated by CO₂ Logic, the independent appraiser), are disclosed on the annual Corporate



Responsibility Report, available on the company's website. VGP has not yet reported the emissions of new building projects.

A sustainable building standard is included in the company's building protocol, which also applies to its joint ventures. Since January 2020, VGP has also committed that all new buildings (of which construction started since January 2020) will obtain an official BREEAM "Very Good" or equivalent certification. This updated policy contributes to increase the share of sustainable certified buildings in the company portfolio (during 2020 a total of 15 new buildings received certification). VGP has not defined any additional targets for energy efficiency in its buildings.

As of December 2020, VGP has enabled the development of a photovoltaic power generation capacity of 42.5MWp installed, or under construction, through 36 of its projects. The company has further informed us that discussions are ongoing for the installation of a further 54.7 MWp, and aims at installing 200 MWp of solar panels on its own roofs in 2025. The total capacity installed and under construction is expected to realize a reduction in CO₂ emissions of 7,800 tCO₂ on an annual basis and maintain 13,400 households once operational in the course of 2021, and the company has informed us that the pipeline projects are expected to add a further prevention of CO₂ emissions of 10,050 tCO₂ on an annual basis and produce enough energy to maintain 17,250 households. Various other developments in renewable energy are considered, including the analysis of acquiring additional renewable energy assets (also beyond VGP Parks) and providing infrastructure to enable green vehicle and truck charging at its Parks.

In terms of land selection for new developments, the issuer informed us that it is targeting more brownfield locations. According to the issuer, the selection of more brownfields locations contributes to reduce the company's environmental impact and helps revitalizing and repurposing often contaminated industrial wasteland that can represent a burden for the neighborhood. The issuer also informed us that they are taking into consideration the soil contamination in the land selection process and follow local regulations for its decontamination where applicable. Moreover, VGP projects will introduce sustainable features in terms of green areas that aim at restoring and improving the biodiversity of such area. These selected sites are often situated in proximity to the metropolitan areas, thus already having available nearby public transport infrastructure in place. The issuer also informed us that a land sourcing strategy is also in place for site selection, ensuring minimal potential travel for both trucks and employees to the site, seeking local public transport access, and respecting the local biodiversity.

For suppliers and contractors, policies safeguard local laws and regulations in climate and environmental matters. Policies that pose stricter demands for suppliers and contractors are now imposed by the company, and VGP is committed to good business ethics and the protection of human rights across its supply chain. As part its Code of Conduct, VGP will impose compliance with its Code on its suppliers. Furthermore, to mitigate the bribery risk of its suppliers, VGP conducts a supplier due diligence (based on the Quality Management Handbook). The Code of Conduct requires the respective VGP manager responsible for the engagement to ensure that proper due diligence is conducted, including the requirement to report any work which is subcontracted by a supplier. This review is conducted under supervision of the respective technical director. The actual performance rate of conducting such reviews is not monitored on a group-wide basis.

The company has further set SDG targets, including the insurance of safe working environment, the imposition of supply chain ethics, the promotion of gender equality, and the allocation of 1-2% of net profits of the company to VGP Foundation supporting nature conservation, social and cultural heritage projects.

VGP reports in accordance with the GRI Standards, however the company is not reporting according to the TCFD recommendations. Further, the issuer does not use climate scenarios at this point. The assessment of physical risk and resilience happens according to industry standards or under the BREEAM certification regime. For



construction projects, the management of local environmental and climate concerns is guided by the BREEAM framework in addition to local laws and regulations.

Use of proceeds

Proceeds from green financial instruments issued under this framework will be used exclusively to finance and/or refinance, in whole or in part, “Eligible Assets”, described in the Green Finance Framework, and owned by VGP NV, its subsidiaries or any of its joint ventures. Eligible projects can be enacted in all regions where VGP is active. According to the issuer, proceeds will initially be allocated to refinance existing projects, while new projects will be added on an ongoing basis. Ultimately, according to the issuer, the main share of proceeds will be allocated to renewable energy projects (i.e., onshore and offshore renewable energy facilities, including primarily solar and wind projects, but also hydro- referring to hydrogen according to the issuer- and geothermal energy projects are eligible, that will produce energy for the tenants’ self-consumption in the building, as well as their electric vehicles and plug-in hybrid vehicles fleet. Green hydrogen could potentially be investigated in the future according to the issuer.) and to the category of green buildings (i.e., real estate assets with BREAAAM “Very Good” certification (or equivalent DGNB/LEED rating) with proceeds being allocated in a balanced way according to the issuer. In addition, the framework defines as eligible project categories Energy efficiency (i.e., for existing or new (logistics) buildings, warehouses and technologies-related services and products), Waste management (i.e., projects, investments and expenditures which promote better recycling rates), Clean transportation (i.e., electric vehicle charging stations, bike facilities), and Sustainable water management (i.e., reduce freshwater consumption, capturing and recycling rainwater, green roofing).

