

Alcazar Energy Green Finance Framework

20th January 2023



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Your investment in AEP II entails a range of risks and may lead to a financial loss as there is no guarantee on the capital in place. For more information, please refer to the PPM, Section 13, "Risk Factors and Potential Conflicts of Interest". For an overview of the costs connected to your investment, please refer to the PPM, Section 12 "Summary of Principal Terms", sub-headings "Other Fees", "Establishment Expenses" and "Ongoing Expenses". The use of leverage by AEP II can magnify your returns but can also result in increased losses. A description of the borrowing by AEP II is set out in Section 12, "Summary of Principal Terms" under the sub-heading "Fund Borrowing" of the PPM. The risks associated with the use of leverage are set out in Section 13 of the PPM, "Risk Factors and Potential Conflicts of Interest" under the sub-heading "Leverage". Your decision to invest in AEP II should take into account all the characteristics or objective of the fund, as described in the PPM. For additional information on the sustainability related aspects of AEP II, please refer to the "Article 9 Pre-Contractual Disclosure" section of the private placement memorandum and on <https://alcazarenergy.com/corporate-responsibility/>.

Alcazar Energy Partners II SLP (SCSp) (“AEP-II” or “the Fund”) is a Luxembourg domiciled sustainable infrastructure fund focused on utility scale renewable energy capacity in selected emerging markets, with an advisory team based in the United Arab Emirates (“Alcazar Energy”).

In 2014, Alcazar Energy established its first investment vehicle, Alcazar Energy Partners (“AEP-I”). By 2018, AEP-I had created the largest privately-owned project portfolio of renewable energy assets in the Middle East & North Africa (MENA) region at the time, that included five solar photovoltaic (PV) and two wind projects in Jordan and Egypt with a 411 MW of operational capacity. Collectively, the seven assets generated enough clean energy to power 275,000 households, generated savings in excess of 445,000 tonnes of greenhouse gas (GHG) emissions per year and 800,000 m³ of water per year. The portfolio also created more than 4,200 jobs (including temporary jobs during construction of the plants) of which 80% were in-country and allocated US\$ 15m to social investment during the life of the assets, focused on education local skills development, and sustainable-energy related initiatives within the local communities. In addition, Alcazar Energy created an estimated 8.5 million MMBTUs of energy savings per year for the local governments in the emerging markets it operated in, contributing to national and international decarbonisation targets and facilitating a transition towards a low carbon economy. In August 2021, Alcazar Energy successfully exited AEP-I’s portfolio following a competitive auction which culminated in a landmark acquisition by one of the largest renewable energy players globally.

AEP-II reached a first closing in November 2022 of US\$336.6m. AEP-II will enable the development and construction of over 2GW of clean energy infrastructure, generating clean energy equivalent to powering over one million households and saving ca. 3.2m tonnes of GHG emissions per year.

1.1 Investment Approach and Strategy

1.1.1 Target Countries

AEP-II’s two target regions include Middle East, North Africa and Turkey (MENAT) and Eastern Europe and Central Asia (EECA). Within those markets, the Fund will invest in countries that generally exhibit the below characteristics:

- Energy markets with strong growth characteristics
- Current shortfall in energy availability to support existing power demands
- Markets where the cost of renewable energy is below grid parity
- Political support for the development of renewable and clean energy projects (for example emission target schemes or renewable energy targets)
- Regulatory and legislative frameworks that are supportive of private investment in renewable energy projects
- Markets where the team has established relationships across the relevant local stakeholders (developers, contractors, banks, and government bodies)
- Markets which have visibility towards exit solutions for the purpose of divestment (market liquidity and stable macroeconomic conditions)

The target markets are forecasted to have an incremental solar and wind capacity requirement of ca 85 GW by 2030 equating to a ca USD 128 billion investment requirement. The solar and wind installed capacity of the target markets is expected to grow at a 14.3% CAGR from 25 GW in 2020 to 110 GW in 2030.

