

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Finance Framework

Alcazar Energy
23 January 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Green Financing Instruments (green bonds, Sukuks, loans)
Relevant standards	<ul style="list-style-type: none">• Green Bond Principles (GBP, June 2021), as administered by the International Capital Market Association (ICMA), Green Loan Principles (GLP, February 2021), as administered by the Loan Market Association (LMA)
Scope of verification	<ul style="list-style-type: none">• Alcazar Energy Green Finance Framework (as of January 20, 2023)• Alcazar Energy selection criteria (as of January 20, 2023)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• Valid as long as the cited Framework remains unchanged.

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SCOPE OF WORK

Alcazar Energy (“the issuer”) commissioned ISS ESG to assist with its Green Financing Instruments by assessing three core elements to determine the sustainability quality of the instrument:

1. Alcazar Energy’s Green Finance Framework (20.01.2023 version) – benchmarked against the International Capital Market Association’s (ICMA) GBP and the Loan Market Association’s (LMA) GLP.
2. The selection criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (see annex 1).
3. The Green Financing Instruments’ link to Alcazar Energy’s sustainability strategy – drawing on Alcazar Energy’s overall sustainability profile and issuance-specific Use of Proceeds’ categories.

ALCAZAR ENERGY BUSINESS OVERVIEW

Alcazar Energy is a fund management company engaged in investing, financing, and developing utility-scale renewable energy capacity in emerging markets. The firm’s first investment vehicle Alcazar Energy Partners One (AEP-I) was founded in 2014, and it owns five solar photovoltaic (PV) and two wind projects in Jordan and Egypt. In 2021, Alcazar Energy successfully exited AEP-I by selling the fund to China’s Three Gorges consortium through auction. Alcazar Energy has launched a new fund, Alcazar Energy Partners II SLP (SCSp) (AEP-II) in November 2022. AEP-II is a Luxembourg domiciled sustainable infrastructure fund focused on utility scale renewable energy projects in selected emerging markets.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Alignment with GBP and GLP	<p>The issuer has defined a formal concept for its Green Financing Instruments regarding Use of Proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBP and GLP.</p>	Aligned
Part 2: Sustainability quality of the selection criteria	<p>The Green Financing Instruments will (re-)finance eligible asset categories in the Renewable Electricity sector.</p> <p>The renewable energy use of proceeds' categories have a significant contribution to SDGs 7 'Affordable and clean energy' and 13 'Climate action'.</p> <p>The environmental and social risks associated with those use of proceeds' categories are well managed.</p>	Positive
Part 3: Green Financing Instruments' link to issuer's sustainability strategy	<p>The Use of Proceeds financed with the Green Financing Instruments are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Green Financing Instruments is clearly described by the issuer.</p> <p>At the date of publication of the report, the issuer is not exposed to any controversies.</p>	Consistent with issuer's sustainability strategy

¹ ISS ESG's evaluation is based on Alcazar Energy's Green Finance Framework (20.01.2023 version), the ISS ESG Indicative Corporate Rating applicable at the SPO delivery date and on publicly available information.

ISS ESG SPO ASSESSMENT

PART I: ALIGNMENT WITH ICMA's GBP and LMA's GLP

This section describes our assessment of the alignment of the Alcazar Energy's Green Finance Framework (dated 20.01.2023) with the GBP and GLP.

GBP AND GLP	ALIGNMENT	ISS ESG'S OPINION
1. Use of Proceeds	✓	<p>ISS ESG considers the Use of Proceeds' description provided by Alcazar Energy's Green Finance Framework as aligned with the GBP and GLP.</p> <p>The issuer's green categories align with the project categories as proposed by the GBP and GLP; criteria are defined in a clear and transparent manner. Environmental benefits are described.</p> <p>The issuer also defines a three year's look-back period which is best-market practice.</p>
2. Process for Project Evaluation and Selection	✓	<p>ISS ESG considers the process for project evaluation and selection description provided by Alcazar Energy's Green Finance Framework as aligned with the GBP and GLP.</p> <p>The project selection process is defined and structured. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the issuer.</p> <p>The issuer explains transparently and clearly the management responsibilities and involves different stakeholders during the evaluation and selection process.</p>
3. Management of Proceeds	✓	<p>ISS ESG finds that the management of proceeds proposed by Alcazar Energy's Green Finance Framework is aligned with the GBP and GLP.</p> <p>The proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions as outlined by the issuer in the Use of Proceeds' section of the framework. The proceeds are tracked in an appropriate manner and attested in a formal internal process. Moreover, the issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>The issuer earmarks the proceeds in its general funding accounts.</p>

4. Reporting



ISS ESG finds that the allocation and impact reporting proposed by Alcazar Energy's Green Finance Framework is **aligned** with the GBP and GLP.

The issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. Alcazar Energy explains the level of expected reporting and the type of information that will be reported. Moreover, the issuer commits to report annually, until the proceeds have been fully allocated or until the green financing instruments are no longer outstanding.

The issuer also reports on the amount of unallocated proceeds, which is best market practice. Additionally, it also reports on the information, frequency, scope and duration of its impact reporting.

PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE GREEN FINANCING INSTRUMENTS TO THE UN SDGs













Companies can contribute to the achievement of the SDGs by investing in specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

The assessment of the Use of Proceeds' categories for products and services invested into is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).



The assessment of the Use of Proceeds' categories for specific products and services invested into is displayed on a 5-point scale (see annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Green Financing Instrument Use of Proceeds' categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS PRODUCTS/SERVICES	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS	
Renewable Energy <i>Solar (PV, including floating, and concentrated solar power)</i>	Significant contribution	 7 AFFORDABLE AND CLEAN ENERGY	 13 CLIMATE ACTION
Renewable Energy <i>Wind energy (onshore and offshore)</i>	Significant Contribution	 7 AFFORDABLE AND CLEAN ENERGY	 13 CLIMATE ACTION
Renewable Energy <i>Hydropower <10MW</i>	Significant Contribution	 7 AFFORDABLE AND CLEAN ENERGY	 13 CLIMATE ACTION
Renewable Energy <i>Hydropower between >10MW and <100MW²</i>	Limited Contribution	 7 AFFORDABLE AND CLEAN ENERGY	 13 CLIMATE ACTION
Renewable Energy <i>Geothermal</i>	Significant Contribution	 7 AFFORDABLE AND CLEAN ENERGY	 13 CLIMATE ACTION
Renewable Energy	Limited Contribution	 7 AFFORDABLE AND CLEAN ENERGY	 13 CLIMATE ACTION

² If the size of the hydropower plant is >25-100MW, either lifecycle carbon intensity must be ≤100gCO₂/kWh or power density must be ≥5W/m², and in addition if the size is >25-100MW, it must not be a dam or reservoir-based or run-of-river plant with pondage.

USE OF PROCEEDS PRODUCTS/SERVICES	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><i>Biofuels from non-waste sources where relevant criteria are met³</i></p>	<p></p>	<p></p>
<p>Renewable Energy <i>Green hydrogen, green ammonia (from electrolysis powered by 100% renewable energy including wind and solar)</i></p>	<p>Significant Contribution</p>	 

³ For biofuels from non-waste sources, the production must: not take place on land with high-biodiversity; not compete with food sources; achieve a substantial reduction in life-cycle emissions relative to a fossil fuel baseline; and use feedstock certified by a credible sustainable source, e.g. the Roundtable on Sustainable Biomaterials.

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE SELECTION CRITERIA

AEP-II's two target regions include Middle East, North Africa and Turkey (MENAT) and Eastern Europe and Central Asia (EECA). The table below presents the findings of our assessment of the selection criteria against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

ESG guidelines into investing processes

Alcazar Energy has developed and implements an integrated and proprietary Environmental & Social Management System (ESMS) or also called Quality, Health, Safety & Environment Management System (QHSEMS), which is based on international guidelines, such as the International Finance Corporation (IFC) Performance Standards.

Alcazar Energy's ESMS applies to all investments underlying the transactions (whether new projects or existing operational assets).

The environmental and social (E&S) due diligence steps for any investment are described below. At origination stage, Alcazar Energy conducts an in-house E&S due diligence exercise and employs a proprietary ESG screening tool to identify and assess ESG risks and opportunities, which result in an E&S Due Diligence Screening Report. At an early development stage, a full E&S due diligence of investment opportunities is conducted internally and externally, building on the findings of the E&S screening, which also results in an E&S Due Diligence Report.

At an advanced development stage, the firm commissions Environmental & Social Impact Assessments (ESIA) to identify, evaluate and mitigate potential E&S risks by an independent E&S advisor specialized on the health, safety and environmental impacts of the technology and social challenges of the project location. Public disclosure of such assessments, including a Non-Technical Summary and the Stakeholder Engagement Plan (SEP), is provided. The outcomes are translated into an Environmental & Social Action Plan (ESAP) and related to specific E&S management requirements also considered during the solicitation process of contractors, as well as in the binding E&S Employer Requirements of the EPC contracts and O&M contracts.