The issuer confirmed that proceeds will not be allocated to fossil or nuclear energy assets. Proceeds can be allocated to buildings with natural gas heating system, however, the company informed us that the issuer will remove the expenses related to natural gas heating from the allocable amount.

Selection

The selection process is a key governance factor to consider in CICERO Green’s assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

VGP will follow a transparent process for selection and evaluation of eligible assets as defined above. The Eligible Assets are required to comply with local laws and regulations, including any applicable regulatory environmental and social requirements.

The selection of projects, investments and/or expenditures is executed by the internal departments of the VGP Group, and the company informed us that the joint ventures are not involved in the selection process. If needed, external advisors can be added to the selection process. A Sustainable Executive Committee is now created, consisting of representatives from Executive Management, the Finance, and the Technical departments. The members have a continuous dialogue regarding project investment decisions, start-ups and progress reports and the Sustainable Executive Committee meets officially as and when required to evaluate the compliance of the projects, investments and/or expenditures with the eligibility criteria and internal policies of the eligible assets. After positive evaluation of the projects, investments and expenditures, the accepted projects, investments and expenditures are considered as eligible assets and added to the Green Portfolio Register. Moreover, the board of directors imposed that all new building projects need to comply with the investment requirements of the green finance framework and the CEO has been given delegating power to ensure that such green investment criteria are being complied with. The issuer has further informed us that in-house environmental expertise is not systematically included in the selection process nor have veto power.



VGP's building code is modeled after the BREEAM certification standard. This is the framework which guides the issuer's assessments of potential ESG risks for new developments. The issuer is still open to remove such projects from green financing that face considerable public opposition.

Management of proceeds

CICERO Green finds the management of proceeds of VGP to be in accordance with the Green Bond Principles.

VGP's Finance department is responsible for managing net proceeds from green financing instruments on a portfolio basis. VGP will also create a Green Portfolio Register to keep track of the eligible assets. As long as Green Bonds, Green Private Placements and/or Green (Syndicated) Loans are outstanding, an amount equivalent of the proceeds of these Bonds, Private placements and/or Loans will be allocated to the portfolio of eligible assets on an annual basis.

VGP's Finance team will ensure that the allocation of proceeds is proportional to VGP's ownership share in the eligible assets, (i.e., eligible assets owned by a joint venture or subsidiary are eligible for inclusion in the VGP Green Portfolio Register for up to VGP's pro rata share in such joint ventures or subsidiary).

On at least an annual basis, the VGP Finance team will assess if the assets in the Green Portfolio Register keep meeting the eligibility criteria. If this is not the case, or the asset no longer is owned by VGP, its subsidiaries or the respective joint ventures, VGP will remove the asset from the Green Portfolio Register and has the ambition to replace it with another eligible asset as soon as reasonably practicable. Pending the allocations to eligible assets, the net proceeds may be temporarily invested or held in cash or cash equivalents.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

The issuer will provide reporting to investors and lenders on at least an annual basis as part of VGP's annual report or annual corporate responsibility report, until full allocation and if necessary, thereafter in case of material developments. Reporting on allocation of proceeds is led by the Finance department and will include information on the total outstanding (in EUR million) of Green Bonds, Green Private Placements and Green (Syndicated) Loans issued under the Green Finance Framework; the allocation of the proceeds of issued green finance instruments to a portfolio of eligible assets, including a breakdown of the allocation per project category; any unallocated (loan) amounts; the distribution between financing of new projects and refinancing; and the geographic distribution of the portfolio of eligible assets (country level).

