

ASSESSMENT

2 October 2024



Send Your Feedback

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Kingspan Securities (Ireland) DAC

Second Party Opinion – Green Finance Framework Assigned
SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (very good) to Kingspan Securities (Ireland) DAC's (Kingspan) green finance framework dated September 2024. Kingspan has set up this framework to finance two eligible green categories – energy efficiency and green buildings. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (with June 2022 Appendix 1), and the Loan Market Association, the Asia Pacific Loan Market Association, and the Loan Syndications and Trading Association's (LMA/APLMA/LSTA) Green Loan Principles (GLP) 2023. The framework also demonstrates a significant contribution to sustainability.

Sustainability quality score

SQS2

SQS5
Weak

SQS4
Intermediate

SQS3
Good

SQS2
Very good

SQS1
Excellent



Alignment with principles USE OF PROCEEDS

Overall alignment

Not aligned Partially aligned Aligned Best practices

FACTORS

Use of proceeds

Evaluation and selection

Management of proceeds

Reporting

ALIGNMENT



Contribution to sustainability

Overall contribution

Poor Limited Moderate Significant High

Expected impact

Relevance and magnitude

ADJUSTMENTS

ESG risk management

No adjustment

Coherence

No adjustment

POINT-IN-TIME ASSESSMENT

Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of Kingspan's green finance framework, including the framework's alignment with the ICMA's GBP 2021 (with June 2022 Appendix 1) and the LMA/APLMA/LSTA's GLP 2023. Under its framework, the issuer plans to issue green financial instruments to finance projects under two green categories — energy efficiency and green buildings (as outlined in Appendix 2 of this report).

Our assessment is based on the last updated version of the framework received on 17 September 2024, and our opinion reflects our point-in-time assessment¹ of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our [Framework to Provide Second Party Opinions on Sustainable Debt](#), published in October 2022.

Issuer profile

Kingspan Securities (Ireland) DAC is a private limited company located in Ireland, with Kingspan Group plc serving as its parent company. Kingspan Group plc, also based in Ireland, specializes in producing and providing a wide range of building products designed to enhance the sustainability and performance of buildings worldwide. These solutions encompass insulated panels, insulation technologies, and systems for daylighting, natural ventilation, and smoke management. Additionally, they offer raised access flooring, data center airflow management systems, roofing membranes, and components.

As of December 31, 2023, Kingspan Group had 22,500 employees and 224 manufacturing sites worldwide, located in 31 European countries, 10 in Asia, nine in the Americas, three in the Middle East, three in Africa and two in Australasia.

Kingspan is committed to advancing energy transition and sustainability by investing in products that promote energy-efficient building envelopes and integrating environmental, social and governance (ESG) considerations into its business strategy, including decarbonization, recycling, product circularity, waste management, and rainwater harvesting. The company aims to modernize construction practices with efficient solutions, guided by four strategic pillars: Innovation, Planet Passionate, Completing the Envelope, and Global. This approach is aimed at supporting the built environment's transition to net zero emissions.

Strengths

- » Eligible projects target key sustainability challenges for the manufacturing sector by addressing improvements in energy efficiency and the avoidance and reduction of GHG emissions.
- » The eligibility criteria for the financed assets follow selected substantial contribution criteria for several economic activities as enshrined in the EU Taxonomy.
- » The environmental objective of climate change mitigation is clearly defined and relevant.

Challenges

- » The inclusion of equity investments represents a non-standard use of proceeds susceptible to specific challenges, for which the issuer has implemented relevant mitigation measures.
- » Several technologies in both eligible categories do not attain best-in-class thresholds.
- » There is no commitment to obtain an independent third-party review on the reported environmental benefits.

