

# Vajda Papír Group, Hungary Green Bond Framework



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The Green Bond Framework was prepared by:



Your responsible partner in renewal:  
**MKB Consulting Zrt.**

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## 1. Introduction

**Issuer: Vajda Papír Kft**

**Garantor: Vajda Real Estate Kft.**

The Vajda Papír Group currently has the largest output in the household hygiene paper industry in Hungary. Its products are distributed to more than 20 countries. It accounts for about 55% of domestic production. Vajda Papír Group was founded in 1999 by Attila Vajda and his wife, Szilvia Vajdáné Csata, who are still owners of the Issuer. Starting its operations in a rented garage, the company, which initially produced only one type of toilet paper, has become not only a key player in Hungary's household paper production, but also a successful company with a significant market presence in Central and Eastern Europe, the Baltics, and Scandinavia.

## 2. Company Social Responsibility (CSR)

The efforts to set a very “green” sustainable production is part of a wider approach to CSR in Vajda Papír Group. It has been pursuing that with a strategic view and multiple actions, already implemented, or in the Group’s pipeline.

It is worth giving a short overview, valuable for the investors and for our stakeholders, summarized here below, showing how it is currently managed in the Group and how it envisages the next steps.

The Goals of the Group’s CSR encompass 360° positive actions designed to achieve zero impact environmental footprint, as above described in depth, but also to create a positive social impact especially in the Communities where we operate. This is the case of several partnerships already established, which we relentless enlarge, with well established international not for profit organization, which firstly help people in needs and environment. In this respect, we are keen on monitoring also our suppliers’ sustainability, in compliance with the mentioned SDG standards.

Needless to say, our way to match “Green strategy and Company Social Responsibility” entails also new job opportunities for local communities. The expected new workplace accounts to 50 qualified employees. Not only will they get safe and stable workplace, but also great opportunities for professional growth as we will be working with state-of-art technical equipment.

As to environmental issues, we plan first to support trees plantation in local communities and national parks in Hungary.

Besides, we consider our products -so necessary for daily life- as part of our contribution to the daily life of the citizens, to be more comfortable and healthy. This results in great care and passion, which we put in our work.

The care and the passion are values which only people can bring, irrespective what state of art technology we use. As part of our CSR, we take care of our colleagues by offering stable and safe workplace, good salaries, no gender discrimination, trainings, innovation in our work equipment.

In our Vision, CSR and Green strategy are well integrated and lay on the same bedrock, where we daily walk: create only helpful and necessary products, not to waste resources; innovation, to target zero impact on environmental footprint; environmental sustainability and respect for people, either employees, suppliers or consumers; partnerships with well reputed not for profit organization; advocacy for the nature to be respected.

### 3. The Company structure

The Vajda Papír Group consists of Vajda Papír Ltd and Vajda Real Estate Ltd.

As an owner of the technical machinery and equipment, the Issuer, Vajda Papír Ltd. is the Group's manufacturing and trading company, maintaining direct contact with both customers and raw material suppliers.

The Issuer runs two production plants (in Budapest and Székesfehérvár), completely dedicated to manufacture finished goods thanks to multiple converting lines. In addition, it solely manages the whole commercial (sales) and purchasing relationships.

The guarantor, Vajda Real Estate Ltd. produces Jumbo Rolls and some finished goods. The Jumbo rolls are currently produced only for internal use (converting lines). The finished goods are sold exclusively via the Issuer. All the transactions take place in full compliance with the transfer price regulation.

For technical reasons, the cellulose required to produce base paper is purchased by the Issuer and resold to the Guarantor unchanged.

The Guarantor is the owner of Vajda Papír Group's real estate assets. The Guarantor was established in 2007 for the purpose of constructing and operating the modern production hall and administration building currently used by the Issuer. In addition, the Guarantor's activities at present encompass not only the operation of real estate, but also the production of base paper and finished goods. Namely, in addition to the tissue products, it manufactures surgical facial masks (TYPE IIR). The Issuer and the Guarantor prepare consolidated financial statements.

The Guarantor is the owner of the real estate properties of Vajda Papír Group and provides leasing services to the Issuer. Since the establishment of the production capacity in Dunaföldvár in 2018, the Guarantor has been manufacturing the base paper required for hygiene products and sells these to the Issuer. The Guarantor has no significant competitors in the manufacturing of base paper. The Guarantor is not involved in any other activity.

The Issuer and the Guarantor prepare consolidated financial statements. Hiventures Zrt. - venture capital company-, acquired a 33.33% stake in the Guarantor on April 13, 2021.

