

LM GREEN BOND

DNV GL ELIGIBILITY ASSESSMENT

Scope and Objectives

LM Group Holding A/S (together with its consolidated subsidiaries, "LM") is headquartered in Kolding, Denmark and is a global leader in the supply of wind turbine blades, with a global manufacturing footprint that includes 12 facilities in Canada, China, Denmark, India, Poland, Spain and the United States. Since 1978, the company has produced more than 175,000 blades corresponding to more than 70 gigawatts ("GW") of installed capacity and global savings of more than 120 million tons of CO₂ annually.

LM is intending to issue a EUR 50 million green bond (the "Bond") with a five year tenor. We understand that the bond will finance four investment categories (see Schedule 1). LM is a company whose sole purpose is to develop wind turbine blades and provide services related to wind energy and as such is dedicated to the realization of environmental benefits through low-carbon electricity.

DNV GL Business Assurance Denmark A/S ("DNV GL") has been commissioned by LM Group Holding A/S to provide a [Green Bond] eligibility assessment. We were commissioned to provide an assessment of the alignment of the Bond with the Green Bond Principles¹ (March 2015). Our methodology to achieve this is described in the section 'Work Undertaken' below. We were not commissioned to provide an independent assurance or other audit activity.

No assurance is provided regarding the financial performance of the Bond, the value of any investments in the Bond, or the long term environmental benefits of the transaction. Our objective has been to provide an assessment that the Bond has met the criteria established on the basis set out below.

Responsibilities of the Management of LM and DNV GL

The management of LM has provided the information and data used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform LM's management and other interested stakeholders in the Bond as to whether the established criteria have been met, based on the information provided to us. In our work we have relied on the information and the facts presented to us by LM. DNV GL is not responsible for any aspect of the project categories referred to in this opinion and cannot be held liable if estimates, findings, opinions or conclusions are incorrect. Thus, DNV GL shall not be held liable if any of the information or data provided by LM's management and used as a basis for this assessment were not correct or complete.

Basis of DNV GL's opinion

We have adapted our green bond eligibility assessment methodology to create a LM-specific Green Bond Eligibility Assessment Protocol ("Protocol") (see Schedule 2). Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL's opinion. The overarching principle behind the criteria is that a green bond should enable capital-raising and investment "for new and existing projects with environmental benefits".¹

As per our Protocol, the criteria against which the Bond has been reviewed are grouped under the four Principles:

¹ The [Green Bond Principles](#) are a set of voluntary process guidelines for issuing green bonds, initially issued in January 2014 and then updated in March 2015.

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a green bond must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a green bond should outline the process it follows when determining eligibility of an investment using Green Bond proceeds, and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a green bond should be tracked within the issuing organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond investors should be made of the use of bond proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

Work undertaken

Our work constituted a high level review of the available information, based on the understanding that this information was provided to us by LM in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a LM-specific Green Bond Eligibility Assessment Protocol, and adapted to the purpose of the Bond, as described above and in Schedule 2 to this Assessment;
- Assessment of documentary evidence provided by LM on the Bond and on company activities using the Protocol and supplemented by a high-level desktop and media research. These checks refer to current assessment best practices and standards methodology;
- Review of externally published documents and internal analyses and documentation, and other sources of information on Environmental, Social and Governance (ESG) risks relating to the activities of LM;
- Interviews with LM senior managers and environmental experts, and review of relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of findings against each element of the criteria. Our opinion as detailed below is a summary of these findings.

Findings and DNV GL's opinion

DNV GL's findings are listed below:

- 1. Principle One: Use of Proceeds.** LM's business purpose is to design, manufacture, and supply wind turbine blades. LM plans to use the proceeds to fund, in whole or in part, the expansion of the Group through certain eligible green projects, as defined in the Schedule 1. DNV GL considers LM to be "pure-play" for green bond purposes². The environmental impacts from the eligible project categories, in line with the business activities of LM, are defined as increased MW capacity for wind energy production.
- 2. Principle Two: Process for Project Evaluation and Selection.** As a "pure-play green" business, all investments of LM within the eligible green project categories contribute to the realization of environmental benefits through low-carbon electricity. The exact eligible projects will be decided based on the investment strategy and capital expenditure budget approved by LM's Board.