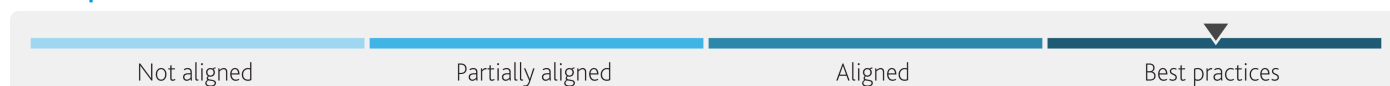
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Alignment with principles

Kingspan's green finance framework is aligned with the four components of the ICMA's GBP 2021 (with June 2022 Appendix 1) and the LMA/APLMA/LSTA's GLP 2023:

- ☒ Green Bond Principles (GBP) ☐ Social Bond Principles (SBP) ☒ Green Loan Principles (GLP)
- ☐ Social Loan Principles (SLP) ☐ Sustainability-Linked Bond Principles (SLBP) ☐ Sustainability Linked Loan Principles (SLLP)

Use of proceeds



Clarity of the eligible categories – BEST PRACTICES

Kingspan has clearly communicated the nature of expenditures, including both asset and capital spending as well as operational expenditure. The company has detailed eligibility criteria for all financed projects, encompassing general project descriptions and technical benchmarks. Kingspan has committed to invest solely in activities that will comply with the selected substantial contribution criteria outlined in the EU Taxonomy Climate Delegated Act, thereby referencing stringent, internationally recognized technical thresholds, and inherently ruling out any investments outside of this scope. The issuer has indicated that eligible projects will be financed in countries in which Kingspan currently operates.

The inclusion of equity investments represents a non-standard use of proceeds, which typically introduces certain challenges in terms of allocation and traceability, value discrepancies, adherence to the sustainability objectives, impact reporting, and an increased risk of double counting. However, according to the information provided in internal documentation, there are sufficient and appropriate mitigation measures in place for equity investments.

Kingspan's allocation of proceeds toward equity investments is limited to pureplay companies², although such investments may account for as much as 40% of total allocation under the framework. Kingspan's equity investments are limited to a controlling majority stake in STEICO – a company that develops, produces and markets construction products made of renewable raw materials – which was acquired in January 2024. Before the purchase, the shares were listed but had no trading history, having been owned privately. The value at historical price of the underlying assets will be used for inclusion of equity investments in Kingspan's eligible green assets, which will be categorized only under the energy efficiency category. Indirect investments will not qualify for eligibility. Upon full consolidation of STEICO into Kingspan, the issuer will gain oversight of all future capital spending as well as operational expenditure of the company. Starting in 2026, Kingspan plans to integrate the CapEx and OpEx figures related to the EU Taxonomy from STEICO into its existing taxonomy reporting. Continuous monitoring of equity investments will subsequently be carried out to ensure their compliance with the eligibility criteria. Kingspan will mitigate the risk of double counting by confirming with any acquired company whether there are any outstanding green finance instruments and will initiate appropriate actions if such instruments are identified. The issuer has suitable measures in place to identify, select and allocate net proceeds in a manner that adheres to the sustainability objectives and benefits targeted in the framework. We have been provided with adequate information that demonstrates measures to avoid the risk of double counting, and to track and report on sustainability benefits at project level. With these mitigation measures, we consider the structure to be in line with current market practices.

Clarity of the environmental or social objectives – BEST PRACTICES

The environmental objective for both project categories is climate change mitigation, which is considered relevant and coherent with recognized international standards, including the United Nations' (UN) Sustainable Development Goals (SDGs) and the EU Taxonomy's Climate Delegated Act for sustainable activities.

Clarity of expected benefits – BEST PRACTICES

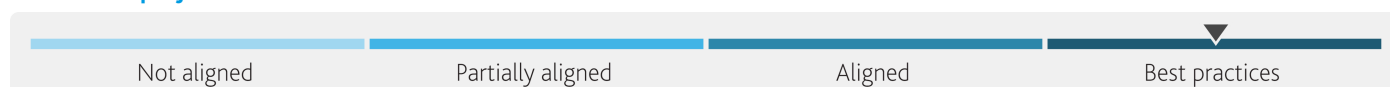
Kingspan has identified improvements in energy efficiency and the avoidance and reduction of greenhouse gas (GHG) emissions as relevant benefits for the eligible green categories. The benefits are clear, measurable and will be quantified in the ongoing reporting.

Further, Kingspan commits to disclosing the estimated share of refinancing within one year post issuance, and on demand prior to issuance, and has defined a maximum lookback period of no more than three financial years.