The owners of the Vajda Papír Group have other international paper industry interests in Norway as well, which are independent and not subject to this Issue. Hungarian and international companies do not belong to the same scope of consolidation.

#### 4. The products

The Issuer is the most significant Hungarian exporter of sanitary paper products with almost three quarters of the total household hygiene paper exports from Hungary. More than two decades of business and professional achievements, as well as high-quality products, have brought the Group several awards so far, and it is the winners of multiple Pegasus, Hungarian Brands and Product of the Year awards.

The brand 'Ooops!' was created in 2011 and has since become a well-known and sought-after hygiene paper product among Hungarian consumers and a market leader in the kitchen paper towel segment.

Vajda Papír Group is engaged in the production and sale of household paper products, so-called tissue paper products (toilet paper, kitchen towels, paper handkerchiefs and paper napkins), in various categories of price and quality. In addition to the company's independent manufacturer brands (Ooops, Vanessa, Clarissa, Star, etc.), the Vajda Papír Group, with its annual net sales of more than HUF 24 billion in 2020 on consolidated level, undertakes contract manufacturing in significant quantities and produces own-brand products for various retail chains. Its trading partners include nearly all international and Hungarian trade chains.

The Issuer and Guarantor operates under certified corporate governance systems and gained product certifications of ISO 9001, ISO 14001, ISO 50001. The Issuer is committed to continuously increasing energy efficiency and has held the certificate MSZ EN ISO 50001:2012 since 2016. By operating in accordance with the standard, the Issuer strives at its utmost to achieve its energy goals and to keep the energy consumption related to its the operations as low as possible.

The Issuer operates a HACCP (Hazard Analysis and Critical Control Points) system to control the entire manufacturing process of food contact products. The HACCP system covers the processes, venues and personnel involved in the procurement, receipt, storage, preparation, production and sale of raw materials and consumables. Compliance with these standards is crucial not only for the safety of final consumers but also for world class products to be offered to our final consumers.

The Issuer holds the certificate FSC® (Forest Stewardship Council®) COC (Chain of Custody) and manufactures its certified products in the FSC MIX category. Its certified processes contribute to environmentally appropriate, economically viable and socially responsible forest management. Through the COC traceability system, timber can be tracked from extraction through paper production to the finished product.

The labelling system -so called Nordic Ecolabel- operated by northern European countries (Norway, Sweden, Finland, Denmark and Iceland) acknowledges displays the environmental

impact of products and services. It sets a cap of for the accepted level of environmental impact. Only products featuring requirements below such a level, are eligible to get the eco-label. The Issuer has undertaken to join and follow the Nordic Ecolabel criteria system on a voluntary basis. The key monitored items are: product life cycle analysis, impact of waste generated, quality, and health and functional aspects.

The Issuer has been BRC Global Standard Consumer Products certified since 2015. It manufactures and distributes products in Category 3 of BRC Consumer Products. The re-structured, at present valid certificate has widened with the Product Category (4) since 2016. By operating in accordance with the certificate, the Issuer certifies and demonstrates compliance with the highest hygiene and product safety requirements possible in the industry, from procurement to production to delivery.

The primary raw material used in production is wood based cellulose fiber, which is currently sourced from 2 different geographical areas. The so-called long-fibre cellulose is purchased from Scandinavia, typically, while the so-called short-fibre cellulose is purchased from South America. Most of the cellulose arrives at the new, modern plant in Dunaföldvár by sea after transport by river barge, where the so-called base paper, a semi-finished product, is made through further processing and papermaking technologies. As the current base paper production capacity does not allow all base paper processed by the Issuer to be produced in its own plant, it procures the missing quantity from foreign manufacturers. The majority of purchases (80%) come from European producers, while the rest is purchased from outside Europe. Base paper purchased from external sources is usually transported by trucks.

For instance, all our actual plastic packaging is 100% recyclable, at the moment completely made of virgin plastic, but by end of 2022, 30% of it will be made of recycled plastic. Nevertheless, we actively work to entirely switch the packaging of our products from plastic to paper. At the moment, already 3 paper wrapped products on the market under our Ooops! brand, there are completely plastic-free, FSC sourced paper. **“No plastic only paper”**

## 5. Rationale for Vajda Papír Group to issue a Green Bond

It is the mission and vision of the Issuer to make people’s everyday lives easier by offering an effective solution to all needs and situations related to hygiene paper products.

The Issuer's goal is to appear to all stakeholders in the hygiene household paper segment as an efficient and reliable creator of value, and thereby to attract committed partners throughout Central Europe and Scandinavia. Stakeholders include consumers, customers (trading partners), employees, suppliers, local communities, and owners. The aim of the Issuer is to reach top position in Hungary in terms of market share and to be seen as a secure and attractive employer.

