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Second Party Opinion

Alfa Proxima-X Green Finance Framework

Nov. 2, 2023

Location: Hungary

Sector: Consumer Products - Food

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Green Bond Principles, ICMA, 2021, (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

See [Alignment Assessment](#) for more detail.

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Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our [Shades of Green Analytical Approach](#) >

Strengths

Alfa Proxima-X (Alfa) will direct most of the funding toward projects that align well with a low carbon and climate-resilient future. Of the overall funds, 91% will be allocated to financing a greenhouse equipped with a hydroponic system run by a geothermal power plant. This combined system will contribute to a more sustainable and resilient approach to agriculture.

The issuer has adhered to additional ICMA Green Principles recommendations. This includes a commitment to report key performance indicators under the Harmonized Framework for Impact Reporting.

Weaknesses

Alfa lacks a physical risk assessment process. Despite having insurance protection to hedge against specific unexpected events, such as storms, the group currently does not incorporate physical climate risks into its strategy or within the eligibility criteria of the framework activities. We do not consider the insurance policy the issuer has taken out for its geothermal eligible project to be a mitigant of physical risks, but rather a driver of operational continuity.


Areas to watch

Alfa's current ESG strategy and reporting is nascent. The lack of relevant climate and environmental metrics and targets limits our ability to assess the issuer's past performance and future trajectory against any material sustainability factors.

Under the category of building renovation, there is uncertainty in the framework regarding the minimum level of improvement and the future management of relevant aspects. The eligibility criteria do not establish clear and quantifiable improvement thresholds for all buildings. In addition, the eligibility criteria do not consider other significant issues, such as embodied emissions.

Eligible Green Projects Assessment Summary

Eligible projects under the issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.


Renewable Energy	 Dark green
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Development of new geothermal plant


Building renovation using renewable energy such as heat pump system, solar photovoltaic (PV)

Environmentally sustainable management of living natural resources and land use	 Dark green
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Development of greenhouse integrates the design of a sustainable water management system and will use geothermal energy

Clean transportation	 Dark green
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Deployment of fully electrical vehicles (EVs) and EV charging stations

Energy efficiency	 Light green
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Refurbishment of existing buildings, achieving higher energy efficiency and lower energy consumption (thermal insulation, for example). Improving by one Hungarian energy performance certificate (EPC) category or 30% primary energy savings

See [Analysis Of Eligible Projects](#) for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Alfa Proxima-X (Alfa) is the parent company of Alfa Group (the group), headquartered in Téglás, Hungary. The group includes 12 subsidiaries in different sectors, of which four are within the scope of this framework (the subsidiaries): Royal Win Food's food logistics company (44% of total revenues in 2022); Stabí Alap's real estate subsidiary (4%); and Solution Technologies and Vertical Future Garden, which explore opportunities in renewable energy and agriculture. The group, with revenues of €7.6 million, has two owners and about 100 employees.

In the box below, we describe material sustainability factors for the four subsidiaries' sectors: consumer foods, real estate, power generation, and agribusiness.

Material Sustainability Factors

Climate transition risk

Power generation is the largest direct source of greenhouse gas emissions globally. Renewables have a key role in reducing emissions from power and heat. In agribusiness, agriculture, forestry, and other land uses are responsible for 22% of emissions (source: IPCC) and is a major contributor to nitrous oxide emissions, with most coming from deforestation, raising livestock, and soil management. Reducing the consumer foods sector's emissions will likely need investments in logistics and supply chains. Buildings could face higher capital expenditure to accommodate the energy transition and higher efficiency standards.

Physical climate risk

According to the World Bank Climate Knowledge Portal, Hungary is likely to be exposed to climate change. The main expected impacts will be precipitation change, floods, and drought, particularly affecting agriculture. The geographically fixed nature of real estate and power generation assets exposes them to higher physical risks compared to other sectors. Absent adaptation, it could become more difficult to secure insurance for the most exposed assets. Volatile and more frequent and severe acute physical risks could affect crop yields and harm harvests, transportation networks, soil quality, and water access.

Waste and recycling

Tighter restrictions on food waste and plastic waste from packaging, which contribute to systemic problems including climate change and plastic pollution, pose regulatory risks to the value chain of food production and logistics activities. Additionally, for geothermal energy, the main waste sources are waste heat and fluids, with the latter containing several chemicals--in the form of non-condensable gases-- including hydrogen sulfide. These are potentially harmful if not properly managed.

Biodiversity and resource use

Practices to date have increased food production in a cost-effective manner and enabled the industry to meet growing demand in a profitable way, despite reducing biodiversity and increasing land use. The overuse of some chemicals is harming soil and water health, and excessive land use is harming biodiversity by expanding into natural habitats.