Best practices identified - use of proceeds

- » Eligibility criteria are clearly defined for all project categories
- » Objectives set are defined, relevant and coherent for all project categories
- » Relevant benefits are identified for all project categories
- » Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- » Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- » Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection



Transparency and quality of process for defining eligible projects – BEST PRACTICES

Kingspan has established a clear process for evaluating, selecting and monitoring eligible projects, formalized in its publicly available framework. The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise. A Green Finance Working Group will be established, consisting of the members of the treasury, capex team, accounting, legal, sustainability and other relevant business teams when necessary. The Green Finance Working Group will meet at least annually and monitor the portfolio throughout the life of the instruments to ensure the continued compliance with the framework. The projects financed under this framework refer to four EU Taxonomy economic activities. While Do No Significant Harm criteria and Minimum Safeguards are not part of the Eligibility Criteria outlined in the framework, Kingspan will seek to satisfy these requirements on a best-efforts basis by selecting projects from a pool of taxonomy-aligned assets, capex and opex. The working group also commits to remove projects from the eligible portfolio that no longer meet the eligibility criteria, and to reallocate funds to an alternative eligible project. The traceability of the decision-making process is ensured through meeting minutes.

For equity investments, the issuer will assess project revenues for alignment with the eligibility criteria and ensure continuous monitoring of compliance.

Environmental and social risk mitigation process – BEST PRACTICES

The environmental and social (E&S) risk mitigation processes are part of the company-wide ESG risk management policy framework. The company's board maintains an appropriate level of risk awareness, supported by the audit & compliance committee. In addition to evaluating the internal control systems, this committee is tasked with delegated duties for identifying and assessing risks. The process implemented includes a combination of identification, management, mitigation, and monitoring measures. The process for identifying potential controversies for financed projects and any associated reallocation of proceeds are part of the responsibilities of the Green Finance Working Group. Monitoring will take place throughout the life of the financial instruments. Responses to risks or controversies will differ based on the situation and may include evaluating occurrence probability, business impact, and implementing mitigation strategies. The issuer specifies that projects facing controversies may be withdrawn from the list of eligible assets and replaced by other eligible projects.

Best practices identified - process for project evaluation and selection

- » The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- » There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed
- » The process for project evaluation and selection is traceable
- » Material environmental and social risks for most project categories are identified
- » Presence of corrective measures to address environmental and social risks across projects
- » ESG controversies are monitored

Management of proceeds



Allocation and tracking of proceeds – BEST PRACTICES

The issuer has defined a clear process for the management and allocation of proceeds, as detailed in its green finance framework, which will be publicly available on the company's website. The net proceeds raised via the green finance framework will be held in the company's general treasury and tracked accordingly. Kingspan's Green Finance Working Group will ensure these proceeds are only used for the eligible projects. As long as the green financing instruments are outstanding, the balance of the tracked net proceeds will be annually adjusted to match the allocations to eligible projects made during that period. The issuer has committed to allocate net proceeds within 24 months, in line with market's best practices.

Management of unallocated proceeds – BEST PRACTICES

Unallocated funds may be temporarily used for other cash management purposes or other treasury businesses in accordance with the company's treasury management policy. In addition, Kingspan has defined exclusion criteria for controversial and GHG-intensive investments, in line with best market practices. In case of project divestment or postponement, the divested proceeds will be reallocated to projects that comply with the green finance framework as soon as reasonably practicable.

Best practices identified - management of proceeds

- » Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- » Short allocation period, for example typically less than 24 months
- » Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- » Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting



Transparency of reporting – ALIGNED

Kingspan will report annually on the use of proceeds until the green finance instruments' full allocation, and in the event of material developments or the detection of ESG controversies related to the eligible green projects. The issuer's report will be publicly available on its website. The reporting will cover relevant information on the allocation of proceeds and the expected sustainable benefits of the projects at the eligible category level. It will also encompass the outstanding amount of unallocated net proceeds, and the share of financing and refinancing.

In terms of equity investments, the issuer confirms in internal documentation its commitment to tracking and reporting the allocation of the net proceeds and the environmental benefits associated with the activities undertaken by pureplay companies.