At the same time Vajda Papír Group is committed to manufacture and sell paper and tissue products in a sustainable manner. Consistently, it takes into account the principles of Sustainable Development, contributing to the economic and social development and minimizing any potential impact on the environment. It acknowledges the importance of the

United Nations' Sustainable Development Goals (SDGs) as part of a commonly agreed global ambition to end poverty, protect our planet, and ensure prosperity for all.

The Group commits to:

- Avoid and prevent pollution by reducing environmental impacts related to wastewater, solid wastes and GHG emissions;
- Observe the United Nations (UN) Sustainable Development Goals (SDG) and to direct its actions and investments in support its objectives, mainly of SDG 3 Good Health and Wellbeing, SDG 6 Clean Water and Sanitation, SDG 7 Affordable and Clean Energy, SDG 12 Responsible Consumption and Production and SDG 13 Climate Action.

The Green Bond contributes to specific environmental targets established as part of the Group's environmental green strategy.

Namely, the Green Bond would directly contribute to the followings:

- Reduce freshwater consumption to reach limit less than 5,5m<sup>3</sup>/ tons of produced paper;
- Reduce specific energy consumption to reach limit less than 2800KW/tons of produced paper;
- Increase utilization of renewable energy to 50%.
- Decrease the transport needs related CO<sub>2</sub> emission of the group by producing the base paper locally in house.

For these reasons the Group has been already implementing modern technology in all its processes, achieving high standards of safety and personnel protection while enhancing operational efficiency. The group adhere strictly to all the applicable laws and regulations.

This Green Bond Framework created by Vajda Papír Group would facilitate transparency, disclosure, and integrity of planned Green Bond issuance as recommended in the Green Bond Principles 2018 published by the International Capital Markets Association (ICMA). The four pillars of the Framework are the following:

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

To confirm such alignment Vajda Papír Group has engaged Sustain Advisory as an external reviewer to provide a second party opinion on this framework.

## 6. Use of Proceeds

An amount equivalent to proceeds of Vajda Papír Group's Green Bond issuance will be allocated to financing of an investment of base paper manufacturing plant considered as Eligible Green Project.

To create integrated hygiene paper production and processing within the framework of the Guarantor, the development of a hygienic base paper production plant was launched in the second quarter of 2017. The production started in November 2018. The capacity realized as a result of the development, provides 50% of the Issuer's base paper demand.

The investment in paper manufacturing machinery enabled the Issuer to supply medium-term strategic raw materials. The expected benefits of the investment include:

1. a lower cost of base paper;
2. uniform quality of processed base paper: in the case of integrated production, the availability of base paper within the company and the direct influence over its specifications significantly improves efficiency in production and would reduce the need of international transport;
3. product innovation: when base paper is produced within the company, the direct control over its quality, composition and specifications promotes self-developed technological innovations, which results in the introduction of unique, innovative products in the consumer market;
4. additional market opportunities.
5. compliance with this Green Bond Framework.

After the investment in a base paper plant with a capacity of 35 000 tons in 2018 in production (I. Phase) Vajda Papír Group is contemplating a new investment (II. Phase), purchasing and deploying new machinery with the production capacity of up to 70 000 tons. During the building structure, which permits connection to the newly developed industrial real estate for the machinery, have already constructed and the utilities are there as well. We contracted for the purchase of a cutting-edge technology paper machine, supplied by one of the main player worldwide (Toscotec <https://www.toscotec.com/en/>), type: AHEAD 2.2L.

This embodies the highest technology standard of paper industry including high efficiency through lower energy consumption and raw material input. The actual base paper capacity of Vajda Papír Group will increase from actual 35 000 tons with additional 70 000 tons (new machinery of II. Phase) to total 105k tons.

Through these investments we are considering energy efficiency, renewable energy, sustainable water and wastewater management and clean transportation categories of GBP, contributing to environmental objectives of Climate change mitigation and Pollution prevention and control (see table below).