VGP's annual impact reporting will report on its sustainability initiatives and performance via its annual Corporate Responsibility Report. This report will provide information regarding the total installed capacity of renewable energy for VGP's property portfolio. Additional impact indicators are subject to availability of data and include annual generation of renewable energy (in kWh) and the related avoided CO₂ emissions, using 2018 as year of reference, number of environmental certifications, energy savings from efficiency projects (in kWh), quantity of recycled material (in metric tonnes per year), number of electric vehicles charging stations installed, freshwater savings (m³), and possibly other indicators. Impact reporting will be done on a portfolio basis.

The issuer confirms that its ownership share of a facility will be taken into account in the reporting. The company has further informed us that it will recognize only the respective % which represents its equity ownership of such asset.



The issuer intends to obtain post-issuance verification of its reporting of the use of proceeds by an external party upon full allocation. The verification report for the use of public green bond proceeds will be published, while reports for other types of instruments, like loans and private placements, or similar finance instruments, may only be presented to private and respective placement investors or lenders. This independent review has not been decided upon yet, but will be published on VGP's website.



3 Assessment of VGP’s Green Finance Framework and Policies


The framework and procedures for VGP’s green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where VGPs should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in VGP’s green finance framework, we rate the framework **CICERO Medium Green**.

Eligible projects under the VGP’s green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the “overall environmental profile” of a project should be assessed and that the selection process should be “well defined”.

Category	Eligible project types	Green Shading and some concerns
Renewable Energy 	<ul style="list-style-type: none"> Projects, investments and expenditures in products, technologies and services ranging from the generation and transmission of energy to the manufacturing of related equipment including among others onshore and offshore renewable energy facilities. This includes among others solar, wind, hydro and geothermal energy projects. 	Dark Green <ul style="list-style-type: none"> ✓ The issuer informed us that within the Renewable Energy category, the company will focus on solar or wind related projects. Hydro projects are currently not considered according to the issuer. ✓ Wind power and solar PV are keys to a low-carbon transition. ✓ Increasing the share of renewable energy in national electricity mixes is an essential part of achieving the long-term net zero emissions future. ✓ While solar power is generally low-carbon, local environmental impacts such as on biodiversity, habitat and landscape can be of concern for these projects. ✓ Wind projects can also have adverse local environmental impacts, including on birds and bats migration trajectories, and impacts on local communities. ✓ Hydro refers to Hydrogen charging infrastructure according to the issuer, and can represent a



concern if the sourcing is related to non-renewable energy, e.g. from fossil fuel or fossil energy. However, the issuer informed us that it has not yet plan to invest in hydrogen, but most likely green hydrogen could potentially be investigated in the future.

- ✓ Geothermal would also be considered at a smaller scale. Investors should be aware that some geothermal projects could be associated with large GHG emissions. The Eu taxonomy mentions a threshold of 100g/kWh for geothermal energy. VGP did not set any targets regarding its geothermal projects, but informed us that the company is only anticipating small scale projects associated with its buildings.

Green Buildings



- Projects, investments and expenditures in relation to real estate assets which have received, or are designed and intended to receive, BREAAAM “Very Good” certification (or equivalent DGNB/LEED rating).

Light Green

- ✓ BREAAAM “very good” does not require improvements in energy efficiency and VGP has not defined any additional targets for energy efficiency in its buildings. Additional targets to improve energy efficiency would be a more effective measure to reduce the energy footprint of buildings, especially since many facilities are heated with natural gas and are often located in areas with a high grid emissions factor (e.g. Germany).
- ✓ The issuer informed us that if proceeds will be used for the purchase of land, such land will be used to start up developments of Green buildings within a period of 36 months unless such land can be specifically linked to environmental projects or purposes.
- ✓ Several existing eligible facilities use natural gas heating systems connected to existing gas networks. A substantial share of proceeds could be allocated to fossil fuel heated buildings. Back-up facilities in the buildings could also be based on fossil fuels. Therefore, investors should be aware of potential risk for lock-in effects with regards to developments using natural gas or fossil fuel heating systems. However, VGP mentioned that it will remove the expenses related to natural gas heating from the allocable amount.
- ✓ VGP does not have buildings with oil-fired heating in its portfolio.