Impact on communities

Properties and their owners draw an influx of people into a community, which can support the local economy. However, sites with high renewable potential are often in or near communities, which can prompt strong local opposition.

Issuer And Context Analysis

The framework's eligible projects—a new geothermal energy plant, a new greenhouse, an electric vehicle fleet and charging stations, and renovations to existing buildings—aim to address climate transition risk, which we consider to be the most significant sustainability factor for the four subsidiaries. The greenhouse project also seeks to address resource usage, another important sustainability factor. Additionally, physical climate risk is a relevant concern for existing buildings undergoing renovation, as well as for the new greenhouse and geothermal energy assets, because they are exposed to the impacts of climate change. The geothermal energy project is also exposed to waste management challenges due to waste heat and fluids.

While the eligible projects will contribute to addressing key aspects of the four subsidiaries' material sustainability factors, the subsidiaries' overall ESG strategies remain nascent. In October 2022, the group launched its ESG strategic objectives and adopted initial commitments, with some quantitative targets but without a robust definition. The strategy applies to all the group's subsidiaries, although we understand Alfa has faced difficulties when translating the objectives to each subsidiary. That said, the analysis described below focuses on the sustainability challenges of the subsidiaries in scope of this green finance framework, as well as their sustainability performance. Furthermore, the out-of-scope subsidiaries are focused on adult education, robotics, and applications for emotional intelligence, which we see as sectors with lower exposure to the material sustainability factors listed above.

The current lack of disclosure limits our ability to assess the subsidiaries' past performance against any aspect of the material sustainability factors. The group and the subsidiaries have not yet reported on key environmental indicators, such as greenhouse gas emissions, energy consumption, or water usage because it is still implementing its data collection system. However, we note positively the group's efforts to publish its first sustainability report in 2022, which included information related to the subsidiaries and the related ESG strategy. We also note its efforts to develop an ESG data collection system in line with recognized reporting principles.

The subsidiaries, via the group strategy, aim to measure their carbon footprints to subsequently define their reduction objectives; not knowing their carbon footprints currently limits their ability to address climate transition risks. Despite not having established groupwide quantitative targets for carbon emissions reduction, the group's strategy includes sustainability commitments related to logistics and the energy efficiency of its real estate stock. Consequently, it has set the following targets:

- Modernize the energy efficiency of the real estate stock, achieving at least a 30% improvement.
- Rely on local raw materials, ensuring that 70% of purchases come from local suppliers.

We also view positively the group's establishment of subsidiary, Solution Technologies, to explore renewable energy projects, which play a crucial role in the 2050 climate neutrality scenario.

There is not yet a strategy, at the group or subsidiary level, to mitigate physical climate, biodiversity, and waste risks. Despite having insurance protection to hedge against specific unexpected events, such as storms, the group currently does not incorporate physical climate risks into its strategy. Similarly, it does not provide any specific disclosures or targets regarding biodiversity-related risks and opportunities that may arise in connection with geothermal energy projects and innovative agriculture.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond/Loan principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Green Bond Principles, ICMA, 2021, (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

The issuer commits to allocate the net proceeds of future bonds/loans issued under the framework exclusively to eligible green projects. Please refer to the Analysis of Eligible Projects section of our methodology for more information on our analysis of the environmental benefits of the expected use of proceeds.

The issuer will allocate the proceeds to finance new developments and existing projects under its green framework. The project categories include renewable energy, environmentally sustainable management of living natural resources and land use, clean transportation, and energy efficiency. We view positively that the framework connects all projects to activities covered by the EU Taxonomy--apart from the greenhouse project--although this does not imply an alignment with the taxonomy's technical screening criteria.

✓ Process for project evaluation and selection

Alfa has established a Green Committee that is responsible for deciding the allocation of proceeds based on the green eligibility criteria, as well as monitoring relevant developments, among other aspects. The committee includes members from different departments and, when needed, environmental or engineering experts can be brought in to support the selection process. The process involves the issuer identifying the environmental objectives of each project, such as climate mitigation, climate change adaptation, pollution prevention, and control. The committee is also responsible for applying risk management measures to identify and mitigate social and environmental risks.

✓ Management of proceeds

The issuer commits to using a separate ledger number and will use a separate accounting procedure to manage the net proceeds from future instruments issued under the framework, to document and monitor the allocation of proceeds to the eligible green projects. The framework refers to a three-year deadline by which the issuer intends to allocate all proceeds after issuance, which is longer than the usual two-year market practice. The framework also states that proceeds will be periodically adjusted to match allocations to eligible projects during the time the instrument is outstanding. Alfa has also outlined an exclusion list to ensure that no highly polluting activities or nuclear energy generation, among others, can be financed under the framework. Unallocated proceeds will be allocated to temporary investments such as bank deposits or government bonds.