Use of Green Bond proceeds	Content / Criteria	GBP Eligible Category as per GBP 2018	Environmental objectives
Paper machinery investment (Phase II.)	<p>Using only renewable energy sources (from 2023)</p> <p>Compliance with domestic environmental regulations: Existence of single permit of environmental use (IPPC, Integrated Pollution Prevention and Control, Industrial Emissions Directive – IED).</p> <p>Use of equipment and machinery operating with lower energy consumption and/ or lower emission of GHG, and/ or with lower emission of pollutants</p> <p>Reduce energy consumption of transport by local manufacturing of base paper.</p> <p>Sustainable forest management</p>	<p>Energy efficiency</p> <p>Renewable energy</p> <p>Pollution prevention and control</p> <p>Sustainable water and wastewater management</p> <p>Clean transportation</p> <p>Sustainable management of living natural resources including sustainable forest management</p>	<p>Climate change mitigation</p> <p>Pollution prevention and control</p> <p>Natural resource conservation</p>

## 7. Governance

There is no separate management for member companies of the Group. Both the Issuer and the Guarantor are managed by the CEO (who is also the owner as above described) with a team of four directors and a mill manager at the Dunaföldvár site. Strategic decisions about the company are made jointly by the CEO and the directors.

However, given the different ownership, in the Guarantor company has got a different set of rules concerning the powers of CEO, Supervisory Board and Shareholders Meeting.

## 8. Project Selection and Evaluation Process

Ensuring compliance with the Green Bond Framework Vajda Papír Group is committed to ensure transparent, written record of internal procedures and practices for the use of green proceeds. The management will establish a Green Committee chaired by the Deputy CEO of the Issuer, harmonized with corresponding provisions of other corporate rules. The Committee will meet at least quarterly.

The Green Committee is composed of Deputy CEO, CFO and Chief Environmental expert. The Green Committee will be responsible for the development of the Company's Green strategy and its objectives (e.g. ESG and sustainability strategy, greening of the Company's internal operations, green strategic cooperation, etc.) and for the monitoring of the implementation of the Green Strategy and application of general aspects of sustainable development targets in all processes of the companies.

The committee will initiate and supervise the introduction and implementation of the Green Bond framework, selects the Green Bond Framework verification, second party opinion experts depending on the form of external review required. It supervises the compliance of the green bond framework, initiating the revision, amendment and renewal of the framework, if necessary.

The Green Committee will advise about the compliance with the Green Bond Framework in the case of specific investment proposals. Furthermore, the Committee will advise decisions, supervise the selection of projects, acquisitions and investments and review the allocation of funds.

For the selected projects and/or acquisitions, Company management are responsible for ensuring the compliance with the requirements for the Use of Proceeds, preparing the audit documents and gathering the necessary evidence to facilitate the external audit check.

The Green Committee will supervise the alignment of the use of the funds to the framework.

The Green Committee controls the use of green resources - allocation and targeted environmental impact- and will monitor the development of green KPIs and the achievement of the set goals (in accordance with the financial and controlling regulations). In matters requiring special sustainability expertise, the committee will require the involvement of an external expert.

Green Committee will ensure the development of monitoring and reporting procedures related to the use of green proceeds, with special attention to the Allocation Report and Impact reporting.

## 9. Management of Proceeds

The proceeds from the Green Bond will be managed by Company management and allocated to approved Eligible Green Projects following specific recommendations by Green Bond committee. The Finance Department will be establishing an internal record keeping system that will track the allocation of proceeds to the projects. Pending allocation, the net proceeds may be invested in cash or cash equivalents in accordance with the Group cash management policies not harming any of the environmental objectives. As the investment is planned to be completed within a short period of time, the unallocated proceeds will be kept in a bank account in line with this Framework.

By the end of each calendar year, the net proceeds of the issuance will be reduced by the amounts invested in eligible investment projects in the given annual period. The information about actual allocation will be published to investors and to be updated annually until full allocation.

Throughout the life of the Bond, the Group will make and keep readily available information on the

allocation of amounts equal to the Net Proceeds, to be updated annually until full allocation.

## 10. Reporting

In accordance with the Green Bond Principles, Vajda Papír Group will provide an annual update on the activities related to its Green Bonds issuance. In such updates the Company will provide information on the allocation of the use of proceeds as well as relevant impact metrics.

The information will be made publicly available via Vajda Papír Kft. website.

The relevant information provided will include:

- Use of Proceeds
- A breakdown of proceeds in accordance with the area highlighted under Eligible Activity
- The amount of unallocated proceeds
- A closer description of the activities financed.

#### Proposed indicators in the **Allocation Report**:

- Proportion of green investments in the corporate portfolio: Green rated investment / Total investments (%)
- Green proceeds utilization: Green bond proceeds used / Total green bond proceeds (%)
- Use of green proceeds by environmental purpose: Distribution of green proceeds used between categories defined in the Green Bond Framework (%)
- Other relevant indicators.