² We consider a company to be "pure-play green" if >90% of its revenues come from business activities that are considered to have clear environmental benefits.

LM has outlined the process by which it will allocate funds to eligible projects. The eligible green project categories are part of the LM's investment plan and, as such, aim to increase MW production capacity. DNV GL has reviewed evidence that demonstrates that LM regularly assesses opportunities for improvement and devises actions plans and initiatives to mitigate negative environmental and social impacts from its operations. The company also carries out sustainability impact assessments of development projects, such as building a new plant or acquiring a new business, and identifies adequate mitigation actions.

- 3. Principle Three: Management of Proceeds.** DNV GL has reviewed evidence showing how LM plans to trace the proceeds from the Bond. The procedure includes a description of the functions and teams within LM responsible for the tracking; as well as the tracking systems and tools. The net proceeds will be placed in the LM's general cash pool, and will remain there until fully allocated to eligible projects. The details of the disbursement and the outstanding value will be tracked in a dedicated Bond tracking spreadsheet. At the end of each financial period, the outstanding balance of the Bond will be reviewed by the CFO. LM has identified a pipeline of eligible projects with financing needs well above the size of the planned bond value, and hence we consider the bond to be "over collateralised". As stated above, DNV GL provides no assurance regarding the financial performance of the Bond, the value of any investments in the Bond, or the effects of the transaction.
- 4. Principle Four: Reporting.** LM has confirmed that it will include a dedicated section on the LM Green Bond in its Annual Report. This will include a description of projects and the value of the proceeds invested under each eligible green project category, as well as the associated qualitative and quantitative environmental impacts. For eligible project categories 1 -3 (see Schedule 1), LM plans to report on the expected MW production capacity at completion of the projects, as a result of the investment. For eligible project category 4 (R&D) the issuer intends to provide an overview of the R&D spending as well as a description of the benefits to the business and the larger low-carbon economy.

On the basis of the information provided by LM and the work undertaken, it is DNV GL's opinion that the Bond meets the criteria established in the Protocol and that it is aligned with the stated definition of green bonds within the Green Bond Principles, which is to "enable capital-raising and investment for new and existing projects with environmental benefits".

for DNV GL Business Assurance Denmark A/S

Copenhagen, September 14, 2015



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About DNV GL

Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 16,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

SCHEDULE 1: ELIGIBLE PROJECT CATEGORIES FOR THE LM GREEN BOND

1. The financing of new plants for the manufacture of wind turbine blades;
 2. Investments in existing plants that manufacture wind turbine blades, with a particular focus on the implementation of the Manufacturing 2.0 process and the upgrading of plants and machinery;
 3. Potential acquisitions of business that solely manufacture wind turbine blades; and
 4. Research and development, with a particular focus on technology facilitating the development of longer wind turbine blades.
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SCHEDULE 2: LM-SPECIFIC GREEN BOND ELIGIBILITY ASSESSMENT PROTOCOL

