



GREEN FINANCE FRAMEWORK

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1. INTRODUCTION

INTRODUCTION OF LUGOS RENEWABLES

CONTRIBUTING TO THE HUNGARIAN AND BALKAN GREEN ENERGY SUPPLY

Lugos Renewables LLC is a holding company that provides solar power project development to its clients. Being committed to contributing to the Hungarian and Balkan energy supply through renewable resources with its outstanding professional knowledge, domestic and international experiences that strengthen our vision to be the market leader. Our company carries out project development for the purpose of long-term investment and energy source diversification. Within the framework of this, we also assist our clients in the field of planning, licensing, and land acquisition as well as in the implementation of connection to the public network. In addition, we undertake the preparation of development plans related to the existing energy portfolio, the sale of project rights and the provision of services related to the power plants to be implemented.

SERVICES



PROJECT PLANNING



LICENSING



COMPLEX PROJECT DEVELOPMENT

LUGOS RENEWABLES IS THE EXPERT OF SOLAR POWER PLANT PROJECT DEVELOPMENT WITH THE MOST COST-EFFECTIVE GREEN POWER GENERATION TECHNOLOGIES, AND AS A COMMITTED BELIEVER OF SUSTAINABILITY AND CLEAN ENERGY, THE COMPANY IS BEYOND 1 GW SUCCESSFUL PROJECT DEVELOPMENTS. 7+ GW PROJECT PORTFOLIO IS UNDER DEVELOPMENT.

10
years
professional experience

7+
GW
project under development

6+
in 6 countries
development activity

In the upcoming years our goal is to increase our presence in South-East Europe and deliver value to the region by our solutions. We explored a great potential in solar power plant project development in the Balkans by 2030, in alignment with national climate strategies, REPowerEU, market trends and geographical conditions. We have registered subsidiaries in Macedonia, Bulgaria, Serbia and Croatia already, whereas the registration is in progress in Albania, and Montenegro as well.



OUR APPROACH TO SUSTAINABILITY

Solar energy has an important role in reducing greenhouse gas emissions and other air pollutants, therefore increasing local air quality. With the help of using solar power our clients can decrease their dependency on grid energy and contribute to a more sustainable environment. The energy industry is very exposed to market trends and energy prices. Solar power systems are reducing this exposure, therefore there is an increasing corporate demand for solar plants.

The European Union continuously expands the availability of EU funds for the development of cross border interconnector electricity transmission systems, due to its intention to reduce carbon emissions and climate change as well as to ensure stable energy supply. Our services are contributing to these goals by long-term investments and renewable energy source diversification.

As a responsible corporation, who intends to further expand to the Balkan, we find ESG issues important enough to implement them to our daily operation. Therefore, we defined several strategic goals to follow when acting in a sustainable manner.

ENVIRONMENTAL

By reducing our environmental footprint, we can decrease our negative environmental impacts. To achieve this, we intend to decrease waste and emission along our operation, by increasing recycling, using electric vehicles, and investing in sustainable energy sources.

We respect the living space of local communities, thus according to our Environmental Policy, when developing new investment plans, choosing the right spot for a solar plant at the design stage is essential. Right site selection can also increase the resiliency of the plants. By evaluation of potential risks such as flood assessment, biodiversity, soil quality and accessibility we can avoid potential future climate risks and the loss of valuable farmland. Therefore, before starting a project an overall assessment is concluded to measure risk factors and circumstances of a project. We understand environmental and social risks that rise due to our operation, thus we incorporated them to our general risk management policy.



As a project development company, we have oversight and power to select sub-contractors in a way that is consistent with our values. When evaluating and selecting our sub-contractors we carefully assess potential partners based on our procurement policy. We intend to make partnerships with companies which support circular solutions and are respectful to the environment. The Procurement policy includes initiatives that we follow and our expectations towards our partners related to ESG, such as: proper business ethics, responsible usage of resources, compliance to laws and regulations etc.

SOCIAL

Approaching any investment, we take business ethics and compliant operation seriously. We do business in a manner that is fair and respectful.