The **Impact report** will illustrate the expected environmental impact made possible because of the new investment to which green bond proceeds have been allocated. It will be based on ex-ante estimates (developed prior to project implementation) considering previous status for a representative year before the project is completed and operating at normal capacity. The calculation will compare the estimated energy and water consumption, furthermore the sewage issuance figures of main suppliers, as well as the specific transport energy needs, before. All figures will be referred as per ton of base paper produced.

Our current suppliers produce with 10-16 m<sup>3</sup> of water and 2900-3200 kWh of energy consumption on tons of paper produced. Our VPS Factory use 12 m<sup>3</sup> water and 2900 kWh energy per ton.

Our own calculations are made on 2020 full year procurement. During this period, we purchased 28 600 tons of base paper from 3rd parties, excluding Vajda Real Estate Kft. This 3rd party procurement will be fully replaced with own production in Dunaföldvár plant. Majority of our suppliers operates in Lucca district, Italy.

All in all, the Issuer contemplates the following benefits on environment and P&L of Vajda Papír Group:

- specific energy consumption to reach limit less than 2800KW/tons of produced paper;  
**Saving 100-400 kWh/tons of produced paper**
- Specific freshwater consumption to reach limit less than 5,5m<sup>3</sup>/ tons of produced paper;  
**Saving 4,5 -10,5 m<sup>3</sup>/tons of produced paper**
- Sewage effluent m<sup>3</sup> / tons of base paper produced <4 m<sup>3</sup>
- FSC raw material input tons / produced base paper tons >90%

All external suppliers reach out The Guarantor factory in a rank of within 500-1500 km road transport.

The paper production worldwide utilizes the same short and long fiber cellulose mainly from South American and Scandinavian sources. The transportation of short fiber cellulose (70-80% utilization) from South America to Vajda Papír or to Lucca has the similar impact. It is a long distance by vessel to the mill (of course short road transport on carriage). In case of

Scandinavian long fiber (20-30% utilization) transportation, Vajda has a lower impact, due to lower distance from the origin.

The paper produced at the mill of Vajda or other mills in Lucca has the emission and pollution impacts are at similar level, except that Vajda has a newer technology with lower consumption and higher efficiency. The main difference is the 1000+ km road transport from Lucca vs. in house production.

Taking into account this fact the following results in fuel and pollutant emissions are expected:

Upon the calculation of change in the transportation needs are forecasted the following avoided emissions:

- CO<sub>2</sub> emission 0,713744 kg/km
- No<sub>x</sub> emission 0,000262 kg/km
- Dust emission 0,000003 kg/km

Based on the calculation of transportation figures:

- Total fuel consumption saved 419 871 liter/ year
- Total net transport distance saved 1 553 583 km / year

The Impact Reporting will include Performance Indicators (see table below) to present the environmental impact of planned investment. As the environmental performance of Vajda Papír Group is well above the sector average the Issuer is ready to undertake to target the lowest level of indicators, avoiding increase of negative impacts. The impact indicators will be measured and monitored regularly.

As part of the Group's annual audit process, the internal monitoring system will follow the use of green resources and the results will be presented to the auditor. The figures about the use of Green Bond Proceeds, with respective descriptions and the amounts utilized, will be available in the Group's Annual Report and published on the web site for assuring transparency of the Group's commitment to sustainable and green activities.

Eligible Category	Name of the Project	Impact Indicators
Energy efficiency Renewable energy Sustainable water and wastewater management / Reduction of water use	Paper machinery investment (Phase II.)	Existence of international certificates - Saved energy consumption kWh / tons of base paper produced - Saved fresh water consumption m3 / tons of base paper produced

<p>Clean transportation</p> <p>Sustainable management of living natural resources including sustainable forest management</p>		<ul style="list-style-type: none"> <li>- Max. Sewage effluent m3 / tons of base paper produced</li> <li>- Estimated annual greenhouse gas emissions (avoided or reduced)</li> <li>- Specific transport energy savings / tons of base paper produced</li> <li>- FSC raw material input tons / produced base paper tons</li> </ul>
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## 11. External review and assessment

Vajda Papír Group appointed Sustain Advisory to provide a Second Party Opinion on the Green Bond Framework, evaluating the positive environmental impact of its Green Bond and their alignment with the Green Bond Principles. The Second-Party Opinion will be published on Vajda Papír Ltd.'s website.

## 12. Conclusion

Issuance of first Green Bond is a very important milestone in Vajda Papír Group, confirming the approach adopted since the very first investments realized in the Budapest factory. We will be leveraging the proceeds to continue our industrial journey, keeping a close eye on all the best available opportunities to reduce our environmental footprint.