During the construction and operational stages, the contractors are required to comply with the E&S regulatory framework, the ESAP and the employer's quality, health & safety, environmental and social (QHSE) requirements, which include particular requirements for supply chain control. The contractors are also required to develop a project specific QHSE management system for construction and operation. The E&S performance and implementation of the specific mitigations and required actions are actively monitored by Alcazar Energy through its country and project-based personnel on a daily basis as well as through a system of monitoring, inspections, and audits. Such oversight and active monitoring allow for the prompt prevention of ESG risks and for the identification of ESG enhancement opportunities.

ESG risks identified through the different stages are ranked based on an established definition of probability, severity and risk level. Mitigation, management and control measures are identified and applied accordingly to reduce the level of risk to acceptable levels. E&S risks which are identified as

“High Risk” (H) represent an E&S red flag for the feasibility of a project. High risks which are unmanageable or cannot be reduced to acceptable levels could potentially lead to an investment opportunity being deemed a 'no-go'. Such processes of risk identification, analysis and investment decision-making are fully documented.

Labor standards

There is only limited ratification of the ILO core conventions existing in countries where assets will be financed, including in the MENAT and EECA regions.



But the assets will be selected using Alcazar Energy’s QHSEMS, which was developed based on international standards by organizations such as the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD) and the International Labor Organization (ILO).

Health & safety standards

Among the related ISO standards which contractors need to fulfil for their employees involved in the projects are ISO 45001, ISO 14001 and ISO 9001. These were acquired by the buyers of Alcazar Energy Partners One (AEP-I) assets. AEP-II, the more recent investment vehicle of the firm, is currently undergoing a process to further improve the QHSEMS in line with best international practice and investor requirements. Alcazar Energy says that the QHSEMS is the same as the previous one and shall apply for the same ISO management systems as previously once it holds assets under management. The ISO certification scope extension audit for new assets is planned to happen at the time of the first financial close of AEP-II.



Biodiversity and community dialogue

The issuer confirms that, as part of its usage of its ESMS/QHSE management system, biodiversity risks and community engagement rules are respected.



An ESIA is conducted for any project by an independent specialized E&S advisor familiar with health, safety & environmental impacts of the technology on and social challenges of the project location. It includes for example a qualitative and/or quantitative assessment of environmental and social impacts as applicable, an Environmental and Social Action Plan (ESAP) and a stakeholder engagement plan. As part of these, the issuer ensures that community dialogues and grievance mechanisms are integrated in the project planning process by the contractors.

Exclusion criteria

Alcazar Energy has compiled an environmental & social exclusion list which defines the activities which the organisation will not knowingly engage in, directly or indirectly, through its investments. The exclusion list is generally aligned with the excluded activities defined by international Development Financial Institutions (DFIs) as well as with the European Development Finance Institutions' (EDFI) Principles for Responsible Financing of Sustainable Development.

PART III: GREEN BONDS LINK TO ALCAZAR ENERGY'S SUSTAINABILITY STRATEGY

A. ALCAZAR'S BUSINESS EXPOSURE TO ESG RISKS

ESG risks associated with the issuer's industry

The issuer belongs to the Renewable Electricity industry, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note that this is not a company specific assessment, but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Labor standards and working conditions
Protection of human rights and community outreach
Responsible land use and biodiversity management
Promotion of a sustainable energy system

ESG strengths and points of attention related to the issuer's disclosures

Leveraging ISS ESG's Research, ISS ESG identified the following strengths and points of attention⁴:

STRENGTHS	POINTS OF ATTENTION
<p>The company has disclosed its commitment to respect international norms regarding human rights - United Nations Global Compact, Universal Declaration of Human Rights of UN, and ILO conventions.</p> <p>The company has made relevant disclosures regarding land use and biodiversity management for its wind and solar projects. The disclosures include a commitment to protect biodiversity and information on the Environmental & Social Impact Assessment of the sites.</p>	<p>The company has not publicly disclosed measures to ensure freedom of association and collective bargaining for direct and indirect employees.</p> <p>The company has not reported the average conversion efficiency of the solar panels/modules.</p> <p>The company has not disclosed gender diversity in management positions. Also, it has not reported the types of employment related to not directly employed workforce.</p>
<p>The company's energy generation is 100% renewable which includes solar and wind.</p>	<p>The company has not publicly reported any policy on flexible work timing and special leaves (e.g. maternity, paternity, etc.) for employees.</p>

⁴ Please note that Alcazar Energy is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Renewable Electricity sector, based on publicly available information exclusively. No direct communication between the issuer and the analyst has taken place during the process. It is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.