- ✓ The logistics industry in general is a part of light and heavy road transport which are mainly powered by fossil fuels.
- ✓ Voluntary environmental certifications such as LEED and BREEAM or equivalents can fall short of measuring reduction in greenhouse gas emissions precisely and do not include considerations of resiliency.
- ✓ The issuer should consider the physical climate risks prior to project investment using climate scenarios.

Energy Efficiency



- Projects, investments and expenditures focusing on energy efficiency measures in existing or new (logistics) buildings, warehouses.
- Technologies (insulation, LED relighting, motion detectors, energy monitoring tools etc.) and related services and products, including installation.

Light to Medium Green

- ✓ Energy efficiency thresholds would make improvements more transparent and traceable.
- ✓ The issuer should consider the potential for rebound effects for energy consumption. Efficiency improvements in gas or fossil fuel heating systems are not eligible under this framework according to the issuer.

Waste Management



- Projects, investments and expenditures which promote better waste recycling rates.

Dark Green

- ✓ Waste recycling is an essential activity in a low carbon society and part of the long-term solution.
- ✓ Investments aim to improve third party tenants' adherence to local recycling rules. Concrete targets have not been defined. Waste to energy is not included.
- ✓ Due to the geographic spread across continental Europe, it is unclear how separated plastic waste will be treated after separation by a tenant (e.g. waste to energy incineration, recycling)
- ✓ The issuer should consider life-cycle emissions of waste and be aware of potential lock-in effects where plastic waste is incinerated after collection.





Clean Transportation 	<ul style="list-style-type: none">• Electric vehicle charging stations• bike facilities	Dark Green <ul style="list-style-type: none">✓ Supporting infrastructure for electric transportation is part of the long-term net zero emissions future.✓ Installation of charging stations depends on the third-party tenant and is not automatically included in new developments.✓ The issuer informs us that access to public transport is a key criterion for land purchase for new developments
Sustainable water and wastewater management 	<ul style="list-style-type: none">• reduction of freshwater consumption• capturing and recycling rainwater• green roofing	Dark Green <ul style="list-style-type: none">✓ Sustainable water and wastewater management is part of the necessary adaptation to a changing climate.

Table 1. Eligible project categories

Background

According to the International Energy Agency (IEA), the buildings and buildings construction sectors combined are responsible for 36% of global final energy consumption in 2018 and nearly 40% of total direct and indirect CO₂ emissions. Appliances (excluding heating, cooking and cooling appliances) are responsible for around 17% of final electricity use by buildings. Emissions from buildings are approximately half coming from energy use. The energy and emissions savings potential remain largely untapped because of continued use of less efficient technologies, lack of effective policies and weak investments in sustainable buildings. The IEA's Sustainable Development Scenario suggests 50% of new constructed building area in 2030 to be near zero emission – in addition to increased renewable heat sources up to 25% in 2030.¹ Efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand – in addition to improvements in lighting and appliances and increased renewable heat sources.² In a low carbon 2050 perspective, energy efficient buildings are crucial important building blocks towards reaching the 2°C goal. In addition, voluntary environmental certifications such as LEED and BREEAM or equivalents measure or estimate the environmental footprint of buildings and raise awareness of environmental issues. These points-based certifications, however, fall short of guaranteeing a low-climate impact building, as they may not ensure compliance with all relevant factors e.g., energy efficiency, access to public transport, climate resilience, sustainable building materials. Many of these factors are covered under the World Green Building Council's recommendations for best practices for developing green buildings³. CICERO Shades of Green assesses all of these factors when evaluating the climate impact of buildings.

¹ <http://www.iea.org/tcep>

² <http://www.iea.org/tcep>

³ <https://www.worldgbc.org/how-can-we-make-our-buildings-green>



According to the issuer, a large part of the building portfolio is located in Germany. In terms of number of added heating devices in 2020 in Germany, according to the Bundesverband der Deutschen Heizungsindustrie e.V., 74% were gas-based, 5.33% oil based, 6.4% biomass based and 14.3% were heat pumps⁴.

In addition to energy efficiency, CICERO Green assess if there is any screening for potential impacts from more extreme weather events, such as flooding. Flood risk for properties, is of particular concern in vulnerable geographic regions such as close to rivers or lakes. We also factor in if there have been any considerations around transportation solutions and environmental impacts in the construction phase of the building (e.g., waste considerations).