We respect and appreciate our employees through providing them safe and healthy working environment and fair benefit system. Health and Safety is implemented into our practices, by following our own H&S policy that defines basic principles to protect our employees and avoid accidents during work. Sub-contractors and subsidiaries of the holding are obliged to follow proper health and safety measures during construction and to fulfil the requirements of labour standards defined by national and international laws and regulations. Complaints are monitored and formalized in our internal policy to strengthen communication with stakeholders.

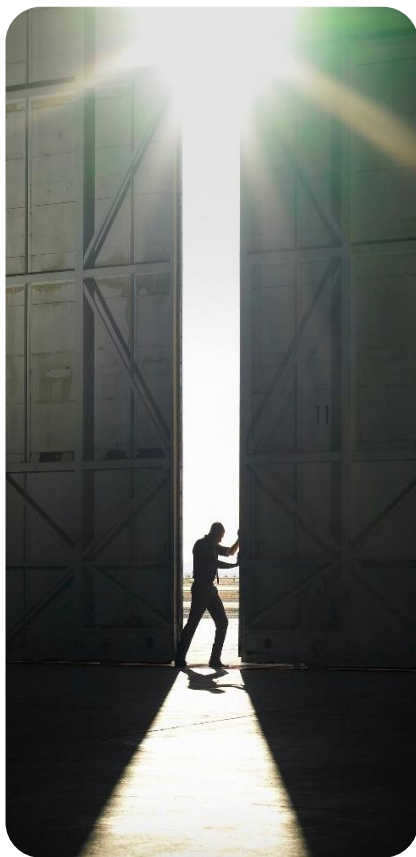
During implementation phase there is a continuous monitoring of activities to ensure compliance. To maintain outstanding services, we work with highly qualified workforce, who receive regular worker safety and first aid trainings. Through different courses they receive an ongoing education to be able to deliver state-of-the-art and innovative solutions to our clients.



Although the renewable energy sector creates green outputs, we would like to contribute to other aspects of sustainability as well. We directly and indirectly influence the lives of local communities. The local population benefits from the positive economic impacts of our facilities via taxes, land leases and job creation. It not only creates business value but ensures that our expenditures fit to the lives of the people living in the area, therefore we consider community engagement very important.

We want to set an example for society. For this reason, we support local organisations through donations, such as the Future of Parasport Foundation (Impulzus a Parasport Jövőjéért Alapítvány), which was set up to help promote Parasport among disabled children and young people, enabling them to live happier and more fulfilling lives. A significant number of our employees work in our Baja site, which is why it is important for us to support the associations in the region. In 2022, we offered donations to the Sükösdí Sport Club Association and to BASKETBAJA. From 2021 onwards, the staff and management of Lugos Renewables LCC will collect donations for the Baja Family Assistance and Child Welfare Service (Bajai Családsegítő és Gyermekjóléti Szolgálat) as an annual tradition during the Advent season.

GOVERNMENTAL



To ensure business compliance with laws, regulations and business ethical perspectives we maintain appropriate internal policies. Our operation is continuously expanding which includes not only increase in our economic value but also growing in physical extent to other countries.

Our new investment plan towards the Balkans will result extension outside the European Union. This evolution will bring new challenges to our table. The regulatory environment within the EU, and Hungary in it, has quite high requirements which are in cohesion with each other. By stepping out of the EU the external environment will change around us. This increases the importance of formalized corporate policies. Therefore, we aim to establish new policies to set our own compliance standards regarding health and safety, working conditions, and supplier policy incorporating environmental issues as well as social and governmental requirements.

We aim to integrate sustainability into our value chain, therefore in alignment with the procurement policy, we monitor ESG compliance of our sub-contractors to ensure ethical business behaviour, fair competition, and respectful operation in the projects executed under our supervision.

THE GREEN FINANCE FRAMEWORK

We believe that sustainability is a corporate advantage on the market.

Our investors are more and more interested in ESG and in companies that can be measured on this level. To maintain our competitive advantage and to further develop our commitment towards sustainability we decided to develop our first Green Finance Framework. The Framework allows us to not only develop green projects but ensure ESG principles all along financing. Possible locations for our future green projects include but not limited to Hungary, Macedonia, Bulgaria, Serbia, Croatia, Albania, Montenegro, Romania, Bosnia and Kosovo. If we would decide to invest in countries other than the ones mentioned here, we will publicly inform our stakeholders about it.