1.1.2 Target Technologies

Alcazar Energy has analysed renewable technologies and compared them in terms of financial attractiveness and strategic fit. The latter involved specifically analysing the technologies' level of cost competitiveness, risks, and future potential deployment in emerging markets. Alcazar Energy believes that it is prudent to focus on proven and bankable renewable energy technologies, particularly in certain emerging markets that have a nascent renewable energy industry.

AEP-II will focus on investing in solar PV and onshore wind projects within the renewable energy segment (at least 75% of invested capital by the end of the Fund's Investment Period) as it believes that solar PV and onshore wind are currently the two most attractive technologies for the following reasons:

- Governments in many countries within the target markets have recently instituted laws and regulations to prioritise the development of solar and wind projects as they are now more competitive than most conventional sources;
- These two technologies are projected to have the largest capacity additions by 2030 out of all renewable energy technologies;
- They are highly bankable technologies allowing Alcazar Energy to raise non-recourse project finance debt.

Solar PV is the technology that will experience the highest capacity additions by 2030 followed by onshore wind. Given the attractive level of solar irradiation and wind speeds in its target markets as well as these two technologies being highly bankable on a non-recourse basis due to their proven nature, solar PV and onshore wind represent the most commercially and strategically attractive renewable energy propositions.

Up to 25% of Fund Commitments can be invested on an opportunistic basis in run of river hydro projects with a capacity not exceeding 50MW, stand-alone energy storage, solar thermal, near-shore wind, off-shore wind, geothermal, biomass and other proven and bankable renewable energy technologies, provided that the Fund will only make such investments if it has demonstrated to the satisfaction of the Advisory Committee that it has the necessary in-house expertise or is working jointly with a technology partner.

1.1.3 Target Market Segment

AEP-II will target the renewable energy mid-market segment, which it defines as renewable energy projects that are on average 100 MW of net installed capacity or each requiring net equity investment between USD 25 million and USD 75 million. Alcazar Energy believes that this segment of the market is currently underserved by appropriate qualified developers and disciplined asset managers in its target markets.

In mature energy markets (such as Europe and North America), private investors have enjoyed great success in the mid-market segment, and it is now strongly competed for within those regions (over 220 independent players across North America and Europe focus on this segment). In contrast, the mid-market segment is relatively unoccupied in most emerging markets, with the market dominated by government-owned entities focusing on large, industrial-scale generation projects.

1.1.4 Target Investment Stage

Alcazar Energy's intimate knowledge of the construction, financing and development of renewable energy projects allows for a complete understanding of the risk profile of investment opportunities at different stages of development.

The Fund will structure its investment programme such that, at the end of the investment period, a majority of invested capital will be deployed into investments at the greenfield development stage (both early stage (pre-permitting) and advanced stage (post-permitting)), with a minority of invested capital being deployed into investments at the brownfield stage (construction and operation).

By investing the majority of the Fund's commitments in projects in the development stage, its participation should be rewarded with more attractive returns. Furthermore, entering early allows the Fund to control critical aspects of project development such as PPA negotiation, EPC & O&M structuring, equipment sourcing and negotiation of project finance terms.

The Fund will also consider investment opportunities in assets that are under construction or in operation, where it is confident it can achieve good initial returns that can be further enhanced through operational improvements or financial restructuring. Acquisition of renewable assets under construction or in operations will also be considered as an entry strategy to a new target country, which would be followed by the greenfield development of additional renewable projects to scale its presence in such country.

1.2 Sustainability Approach

Alcazar Energy's commitment to sustainability has been one of the cornerstones of its investment strategy since its inception in 2014. Alcazar Energy recognises its responsibility to align its investment activities and act in the best long-term interests of its beneficiaries and society as a whole, from governments and investors to the workforce and local communities. Alcazar Energy puts such responsibility into practice by balancing rigorous financial and strategic analysis with sound environmental, social and governance (ESG) practices that enable and preserve the long-term value of its investments. Alcazar Energy effectively embeds ESG management into investment analysis, decision-making, active ownership and management of our assets. The four main pillars that underpin our commitment to sustainable development are:

1. Environmental Stewardship

- We enable the development of power generation from renewable resources and the response of host countries towards climate change adaptation and commitments on reduction of greenhouse gas emissions
- We support a precautionary approach to environmental impacts and associated risks
- We undertake initiatives to promote greater environmental responsibility and awareness

2. Social Responsibility

- We provide access to grievance mechanism and consideration in stakeholder engagement and public participation
- We promote fair and equal opportunities in respect of employment, occupation, and promotion practices
- We respect, advocate and fulfil the protection of internationally proclaimed labour and human rights

3. Economic Development

- We contribute to value creation within the local communities where we operate through a range of social development and investment initiatives, primarily focused on the educational sector and vulnerable groups
- We maximize local employment and procurement opportunities of operations as much as practicable

4. Strong Governance

- We exhibit honesty, integrity, fairness, respect, and strong ethics of employees, partners and their employees in all business dealings throughout projects and operations
- We ensure accountability and transparency through implantation of whistleblowing mechanisms
- We conduct activities in line with applicable laws, rules, and regulations and in a manner that prevents corruption in all its forms, including extortion and bribery

1.3 Contribution to Sustainable Development

Alcazar Energy identifies and prioritises 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 labour practices to biodiversity conservation, social development and business integrity. Alcazar Energy recognises that its performance against these ESG aspects supports the achievement of the United Nations 2030 Agenda for Sustainable Development, and of several of the Sustainable Development Goals (SDG):

	SDG 7: Affordable and Clean Energy	Ensure access to affordable, reliable, sustainable and modern energy for all
	SDG 13: Climate Action	Take urgent action to combat climate change and its impacts
	SDG 5: Gender Equality	Achieve gender equality and empower all women and girls
	SDG 4: Quality Education	Ensure inclusive and quality education for all and promote lifelong learning
	SDG 8: Decent Work and Economic Growth	Promote inclusive and sustainable economic growth, employment and decent work for all
	SDG 6: Clean Water and Sanitation	Ensure availability and sustainable management of water and sanitation for all
	SDG 15: Life on Land	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
	SDG 16: Peace, Justice and Strong Institutions	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
	SDG 2: Zero Hunger	End hunger, achieve food security and improved nutrition and promote sustainable agriculture

Alcazar Energy became participant to the UN Global Compact in 2019 formalising its commitment towards the Ten Principles of the UN Global Compact on human rights, labour, environment and anti-corruption. Since then, it has further aligned those ESG aspects within its strategy, investment approach and management systems and has also refined how it determines its contribution towards sustainable development through specific and measurable SDG targets.

1.4 Approach to Environmental & Social Risk Management

Alcazar Energy has developed and implements an integrated and proprietary Environmental & Social Management System (ESMS), also referred to as Corporate Quality, Health & Safety, Environmental and Social Management System (QHSEMS). The ESMS provides the framework to duly manage E&S aspects of its activities throughout the screening, development, construction and operation of projects. It guides in a prescriptive manner how sound environmental, social, health and safety, quality and security management practices are to be applied across the portfolio and throughout the life of the investments.

The ESMS provides a comprehensive well-proven toolbox of measures and procedures to identify, assess, manage, mitigate and monitor E&S risks of its investment opportunities, whether greenfield projects or operational assets, with particular focus on risk avoidance and prevention. The ESMS establishes the highest standards of reporting, monitoring and control which allows Alcazar Energy to continuously improve E&S performance. Ultimately, the ESMS provides the framework for Alcazar Energy to operate in a responsible, environmentally conscious, ethical and safe manner but also to ensure compliance with regulations, investors' requirements, and lending institutions' standards.

The ESMS has been developed taking into consideration the International Finance Corporation (IFC) Performance Standards on Environmental & Social Sustainability (2012), the IFC Environmental, Health, and Safety General Guidelines (2007), the European Bank for Reconstruction and Development (EBRD) Performance Requirements, the European Investment Bank (EIB) Environmental and Social Standards, the International Labour Organization (ILO) Fundamental Conventions and ILO Declaration on Fundamental Rights and Principles at Work, the United Nations (UN) Universal Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the E&S requirements of our investors as well as good international industry practices (GIIPs).