Investments in renewable energy linked to buildings is another important climate measure. In 2017, renewable electricity generation grew 6% and reached a quarter of global power output, thanks to the continued growth of solar PV and wind technologies. Despite these positive trends (especially with PV), additional efforts are needed in renewable power generation to meet the targets set out in the IEA's SDS. According to the IEA, the share of renewables in global electricity generation must reach 47% by 2030, up from 25% in 2017.⁵

Governance Assessment

Four aspects are studied when assessing the VGP's governance procedures: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

VGP has appropriate policies in place to support the framework. VGP has committed since 2020 that all new buildings will obtain an official BREEAM "Very Good" or equivalent certification. However, VGP has not defined any additional targets for energy efficiency in its buildings. VGP has further announced as a target to become net carbon neutral by 2025 under scope 1 and 2 as well as to reduce scope 1 and 2 GHG emissions by 50 % by 2030. The company's emissions and methodology for calculation are disclosed on the annual Corporate Responsibility Report, available on the company's website. VGP has however not yet reported the emissions of new building projects. As of December 2020, VGP has also enabled the development of a photovoltaic power generation capacity of 42.5MWp installed, or under construction. VGP reports in accordance with the GRI Standards and discloses climate-related information through CDP. However, the issuer does not use climate scenarios at this point.

The selection process involves a Sustainable Executive Committee, where screenings of resiliency, environmental impact and supply chain are guided by the BREEAM framework. However, in-house environmental expertise is not systematically included in the selection process, nor have veto power. The management of proceeds complies with the Green Bond Principles. The issuer will provide reporting on an annual or more frequent basis to investors and lenders on its green finance activities and achieved impacts on a portfolio basis as part of VGP's annual corporate responsibility report. The issuer will obtain external verification for the reporting of the use of proceeds.

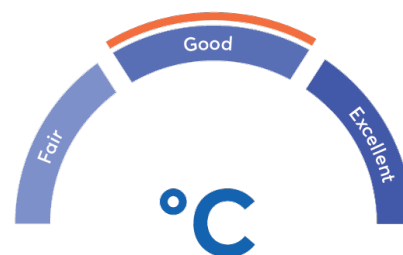
⁴ <https://www.baulinks.de/heizung/heizungsmarkt.php>

⁵ <http://www.iea.org/tcep/power/renewables/>



The governance score would be strengthened by emissions reporting on building projects, additional targets for energy efficiency in its buildings, use of climate scenarios, implementation of TCFD recommendations, and a more systematic inclusion of environmental expertise with veto power within the selection process.

The overall assessment of VGP's governance structure and processes gives it a rating of **Good**.



Strengths

The updated policies of the company set up specific targets for emissions reduction by 2030 and for carbon neutrality by 2025. These targets further include clear and concrete measures at the company level.

The BREEAM system provides a reasonable framework to screen building projects. The issuer has decided that all buildings need to obtain BREEAM “very good” certification since January 2020.

The issuer focusing on renewable energy, particularly solar and wind, represents a long-term solution for a low carbon future. The development of a photovoltaic power generation capacity of 42.5MWp installed, or under construction announced by the company, as well as the potential installation of a further 54.7 MWp and the goal to install 200 MWp of solar panels in 2025 are ambitious and represent a strength of this framework.

The selection of sites, focusing mainly on brownfield locations under the updated framework, represent a strength, as it tends to reduce environmental impact on greenfield, and revitalize and repurpose often contaminated industrial wasteland. The issuer's land sourcing strategy for site selection is also a strength as it aims at ensuring minimal potential travel for both trucks and employees to the site, favorize logistics accessibility, and respecting the local biodiversity.

The company has appropriate policies for suppliers and contractors. VGP will impose compliance with its code of conduct on its suppliers, and the company is committed to good business ethics and the protection of human rights across its supply chain, carrying out a supplier due diligence.

Weaknesses

Investors should be aware of the risk of locking in emissions from heating systems with natural gas and fossil fuel which the framework does not prohibit in new buildings. A substantial share of proceeds could be allocated to fossil fuel heated buildings. However, VGP mentioned that it will remove the expenses related to natural gas heating from the allocable amount.