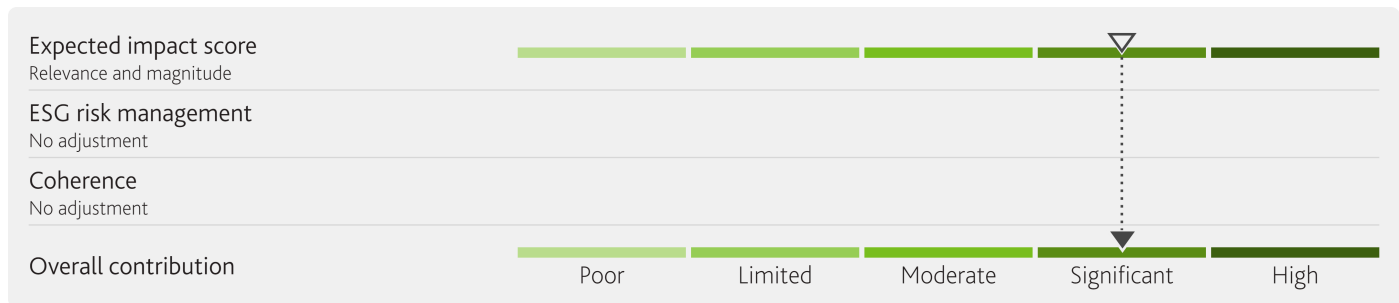
The company has identified relevant environmental reporting indicators for each of its eligible categories and has clearly disclosed these indicators in its publicly available framework. The calculation methodologies and assumptions used to report on the environmental impact of the eligible projects will be made available in Kingspan's impact reporting or annual sustainability reporting. External auditors will annually verify the allocation to the eligible projects until the green instruments' full allocation and in case of material changes. There is no commitment to obtain an independent third-party review on the reported environmental benefits.

Best practices identified - reporting

- » Reporting covers material developments and issues related to the projects or assets
- » Reporting on allocation of proceeds and benefits done at least at eligible category level
- » Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- » Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- » Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- » Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes

Contribution to sustainability

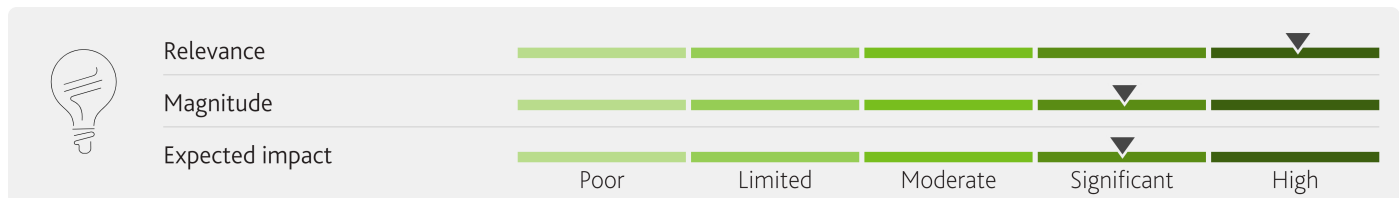
The framework demonstrates a significant overall contribution to sustainability.



Expected impact

The expected impact of the two eligible categories on the environmental objective is significant. Based on the information provided by the company, we expect most of the proceeds from forthcoming green instruments to be allocated to the energy efficiency category. A detailed assessment by eligible category is provided below.

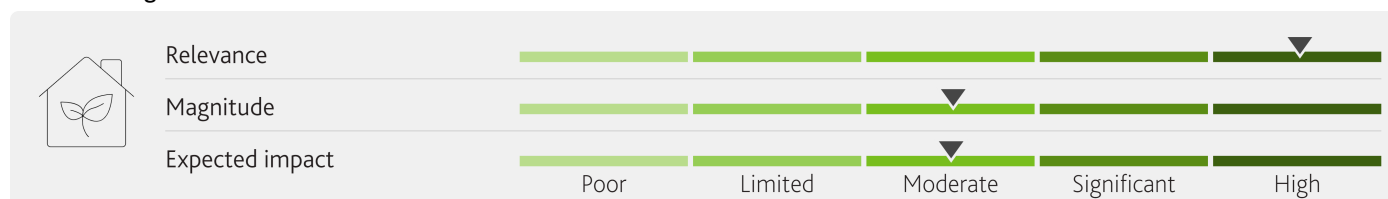
Energy efficiency



The relevance of the energy efficiency category is high due to the building sector's high energy consumption and emissions profile. The building sector accounts for 30% of global final energy consumption and 26% of global energy-related emissions³. Kingspan's business of providing high-performance building envelope solutions, such as insulation and roofing, are directly aligned with addressing these challenges.