✓ Reporting

The issuer commits to reporting annually on the allocation of proceeds until it has reached full allocation of the green financing instruments. Reporting will include a description of projects financed, the amount each project receives in percentage terms, the proportional allocation of net proceeds to existing projects and new projects, and methodology calculations, among others.

The framework specifies that the company may seek to receive assurance by an external auditor for its annual allocation report, though not its impact report. In addition, the issuer will align its impact reporting with ICMA's Harmonised Framework for Impact Reporting.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

For each financing under the framework, Alfa expects to allocate 49% of proceeds under the framework to the renewable energy category, mostly to geothermal assets that will be used for the greenhouse project (which expects to receive 42% of the proceeds), followed by 7% to clean transportation, and the remaining 2% to energy efficiency. All projects will be located in Hungary, according to the issuer.

The framework excludes highly polluting activities, nuclear energy generation, weapons and defense purposes, gambling, and potentially environmentally harmful resource extraction.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and considering the environmental ambitions reflected in Alfa's green finance framework, we assess the framework as dark green.

Green project categories

Renewable energy

Assessment

 Dark green

Description

Development of a new geothermal plant to power the issuer's greenhouse (Shades of Green category: Environmentally sustainable management of living natural resources and land use). Furthermore, within this category, the issuer aims to finance building renovations using renewable energy (heat pump system, solar PV, for example) for the company's building portfolio (Shades of Green category: Energy efficiency)

Analytical considerations

- Renewable energy, such as geothermal, solar, and heat pumps, is key to a low-carbon and resilient future, if issues such as local environmental impacts and climate resilience are carefully managed.
- Alfa will allocate most of the proceeds to a new geothermal facility using closed-loop systems. We consider this less risky than open-loop because the environmental impact of closed-loop systems is lower in terms of air and water pollution given that all toxic gases and wastewater are routed back into the ground. Nevertheless, the issuer has told us it will conduct an environmental impact assessment as required by Hungarian regulation.
- We view positively that the issuer expects the carbon intensity threshold for this project to be approximately 10 gCO₂eq/kWh, based on modeling results from GEOELEC's "Geothermal Electricity: Potential for CO₂ Mitigation" report, in line with the EU taxonomy's substantial contribution technical screening criteria for the climate mitigation objective.
- Geothermal facilities are exposed to physical climate risks. We consider identifying and assessing potential risks to be good practice. Despite having insurance protection to hedge against specific unexpected events, such as storms, the group currently does not incorporate physical climate risks into its strategy, although the issuer has told us it will perform impact assessments in the future. We do not view the issuer's insurance policy for its geothermal eligible project as mitigating physical risks, but rather as a driver of operational continuity.
- Finally, the issuer expects to allocate fewer proceeds to solar PV and heat pump systems because it is waiting its own version of the building renovation plans. We typically assess such investments as dark green.

Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our [Shades of Green Analytical Approach](#) >

Environmentally sustainable management of living natural resources and land use

Assessment

 **Dark green**

Description

Development of a new greenhouse integrating a sustainable water management system and using geothermal energy generated by the new plant (Shades of Green category: renewable energy)

Analytical considerations

- Hydroponic and vertical farming innovative technologies (indoor grown, for example) using renewable energy can contribute to more sustainable and resilient agriculture, as long as the technologies are designed with consideration for climate risk impacts.
- The issuer intends to allocate the funds to a new greenhouse that uses precision farming techniques and hydroponic systems for cultivating vegetables (such as cucumbers and peppers). As part of the project, the issuer will use a closed water loop system that recycles all the water, enabling plants to grow in a water-based environment instead of in soil.
- This approach can offer benefits in terms of conserving land and water resources and addressing concerns about water scarcity. Furthermore, the root growth system reduces the use of nutrients and pesticides; the amount of waste material generated; and contamination of aquifers. In our view, these represent key environmental and adaptation solutions.
- High energy usage can be a challenge for hydroponic applications. We therefore view as important that the project will be powered by an on-site geothermal plant, rendering energy use less of a concern that it might otherwise have been (see renewable energy category).
- The environmental benefits derived from this activity, combined with renewable energy usage, are consistent with our view of the future of agriculture. However, we note that the agricultural sector is exposed to physical risk such as flooding and we would expect the issuer to perform a physical risk assessment at some stage, despite greenhouses' typical shorter lifespan compared to the timeframe within which anticipated climate events may occur.
- Furthermore, we note that the project's implementation could result in climate resilience benefits, such as efficient temperature control, as well as the aforementioned water savings and reduced impact on the soil.