The Framework is in alignment with the International Capital market Association's (ICMA) Green Bond Principles (GBP) 2021 (with June 2022 Appendix 1) and the Loan Syndications and Trading Association's (LSTA) Green Loan Principles (GLP) (February 2023). The Framework is applicable to Lugos Renewables LLC and all subsidiaries of the holding where Lugos Renewables has ownership and influence. The Framework is for the purpose of issuing green financing instruments such as green bonds and loans. Green proceeds raised from issuance of green financing instruments will be used to finance or refinance in part or in full green Eligible Assets. Lugos Renewables intends to show full transparency to investors, so if it is possible, it might

share information related to the share of refinancing prior the issuance. Green proceeds can be allocated to new or existing projects if they are aligned with eligibility criteria defined in this Framework.

2. ALIGNMENT WITH THE FOUR PRINCIPLES OF ICMA GBP

USE OF PROCEEDS

Green Eligibility Criteria are based on national and international laws, regulations, and best market practices. If possible, we aim to follow the evolution of the market, therefore where we can, we intend to follow the principles of the EU Taxonomy. The Eligible Projects will substantially contribute to climate change mitigation and to the United Nation’s Sustainable Development Goals as defined below.

Eligible Green Project Category	Eligibility Criteria	Contribution to UN SDG’s
 <p>Renewable Energy</p>	<p>⇒ New or existing investments in or expenditures on the development, construction and/or installation of Solar PVs (including rooftop solar projects), including electrical storage infrastructure related to renewable energy production,</p> <p>or</p> <p>⇒ Alignment with the EU Taxonomy Regulation¹ and its Minimum Social Safeguards (MSS), Technical Screening Criteria (TSC) and Do No Significant Harm Criteria (DNSH) related to eligible project category 4.1 and/or 4.10 with substantial contribution to the Climate Change Mitigation objective².</p>	  

Use of proceeds section and therefore future green investments are defined in alignment with Lugos Renewables’ sustainability goals and objectives. Green proceeds support the company’s goal to increase the number of renewable energy projects, therefore contributing to a more sustainable future.

¹ [Regulation \(EU\) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation \(EU\) 2019/2088 \(Text with EEA relevance\)](#)

² [Commission Delegated Regulation \(EU\) 2021/ of 4 June 2021 supplementing Regulation \(EU\) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives \(europa.eu\)](#)

Exclusions:

We commit that the green proceeds will not be used for supporting controversial or greenhouse gas-intensive or high environmental impact activities, such as: nuclear energy generation, weapons and defence, gambling or tobacco, and potentially environmentally harmful resource extraction.

PROCESS FOR PROJECT EVALUATION AND SELECTION

The Green Finance Committee was established for the purpose of handling matters related to ESG strategy and the company's green bond and loan issuance. It is a cross-functional decision-making body, which participates in the preparation and execution of ESG matters and actions regarding the Green Finance Framework. They supervise and handle ESG strategic planning and green financing issues as well as safeguarding alignment of green instruments with the principles of ICMA GBP and LSTA GLP.

The Green Finance Committee is subordinated directly to the Managing Director, with reporting obligation towards the investors. As an organisational unit it is positioned within Lugos Renewables' organisational hierarchy, but it has influence regarding green financing of members of the holding as well. Representatives of the holding companies may raise topics and potential green financing requirement to the Green Finance Committee. The Green Finance Committee can decide to finance green projects in subsidiaries through mainly aiming to provide them corporate loans or using other internal, or market offered green financial loan as appropriate in line with market situation. When the Green Finance Committee decides to provide green financing to subsidiaries, it must be ensured that they comply with the basic principles of defined in this Framework and under 'Governance procedures performed to select eligible green projects' section.