Pitfalls

Under the green buildings category, the level BREEAM “very good” can be achieved without dedicated efforts to improve energy efficiency beyond industry standard in certain regions, like Western Europe. Additionally, the issuer has not yet defined any additional energy efficiency targets or thresholds for its buildings. This is a missed opportunity to track energy efficiency improvements, establish experiences on best practice, and report on achievements. This is particularly relevant given the use of natural gas heating systems and the relatively high grid emissions factor in some of the countries where VGP has a strong presence, e.g. Germany. According to the issuer, BREEAM “Very Good” does represent a significant improvement over national building codes in parts of Eastern Europe. Setting best practice examples by private sector actors is positive, and we would encourage the issuer to quantify and benchmark such improvements. In a low carbon 2050 perspective, the energy performance of buildings is expected to be improved, and more stringent criteria would have been required for a darker shading.



The renewable energy category allows for investments in products, technologies and services ranging from the generation and transmission of energy to the manufacturing of related equipment including among others onshore and offshore renewable energy facilities, including solar, wind, hydro, which refers to hydrogen, and geothermal energy projects. Wind power developments have lately been under heightened public scrutiny in several countries. We encourage the issuer to engage with stakeholders, such as affected communities, early in the development process. The risk for substantial opposition is somewhat reduced as wind turbines will be installed on sites that are being commercially used already, which also limits the scale of possible wind power developments. The issuer has confirmed that controversial projects will not be financed or refinanced with green bond proceeds, however, such controversial projects can be financed or refinanced by the company with other sources of funds available. Geothermal energy can be a significant source of emissions, with some plants generating higher GHG emissions than fossil fuel equivalents. In order to be considered net environmentally positive, standards call for new and existing geothermal projects to have direct emissions of substantially less than 100g CO₂/kwh⁶. We encourage the issuer to consider potential negative environmental aspects, e.g. local water quality, pollutants from geothermal fluids and emissions of non-condensable gases. However, VGP informed us that the company is only anticipating small scale geothermal projects associated directly with its buildings, which is mitigating our concerns. The addition of hydrogen projects under the renewable energy category of the updated framework can represent a concern, particularly if the sourcing is related to non-renewable energy, e.g. from fossil fuel or fossil energy. However, the issuer informed us that it has not yet plan to invest in hydrogen, but most likely green hydrogen could potentially be investigated in the future.

The logistics industry in general is a part of light and heavy road transport. There are currently few electric or hybrid solutions for this kind of transport available. The issuer informed us that one large new development will feature charging stations for trucks. This is encouraging; however, the larger picture is dominated by fossil powered vehicles. We encourage the issuer to engage with tenants early in the planning phase and to consider the increased installation of charging stations to facilitate both the increased electrification of employees' personal cars as well as the electrification of trucks as they come to the market in increasing numbers. VGP informed us that it screens for the type of activities of the potential tenants and their economic capacity. However, VGP currently does not select the tenants based on their emissions, nor screen out any emission intensive customers, which could have potential negative climate impact.

Under the category waste management, the issuer aims to increase on-site waste separation by tenants. The recycling of plastic waste is essential for reaching a low emissions and climate resilient future. Currently, plastic waste is treated in different ways depending on the national context, e.g., incineration for waste to energy. An effective system for waste separation is a precondition for achieving higher recycling rates in the future. Therefore, the company mentioned that it aims at supporting higher recycling rates by offering waste separation facilities within its parks. This framework does not finance any waste incineration.

The company is reporting in accordance with the GRI Standards and discloses climate-related information through CDP, however the framework would benefit from reporting according to the TCFD recommendations with regards to the use of climate scenarios. Developing projects with climate risk and resilience in mind is critical for the real estate sector, and the issuer would benefit from a more systematic inclusion of climate risk and resilience into management systems and reporting.

⁶ <https://www.climatebonds.net/standard/geothermal>



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	VGP Updated Green Finance Framework dated 11.03.2021	The green finance framework structured after the ICMA green bond- and green loan principles
2	VGP Corporate Responsibility Report 2020	VGP Corporate responsibility 2020_ENG.indd (vgpparks.eu)



Appendix 2: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University, the International Institute for Sustainable Development (IISD), and the University of Michigan School for Environment and Sustainability (SEAS).