Clean transportation

Assessment

 **Dark green**

Description

Deployment of fully electric vehicles and charging stations.

Analytical considerations

- EVs are important for decarbonizing the transportation sector, with net-zero-by-2050 targets in mind. Our dark green assessment reflects that EVs will be part of the low-carbon future.
- The proceeds are expected to be allocated to a new EV fleet that will replace the existing 80 internal combustion engine (ICE) cars for Alfa's food logistic business.
- EVs offer a substantial emissions benefit, but present certain hurdles. Key to our analysis is factoring in indirect greenhouse gas emissions linked to manufacturing and other lifecycle effects like using fossil-fuel-generated electricity for charging.
- Our analysis considers visibility in the value chain, such as where the batteries come from and the vehicle's lifecycle emissions. However, we understand that as a purchaser of EV vehicles, the issuer's capacity to engage with suppliers or measure greenhouse gas emissions is very limited, unlike a car manufacturer.

Energy efficiency

Assessment

 Light green













Description

Refurbishment of existing buildings, achieving higher energy efficiency and lower energy consumption (via thermal insulation for example). Improving by one Hungarian EPC category or 30% primary energy savings.

Analytical considerations

- From a climate perspective, refurbishing existing buildings is often better than new construction. Our light green assessment reflects that while refurbishment initiatives can improve the energy efficiency of buildings within the eligibility criteria, the level of quantifiable improvements these eligible projects would achieve is not clear. This is coupled with a lack of visibility regarding relevant aspects such as embodied emissions and climate risk physical impacts.
- The proceeds will be allocated to building renovations that lead to three types of energy improvement. The first is achieving higher energy efficiency and lower energy consumption with no specific threshold. The second is reducing primary energy demand such that the building improves by one Hungarian EPC level. The third is achieving a 30% primary energy savings. Improvements in fossil fuel heating systems will not qualify as eligible, which further supports our light green assessment.
- We view positively the 30% improvement in primary energy savings set by the issuer. In this, it is following the EU taxonomy substantial contribution criteria for contributing to climate mitigation for building renovations. The 30% threshold also follows the International Energy Agency recommendation for improving building efficiency by 2025.
- The issuer has already completed a refurbishment project for one building in Debrecen (Hungary), improving its energy efficiency from GG to BB in the Hungarian EPC rating system, and expects to finance similar projects. However, within the eligibility criteria of improving one Hungarian EPC category, the issuer does not quantify a minimum level of energy use reduction. A building moving from one Hungarian EPC level to the next may not, in absolute terms, constitute a material improvement in energy performance, which could limit the refurbished building's climate contribution, in our view.
- Finally, the eligibility criteria do not consider other significant issues, such as embodied emissions, global warming potential (GWP), refrigerant threshold, the type of material used, recyclability and repairability considerations, or physical risks.

S&P Global Ratings' Shades of Green

Assessments					
 Dark green	 Medium green	 Light green	 Yellow	 Orange	 Red
Description					
Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects					
 Solar power plants	 Energy efficient buildings	 Hybrid road vehicles	 Health care services	 Conventional steel production	 New oil exploration

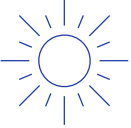

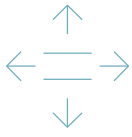



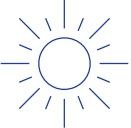
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Renewable energy	 <p data-bbox="446 745 641 808">7. Affordable and clean energy*</p>
Environmentally sustainable management of living natural resources and land use	    <p data-bbox="454 1039 625 1102">6. Clean water and sanitation</p> <p data-bbox="682 1039 828 1102">10. Reduced inequalities</p> <p data-bbox="868 1029 1063 1113">12. Responsible consumption and production*</p> <p data-bbox="1079 1029 1282 1060">13. Climate action</p>
Clean transportation	 <p data-bbox="454 1333 625 1417">11. Sustainable cities and communities*</p>
Energy efficiency	 <p data-bbox="446 1648 641 1711">7. Affordable and clean energy*</p>

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- [Analytical Approach: Second Party Opinions: Use Of Proceeds](#), July 27, 2023
- [Analytical Approach: Shades Of Green Assessments](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds SPOs](#), July. 27, 2023
- [ESG Materiality Map: Power Generators](#), May 18, 2022
- [ESG Materiality Map: Real Estate](#), July 20, 2022
- [ESG Materiality Map: Consumer Products - Food](#), Oct. 27, 2022
- [ESG Materiality Map: Agribusiness](#), Oct. 27, 2022

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Second Party Opinion: Alfa Proxima-X Green Finance Framework

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