The Committee consist of permanent, and on an occasional basis, temporary members as well. Permanent Members include:

- ⇒ Managing Director (Chair of the Committee)
- ⇒ Head of Design
- ⇒ Business Development Expert

If the permanent members decide so, the Committee can be extended by inviting new participants. When consultation is needed in certain cases subject-matter experts can be invited (including but not limited to specialists with legal, technical, financial or risk management expertise).

Participants or subject-matter experts can be invited if the permanent members vote about it and decide to do so. The Chair of the Committee makes the invitation. New voting members can be appointed by 2/3 majority of the voting members.

Representatives of the subsidiaries might participate in decision making processes of the Committee on an occasional basis, as impermanent members by invitation when reasonable.

The Green Finance Committee meets at least every six months on a pre-determined basis. Extraordinary meetings can be summoned by the Chair with the representation of at least 2/3 of the members.

Before a potential project is included in the green financing of the company, there is a comprehensive assessment of the project whether it is in alignment with this framework and its commitments. As part of the project evaluation process potential environmental, social and governmental risks are also assessed based on Lugos Renewables’ general and ESG risk management policies.

Decisions are reached by simple majority voting. Voting is valid if at least 2/3 of the permanent members are present. Temporary participants have no right to vote. Sessions are recorded by a secretary to the meeting minutes.

The Green Finance Committee is responsible for:

EVALUATION AND ELECTION OF ELIGIBLE PROJECTS AND POTENTIAL RISKS RELATED	TRANSPARENT ALLOCATION OF PROCEEDS IN ALIGNMENT WITH ICMA GBP
MONITORING AND MANAGEMENT OF PROCEEDS	ANNUAL ALLOCATION AND IMPACT REPORTING

Further details about the operation of the Committee are recorded in a separate corporate document.

GOVERNANCE PROCEDURES PERFORMED TO SELECT ELIGIBLE GREEN PROJECTS

1. PROJECT EVALUATION

Permanent members of the Committee have the right to propose topics and potential green projects to be financed under the Green Finance Framework. Evaluation of proposed projects begin when the Green Finance Committee is determines the eligibility of the proposed project to the eligibility criteria defined in this Framework. If needed the Committee can decide to invite an external advisor to help project evaluation. If the proposed project is considered eligible then a comprehensive risk assessment process begins in alignment with Lugos Renewables’ ESG risk management policy and the Environmental policy.

2. ENVIRONMENTAL AND SOCIAL RISK ASSESSMENT AND MITIGATION

In the project evaluation phase Lugos Renewables assesses and mitigates ESG risks based on the company’s ESG risk management policy, that measures environmental, social, and governmental risks associated to the operation of the company. ESG risks are mitigated in alignment with the corporate risk management procedures.

As a project development company Lugos Renewables carefully evaluates its subcontractors since they have significant impact on the projects. As a result of which during project selection

and evaluation the extent of ESG risks that depend on the involvement of third parties is also evaluated.

Lugos Renewables performs a preliminary assessment, according to our environmental policy, before each project which includes mitigation actions related to water and soil protection, waste management, air quality, noise protection, biodiversity conservation and climate change mitigation.

The policy details environmental and social risk factors and other environmental aspects to be taken into consideration before potential investments. Aspects include compliance with relevant laws and regulations, water management, waste management, noise protection, nature reservation etc. This policy is used as a basic guideline for preliminary assessments made before each construction.

3. DECISION-MAKING PROCEDURE

After the project evaluation phase, when environmental and social risk are properly assessed and mitigated, permanent members of the Committee decide with simple majority voting about matters regarding green financing.

When a project is considered as high-risk, Lugos Renewables could ask an external subject matter expert to help define risk factors and risk management procedures to be performed related to the potential green project. Projects with high ESG risks could also be left out of green financing.

ESG risks are monitored and properly mitigated all along the project execution to ensure compliance of selected projects with the eligibility and exclusion criteria throughout the life of the bond or loan. Reports related to the results of the continuous monitoring performed in the given period will be discussed on the Green Committee sessions every six months. Reports will be evaluated based on the ESG Risk management policy. Results will be disclosed as part of the annual allocation and impact reporting. If a project is no longer compliant then compliance has to be restored or if it is impossible then it has to be excluded from funding.