The ESMS is comprised of a hierarchy of documents including the policies, the integrated management system manual, the procedures, and the documents and records as well as the organizational structure and responsibilities. The corporate policies represent the foundation of Alcazar Energy's commitment to undertaking its work safely, responsibly, sustainably and with a duty of care to staff, stakeholders and the wider community. The corporate policies, statements, and principles are approved by the Co-Founder and Managing Partner, demonstrating management's leadership and responsibility, and are efficiently communicated at all levels of the organisation as well as to internal and external stakeholders, ensuring accountability.

2. Green Finance Framework



Alcazar Energy intends to use this Green Finance Framework (“the Framework”) as the basis to issue Green Bonds, Sukuk, Loans and other debt instruments (“Green Financing Instruments”) to support Alcazar Energy in delivering on its ambition to drive decarbonization and facilitate a path to a low carbon future by accelerating its ability to deploy funds towards renewable energy technologies. The Green Financing Instruments will fund Eligible Green Projects that conform to the below green finance principles:

- the International Capital Market Association (“ICMA”) Green Bond Principles (“GBPs”) 2021¹, and/or
- the Loan Market Association (“LMA”) Green Loan Principles (“GLPs”) 2021²

In aligning with the above principles and guidelines, the Framework is presented through the four core components of the GBPs and GLPs as well as their recommendation for external review:

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

Green Financing Instruments 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 secured, unsecured or subordinated issuances. Such Green Financing Instruments entered into under this Framework will be standard recourse-to-the-issuer obligations.

1. In alignment with ICMA Green Bond Principles, June 2021, <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

2. In alignment with LMA Green Loan Principles, February 2021, <https://www.lsta.org/content/green-loan-principles/>

2.1 Use of Proceeds

Alcazar Energy will allocate an amount at least equivalent to the net proceeds of the Green Financing Instruments issued under this Framework to finance and/or re-finance, in whole or in part, green projects which meet the eligibility criteria of the following Eligible Green Project categories (“Eligible Green Projects”), as defined below. A maximum 3-year look-back period would apply for refinanced projects and Alcazar Energy expects each issuance under this Framework to be fully allocated within 2 years from the date of issuance.

GLP/GBP Category	Eligibility Criteria
<p>Renewable Energy</p> 	<p>Projects related to the production, transmission and storage of energy from the following renewable sources:</p> <ul style="list-style-type: none"> • Solar (PV, including floating, and Concentrated Solar Power where a minimum 85% of power generation is derived from solar sources) • Wind energy (onshore and offshore) • Hydropower (<25MW or if 25-100MW either lifecycle carbon intensity must be ≤100gCO₂/kWh or power density must be ≥5W/m² and in addition if 25-100MW must not be dam or reservoir-based or run-of-river with pondage) • Geothermal (direct emissions to be below 100gCO₂/kWh) • Biofuels (from non-waste sources where relevant criteria are met³) • Green hydrogen, including green ammonia which is used for energy generation or storage, (from electrolysis powered by 100% renewable energy including wind and solar)

2.2 Process for Project Evaluation and Selection

The Project Evaluation and Selection Process will ensure that the proceeds of any of Alcazar Energy’s Green Financing Instruments are allocated to finance or refinance of Eligible Green Projects that meet the criteria and objectives set out above in section 2.1, Use of Proceeds.

Alcazar Energy’s Green Finance Working Group (the “GFWG”) will be responsible for governing and implementing the initiatives set out in the Framework. The GFWG is comprised of certain Company management personnel, including but not limited to representatives from the following departments: Investments, Operations, E&S and Technical Delivery. The GFWG will:

- meet at least two times each year, endeavoured to be distributed evenly throughout the year
- ratify Eligible Green Projects, which are initially proposed by the constituent team members

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 fossil fuel baseline; and, use feedstock certified by a credible sustainable source, e.g. the Roundtable on Sustainable Biomaterials