The magnitude of Kingspan's impact in the energy efficiency category is significant. The eligibility criteria of the projects are based on recognized international standards and refer to selected substantial contribution criteria of the EU Taxonomy economic activities 3.5 (Manufacture of energy efficiency equipment for buildings) and 3.6 (Manufacture of other low carbon technologies) – with the largest share of proceeds likely to be allocated to economic activity 3.5. For instance, the insulation performance of components such as windows, doors, external walls, and roofs (referred to as the U-value) meets the EU Taxonomy substantial contribution criteria under economic criteria 3.5. The issuer has provided further details regarding the anticipated improvements in energy efficiency and carbon footprint reduction. Notably, the insulation materials, which constitute the largest segment of Kingspan's portfolio, exhibit insulation performance, which not only surpasses that of the benchmark material, rock mineral fiber, but also exceeds the EU Taxonomy's threshold of 0.06 W/mK for insulation efficiency, as specified under economic activity 3.5. Although the category lacks specified minimum thresholds linked to energy improvements for end-use associated with the broad scope of low-carbon technologies and components, the assets to be financed demonstrate a significant improvement in energy efficiency and carbon savings for buildings compared to buildings that do not make use of Kingspan's solutions.

Green buildings



Financing the construction and renovation of buildings is highly relevant to address the key negative environmental impacts associated with the building sector. Emissions from the buildings sector will need to decline by around 40% between 2020 and 2050⁴ in a net zero scenario, with the construction and renovation of energy-efficient buildings playing a pivotal role.

The magnitude of financing green building projects in this category is considered moderate. Projects in the eligible portfolio will adhere to applicable substantial contribution criteria of the EU Taxonomy for economic activities 7.1 (Construction of new buildings) and 7.2 (Renovation of existing buildings), thereby conforming to recognized international standards. The issuer expects most of the proceeds to be allocated toward newly constructed, non-residential buildings, such as commercial, industrial, and office spaces. New buildings raise additional risks with respect to embodied carbon in the construction phase compared to renovation efforts.

The issuer has different sets of criteria for the renovation and construction of buildings. Newly constructed buildings can be considered eligible on the basis of an operational emissions threshold, a performance that is at least 10% better than a nearly-zero energy building (NZEB), and holding at a minimum one of the following certifications: BREEAM "Excellent", LEED "Platinum", DGNB certification "Platinum", NF HQE Batiments Tertiaires en Exploitation "Exceptional". All certifications are at the best or at the second highest level. In addition, given the diverse range of countries in scope with different NZEB thresholds, there is limited visibility into whether the overall reduction in the emission intensity of buildings will be in line with science-based carbon reduction pathways aligned with a 1.5°C degree scenario, which is considered best-in-class.

With regard to renovated buildings, the eligibility criterion of achieving energy savings of at least 30% (improvement in actual reduction in primary energy demand) is considered positively since it reaches the standard international threshold, but it is well below 'deep' renovation best practices as defined by the EU⁵. The buildings that have been refurbished are set to meet the criteria for major renovations under applicable building regulations and the issuer ensures air-tightness and thermal integrity compliance to best practices. Lastly, building renovations must demonstrate the same level of certifications listed for the construction activities, which does not ensure the best in class energy reduction levels.

ESG risk management

We have not applied a negative adjustment to the expected impact score for the ESG risk management. Kingspan proactively manages ESG risks aligning with its group-wide sustainability goals. For example, the company implements a carbon charge across the business to mitigate risks associated with rising energy costs or carbon fines, incentivizing lower carbon manufacturing methods. Additionally, the company's Planet Passionate strategy includes setting and monitoring climate-related targets and forms the core of Kingspan's transition plan, reflecting a commitment to managing environmental risks effectively. On the social side, the firm also maintains strict health and safety protocols and enforces a code of conduct to ensure ethical practices across its business, mitigating risks related to labor rights violations.