The company has implemented a health and safety management system which is certified with ISO 45001 valid until 2024. It has reported zero fatalities in recent years.

The company discloses information on strategic training management that includes training plans for all employees based on their roles and responsibilities.

Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part III.B of the report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE ⁵	DIRECTION OF IMPACT	UN SDGS
Energy generation based on solar	68%	CONTRIBUTION	 
Energy generation based on wind	32%	CONTRIBUTION	 

Breaches of international norms and ESG controversies

At issuer level

At the date of publication, ISS ESG has not identified any severe controversy in which the issuer would be involved.

At industry level

Based on a review of controversies over a two-year period, the top three issues which have been reported against companies within the Renewable Electricity industry are as follows: failure to prevent depletion of biodiversity, failure to respect indigenous rights and failure to prevent air pollution.

⁵ Percentages presented in this table are not cumulative. The numbers are based on the investment vehicle AEP-I as AEP-II is under formation. The information refers to Alcazar Energy as a whole. Please note that the breakdown of revenues has only been estimated using installed capacities of the respective energy sources

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

B. CONSISTENCY OF GREEN BONDS WITH ALCAZAR ENERGY'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

Alcazar Energy's approach is guided by its four sustainability principles which are based on and aligned to international best practice.

1. Environmental Stewardship
2. Social Responsibility
3. Economic Development
4. Strong Governance

Alcazar Energy identifies and prioritizes a broad range of "material ESG aspects" which are seen as fundamental to the long-term performance of its investment portfolios: from worker safety, diversity and inclusion, stakeholder engagement and labor practices to biodiversity conservation, social development and business integrity.

Alcazar Energy recognizes that its performance against these ESG aspects supports the achievement of the United Nations 2030 Agenda for Sustainable Development, in particular the following goals:

SDG 7: Affordable and Clean Energy, SDG 13: Climate Action, SDG 5: Gender Equality, SDG 4: Quality Education, SDG 8: Decent Work and Economic Growth, SDG 6: Clean Water and Sanitation, SDG 15: Life on Land, SDG 16: Peace, Justice and Strong Institutions and SDG 2: Zero Hunger.

Alcazar Energy became a participant to the UN Global Compact in 2019 and since then has further aligned those ESG aspects with its strategy, investment approach and management systems.

Rationale for issuance

Alcazar Energy intends to use its framework as the basis to issue green bonds, Sukuks and loans and other debt instruments ("Green Financing Instruments") to deliver on its ambition to drive decarbonization and facilitate a path to a low-carbon future in its target countries, and by accelerating its ability to deploy funds towards renewable energy technologies.

Alcazar Energy will focus on investing in solar PV and wind projects within the renewable energy segment (at least 75% of commitments). Other renewable technologies, such as small-scale hydro, geothermal, and biomass, may also form part of its investments.

Bond(s) or Sukuks issued under this framework may take the form of public transactions or private placements, in bearer or registered format, and may take the form of senior unsecured or subordinated issuances.

Contribution of Use of Proceeds categories to sustainability objectives and key ESG industry challenges

ISS ESG mapped the Use of Proceeds' categories financed with the Green Financing Instruments with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Renewable Electricity industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to

sustainability, e.g. climate change and energy efficiency in the buildings industry. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds' category.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Renewable Energy	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through the Green Financing Instruments are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing green financing instruments is clearly described by the issuer.*

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ANNEX 1: Methodology

Green KPIs

The Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Alcazar Energy’s Green Financing Instruments.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

Environmental and social risks assessment methodology

The Environmental and social risks assessment evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available or that the information provided did not fulfil the requirements of the Green Bond KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by Alcazar Energy (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, the extent to which Alcazar Energy’s Green Financing Instruments contribute to related SDGs has been identified.

ANNEX 2: Quality management processes

SCOPE

Alcazar Energy commissioned ICS to compile a Green Financing Instruments' SPO. The Second Party Opinion process includes verifying whether the Green Finance Framework aligns with the GBP and GLP and to assess the sustainability credentials of its Green Financing Instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- GBP and GLP
- Key Performance Indicators relevant for Use of Proceeds categories selected by the issuer

ISSUER'S RESPONSIBILITY

Alcazar Energy's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the framework level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Green Financing Instruments to be issued by Alcazar Energy has been conducted based on a proprietary methodology and in line with the ICMA GBP and GLP.

The engagement with Alcazar Energy took place from July 2022 to January 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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