2. Green Finance Framework

- ensure that all Eligible Green projects have been assessed from an environmental and social risk management perspective, in line with Section 1.3 above
- undertake regular monitoring of the asset pool to ensure the eligibility of Green Projects with the criteria set out above in section 2.1, Use of Proceeds, whilst replacing any ineligible Green Projects with new eligible Green Projects
- facilitate regular reporting on any Green Financing Instrument in alignment with the Reporting commitments
- manage any future updates to this Framework
- ensure that the approval of Eligible Green Projects will follow the existing investment approval processes

2.3 Management of Proceeds

The proceeds of each Alcazar Energy Green Financing Instrument will be deposited in Alcazar Energy's general funding accounts and earmarked for allocation towards the Eligible Green Projects using the Green Finance Register. The Green Finance Register will contain the following information:

1. Green Financing Instrument (Sukuk/Bond/Loan etc.) details: pricing date, maturity date, net amount of proceeds, etc.
2. Allocation of Proceeds:
 - a. The Eligible Green Projects List, including for each Eligible Green Project, the Eligible Green Project category, project description, project location, Company's ownership percentage, total project cost, amount allocated, settled currency, etc.
 - b. Amount of unallocated Proceeds

Any proceeds temporarily unallocated will be invested according to the Company's standard liquidity policy in cash or cash equivalents.

2.4 Reporting

On an annual basis, Alcazar Energy will publish an allocation report and an impact report on its Eligible Green Projects, as detailed below. This reporting will be updated annually until full allocation of the net proceeds of any Green Financing Instrument issued, or until the Green Financing Instrument is no longer outstanding.

2.4.1 Allocation Reporting

- a. List of Eligible Green Projects
- b. The amount of Proceeds allocated to each Eligible Green Project category
- c. When possible, descriptions of the Eligible Green Projects financed, such as project locations, amount allocated, etc.
- d. Selected examples of projects financed
- e. Amount of unallocated Proceeds
- f. Percentage share of refinancing vs. new financing

2.4.2 Impact Reporting

Alcazar Energy will provide reporting on the environmental benefits of the Eligible Green Projects, as well as on the social co-benefits. Subject to data availability and confidentiality, impact reporting may cover the impact reporting metrics listed below, and where available, taking reference from the relevant indicators suggested in the ICMA Harmonized Framework for Impact Reporting⁴. Alcazar Energy follows the ‘International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting’ as well as the ‘GHG Protocol’. In addition, calculation methodologies and key assumptions will be disclosed.

Environmental Metrics	Social Metrics
Capacity of renewable energy plant(s) in MW	Increased number of households that are powered with clean energy (on the basis of annual renewable energy generation in MWh/year and typical household consumption kWh/year)
Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)	Temporary employment creation during the Construction phase of the Renewable Energy projects (Full-time Equivalent (FTE))
Annual GHG emissions reduced/avoided in tonnes of CO ₂ equivalent (where possible)	Permanent employment creating during the Operation & Maintenance phase of the Renewable Energy projects (FTE)



4. Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022-280622.pdf (icmagroup.org)

3. External Review and Amendments

3.1 Second Party Opinion

Alcazar Energy has appointed ISS ESG to assess this Green Finance Framework and its alignment with the GBPs and GLPs and issue a Second Party Opinion accordingly.

The Second Party Opinion will be made publicly available on Alcazar Energy's official website.

3.2 Post Transaction External Verification

In order to provide timely and transparent information about the reporting of the funds from Green Financing Instruments issued under this Framework, Alcazar Energy intends to engage a third-party reviewer to provide an annual assessment on the alignment of the allocation and impact of funds with the Framework's criteria.

3.3 Amendments To This Framework

The GFWG will review this Framework on a regular basis, including its alignment to updated versions of the Principles as and when they are released, with the aim of adhering to best practices in the market. Such review may result in this Framework being updated and amended. The updates, if not minor in nature, will be subject to the prior approval of Alcazar Energy and ISS ESG. Any future updated version of this Framework that may exist will either keep or improve the current levels of transparency and reporting disclosures, including the corresponding review by an external reviewer. The updated Framework, if any, will be published on our website and will replace this Framework.





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