1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1a	Type of bond	<p>The bond must fall in one of the following categories, as defined by the Green Bond Principles:</p> <ul style="list-style-type: none"> • Green Use of Proceeds Bond • Green Use of Proceeds Revenue Bond • Green Project Bond • Green Securitized Bond 	<p>Review of:</p> <ul style="list-style-type: none"> • Bond’s offering memorandum <p>Discussions with LM management</p>	<p>The reviewed evidence confirms that the Bond falls in the category: Green Use of Proceeds Bond.</p>
1b	Green Project Categories	<p>The cornerstone of a Green Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security.</p>	<p>Review of:</p> <p>Bond’s offering memorandum</p> <p>Discussions with LM management</p>	<p>LM intends to use the proceeds of the offer to invest in eligible green projects, as defined by LM and set out in Schedule 1 to this Assessment.</p>
1c	Environmental benefits	<p>All designated Green Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer.</p>	<p>Review of:</p> <ul style="list-style-type: none"> • Annual Report 2014 • GRI G4 Report 2012 & 2013 • Code of Conduct • Evidence describing the company’s products • LM’s methodology for calculating saved CO₂ emissions from installed capacity • Environmental, health and safety targets documentation <p>Discussions with LM management and environment management</p>	<p>LM’s vision, as stated in its Sustainability Report 2012-2013, is to “...capture the wind to power a cleaner world”. LM’s activities consist of development, manufacturing, transportation and service of wind turbine blades. As such, all of the company activities are in the wind energy sector. Wind energy is an eligible green bond category, as per the Climate Bond Standard and currently existing green bond taxonomies. Wind energy is a clean energy source with clear environmental benefits over fossil fuels. The environmental benefits of wind energy are commonly assessed as: renewable energy capacity installed (MW), renewable energy produced (MWh), and CO₂ emissions avoided when compared to using fossil fuels (tonnes).</p> <p>All eligible project categories aim to contribute to the mid-term MW capacity increase targets of the company. LM has produced more than 175,000 blades since 1978, corresponding to approximately 70 GW installed wind power capacity which each year effectively replaces approximately 120 million tons of CO₂. According to the company, this corresponds to offsetting the annual emissions (2012) of Denmark twice.</p> <p>We note that the calculation methodology for associated CO₂ emissions savings is</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
			staff	based on assumptions provided by the Danish Wind Industry Association. Available information for calculating CO ₂ emissions savings across all markets where LM blades are installed is limited and as such we provide no opinion over any claimed CO ₂ emissions savings.
1d	Refinancing share	In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.	Review of: <ul style="list-style-type: none"> LM Investment strategy and Capital expenditures budget for 2015 and 2016 Discussions with LM management	At the time of issuance, the company had plans to refinance only a minor portion (less than 10%) of eligible projects that have already been started in 2015 and will be continued in 2016 in line with LM's investment strategy and approved capital expenditure budget for 2016 by its Board.

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2a	Investment-decision process	The issuer of a Green Bond should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds. This includes, without limitation: <ul style="list-style-type: none"> A process to determine how the projects fit within the eligible Green Projects categories identified in the Green Bond Principles; The criteria making the projects eligible for using the Green Bond proceeds; and The environmental sustainability objectives 		The entirety of LM's business is focused on the manufacturing of blades for wind turbines. All eligible project categories are based on the company's investment plans and are considered "Green". The criteria for selecting which projects to proceed with will therefore be based on considerations such as extent of alignment with business strategy, customer demand, profitability and cash flow. This selection process involves the Capex Board, which meets monthly, the Executive Management Team, and is then approved by the Board of the company. All projects are expedited to contribute to realizing the increased MW production capacity of LM in the medium to long term.
2b	Issuer's environmental and social	In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances,	Review of: <ul style="list-style-type: none"> Annual Report 2014 Code of Conduct 	Based on the evidence reviewed, we conclude that LM's overall environmental, social and governance framework appears to promote positive ESG behaviour. Short term environmental, health and safety targets are set for LM's