Coherence

We have not applied a negative adjustment to the expected impact score for coherence. Projects to be financed under Kingspan green finance framework align with its broader sustainability priorities since the company's business is entirely dedicated to developing solutions and manufacturing products for more energy-efficient building envelopes. Kingspan has integrated emission reduction targets within its business strategy, demonstrating a corporate commitment toward environmental sustainability. By 2023, the company successfully reduced its scope 1 & 2 GHG emissions by 65% from the 2020 baseline. Kingspan is also committed to improving sustainability and circularity throughout its value chain.

Appendix 1 - Mapping eligible categories to the United Nations' Sustainable Development Goals

The two eligible categories included in Kingspan's green finance framework are likely to contribute to two of the United Nations' Sustainable Development Goals (SDGs), namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	Energy efficiency and Green buildings	7.3: Double the global rate of improvement in energy efficiency
GOAL 13: Climate Action	Energy efficiency and Green buildings	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The United Nations' Sustainable Development Goals (SDGs) mapping in this SPO considers the eligible project categories and associated sustainability objectives/benefits documented in the issuer's green finance framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 2 - Summary of eligible categories in Kingspan's green finance framework

Eligible Categories	Description	Sustainability Objectives	Impact Reporting Metrics
Energy efficiency	Assets, CapEx, and/or OpEx associated with manufacturing of energy efficiency equipment for buildings and other low carbon technologies: - Windows, doors, external wall systems, roofing systems with a U-value respectively $\leq 1.0/1.2/0.5/0.3 \text{ W/m}^2\text{K}$ - Insulating products with a lambda value $\leq 0.06 \text{ W/mK}$ - Household appliances, light sources, space heating and domestic hot water systems and cooling and ventilation systems falling into the highest two populated classes of energy efficiency in accordance with Regulation (EU) 2017/1369 and delegated acts adopted under that Regulation - Presence and daylight controls for lighting systems - Façade and roofing elements with a solar shading or solar control function - Energy-efficient building automation and control systems for residential and non-residential buildings - Other low carbon technologies which are aimed at and demonstrate substantial life-cycle GHG emission savings compared to the best performing alternative technology/product/solution available on the market <u>EU Taxonomy economic activities:</u> 3.5. Manufacturing of energy efficiency equipment for buildings 3.6. Manufacture of other low carbon technologies	Climate Change Mitigation	- Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings) - Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent
Green buildings	Assets, CapEx, and/or OpEx associated with construction and renovation of buildings: - Buildings built after 31 December 2020 with energy performance lower of at least 10% than the local threshold set for Nearly Zero-Building (NZEB) regulation - Refurbished buildings that achieve energy savings of at least 30% (improvement in actual reduction in primary energy demand) - Buildings that have been refurbished meeting the criteria for major renovations under applicable building regulations - Construction, development and upgrades of buildings that received at least one of the following certifications: - BREEAM "Excellent" certification or above certification - LEED "Platinum" certification - DGNB certification "Platinum" - NF HQE Batiments Tertiaires en Exploitation "Exceptional" <u>EU Taxonomy economic activities:</u> 7.1. Construction of new buildings 7.2. Renovation of existing buildings	Climate Change Mitigation	- Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent against the local baseline/baseline certification level; - % of carbon emissions reduced/avoided against the local baseline/baseline certification level

Endnotes

- 1 Point-in-time assessment is applicable only on date of assignment or update.
- 2 Pureplay companies have been defined as those that derive over 90% of their revenue from green activities that adhere to the eligibility criteria of the green finance framework. This is in line with market practice.
- 3 International Energy Agency, [Buildings](#), retrieved in August 2024.

⁴ International Energy Agency, [Net Zero by 2050: A Roadmap for the Global Energy Sector](#), October 2021.

⁵ European Commission, [Commission Recommendation \(EU\) 2019/786 of 8 May 2019 on building renovation \(notified under document C\(2019\) 3352\) \(Text with EEA relevance.\)](#), May 2019.

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