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
	and governance framework	Green Bond investors may also take into consideration the quality of the issuer’s overall framework and performance regarding environmental sustainability.	<ul style="list-style-type: none"> • HSE Policy • ISO9001 Certification • ISO14001 Certification • OHSAS18001 Certification • GRI G4 Report 2012&2013 • HSE organization • Global Business Management System. • Sustainability impact assessments of current or previous plants construction or acquisition projects <p>Discussions with LM management</p>	<p>manufacturing facilities.</p> <p>LM has set a commitment to the development of clean energy as underpinned by its corporate vision: ‘[to] capture the wind to power a cleaner world’. In addition, based on the evidence reviewed and discussions with management, the company demonstrates a clear understanding of environmental impacts associated with the manufacturing, testing, transportation and installation of the wind turbines and is committed to continuously reduce those impacts. Efforts are guided by a structured approach anchored in the company’s EHS policy and a global HSE management system. All LM sites are certified according to ISO 14001:2004 and in the process of certification according to OHSAS 18001:2008 to achieve a certified, integrated HSE management system globally.</p> <p>Environmental protection is also one of the core objectives of HSE policy which requires commitment to and accountability for preventing pollution and promoting sound environmental practices from all employees and contractors. Local HSE managers are expected to undertake routine HSE inspections to monitor implementation whereas yearly management review meetings are held to follow up on pertinent aspects and take all necessary action to drive continuous improvement.</p> <p>LM also issues annual reports outlining its sustainability performance in line with GRI G4 guidelines and UN Global Compact framework.</p> <p>We have also carried out a high-level media review of LM and its subsidiaries. We have found no evidence to suggest that LM or any of the assets are or have been operating in breach of national or local environmental regulations.</p> <p>Based on the evidence reviewed and the discussion we had with senior managers, we found nothing to suggest that LM’s environmental, social and governance framework is not in line with good practice of the industry in which it operates.</p>

3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3a	Tracking procedure	The net proceeds of Green Bonds should be credited to a sub-account, moved to a sub- portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for Green Projects.	<p>Review of:</p> <ul style="list-style-type: none"> Treasury procedure documentation Bond proceeds tracking documentation <p>Discussions with LM management and treasury staff</p>	<p>The evidence reviewed shows how LM plans to track the proceeds from the Bond, from the time of issuance to the time of disbursement.</p> <p>The procedure includes a description of the functions and teams within LM responsible for the tracking. Using the existing financial systems and applying the treasury procedures of LM, all R&D expenditure will be monitored by the R&D financial controller and the CFO and all capital expenditure will monitored by the Operations Controller and the CFO.</p> <p>The net proceeds will be placed in LM’s general cash pool. At the time of incurring a capital or R&D expenditure for an eligible green project, the amount will be deducted from the balance of net proceeds of the Bond. The details of the disbursement and the outstanding value will be tracked in a dedicated Bond tracking spreadsheet. At the end of each financial period, the outstanding balance of the Bond will be reviewed by the CFO.</p>
3b	Tracking procedure	So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period.	<p>Review of:</p> <ul style="list-style-type: none"> Treasury procedure documentation Bond proceeds tracking documentation <p>Discussions with LM management and treasury staff</p>	<p>The evidence reviewed shows that LM plans to trace the proceeds from the Bond, from the time of issuance to the time of disbursement, and reduce the net balance of proceeds by amounts matching the eligible green projects investments in line with the company accounting periods and practices. At the end of each financial period, the outstanding balance of the Bond will be reviewed by the CFO.</p>
3c	Temporary holdings	Pending such investments or disbursements to eligible Green Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	<p>Review of:</p> <ul style="list-style-type: none"> Treasury procedure documentation Bond proceeds tracking documentation <p>Discussions with LM management and treasury staff</p>	<p>The net proceeds of the Bond will be placed in LM’s general cash pool and will remain there until fully disbursed.</p>
3d	Over-collateralisation	n/a	<p>Review of:</p> <ul style="list-style-type: none"> LM Investment strategy and Capital expenditures budget for 2015 and 2016 <p>Discussions with LM management</p>	<p>LM has identified a pipeline of eligible projects with financing needs well above the size of the planned bond value, and hence we consider the bond to be “over collateralised”.</p>

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Green Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.	Review of: <ul style="list-style-type: none"> <li data-bbox="768 533 1111 647">• Email by LM Management addressed to DNV GL as of 10 July 2015, confirming the reporting process. Discussion with LM senior managers	LM has confirmed that it will include a dedicated section on the LM Green Bond in its Annual Report. This will include description of projects and value of the proceeds invested under each eligible green project category, as well as the associated qualitative and quantitative environmental impacts. For eligible project categories 1 -3 (see Schedule 1), LM plans to report on the expected MW production capacity at completion of the projects, as a result of the investment. For eligible project category 4 (R&D), the issuer intends to provide an overview of the R&D spending as well as a description of the benefits to the business and the larger low-carbon economy.