4. MONITORING OF ESG RISKS AND CONTROVERSIES OF ELIGIBLE PROJECTS

ESG risks are comprehensively measured and monitored, and in case of any ESG incident occurs proper actions are taken to remediate and to avoid future occurrence. The heads of SPVs monitor risks based on company policies and the Green Bond Framework during project development. The SPV heads have a reporting obligation to the Green Committee, which holds decision-making power over green proceeds. ESG risks and controversies are monitored throughout the project's lifetime, with continuous monitoring and reporting during the construction phase of solar plants and continued monitoring during the operation phase, consulting with the Green Committee when necessary.

MANAGEMENT OF PROCEEDS

Proceeds raised from the green instruments will be managed transparently under the supervision of the Green Finance Committee. To do so Lugos Renewables will handle these proceeds on a separate account or sub-account. The proceeds of green bonds will be managed using a bond-by-bond approach.

In accordance with best market practices proceeds are to be allocated within maximum of 36 months from issuance. In case of refinancing allocation should be made within a 48 months look-back period from bond issuance.

As long as green proceeds are outstanding, the balance of the tracked proceeds will be periodically (at least annually) adjusted to match allocations to eligible Green Projects made during that period by our finance team. If for the given reporting period proceeds cannot be fully allocated, proceeds will be held help in temporary placements such as cash, cash equivalent or other liquitable instruments until they can be allocated to eligible green projects. Exclusion criteria will also apply to the temporary placement of net proceeds, therefore the Green Finance Committee will ensure that net proceeds are not allocated to greenhouse gas-intensive activities, high environmental impact activities or controversial activities.

If an eligible project is postponed but it could be continued within a foreseeable time then the green proceeds will not be reallocated, otherwise the Green Finance Committee can decide to reallocate proceeds to other eligible projects or to temporary placements. A subsidiary, or a potential green project of these subsidiaries, could be included to green financing through corporate loans or using other internal, or market offered green financial loan as appropriate in line with market situation provided by Lugos Renewables LLC as the main issuer. The Company will reallocate the green proceeds amongst subsidiaries based on the decision of the Green Finance Committee.

REPORTING

Lugos Renewables will make, and keep, readily available up to date information on the use of proceeds. Therefore, the company will provide annual reports to investors and stakeholders to inform them about the allocation and impact of green proceeds. Annual reports published by Lugos Renewables will disclose data from all subsidiaries within the holding.

Annual reports will include a list of the projects to which green proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact. If meaningful material developments/issues/controversies related to the projects or assets during the given reporting period will be also disclosed to increase transparency and comparability.

The first Allocation and Impact report will be published a year from issuance of green financing instruments and the company will keep publishing them annually until full allocation of proceeds and in case of material developments. These reports will be publicly available on Lugos Renewable's website.

The Allocation and Impact Reports will include, but not limited to the following information and indicators detailed below.

Allocation Report will include

- The total amount of green financing instruments issued
- Proportion of allocated proceeds per Eligible Project Category and per Eligible Project
- Share of unallocated proceeds
- Share of financing or refinancing in total amount of green proceeds
- Types of temporary investments (e.g., cash or cash equivalent) (in case of temporary placement of proceeds)

Impact report

On best effort basis Lugos Renewables intends to report on environmental impact of financed Eligible Projects using the KPI's defined in ICMA Harmonized Framework for Impact Reporting³. The impact report may be extended with other relevant KPI's measured by the company.

Eligible Category	Impact Indicators
Renewable Energy	<ul style="list-style-type: none"> • Installed renewables capacity in MW • Annual renewable energy generation in MWh • Annual avoided GHG emissions (t CO₂e)

The Impact report will also include calculation methodologies where possible to ensure high level of transparency.

3. EXTERNAL REVIEW

Pre-issuance assurance

To confirm the alignment of the Green Finance Framework with the four core principles of ICMA GBP and LSTA GLP. Lugos Renewables will obtain an external review on the Framework from Moody's. The external review will be available on our website⁴.

³ [Hamonized Framework for Impact Reporting](#)
⁴ [LUGOS Renewables \(lugos-renewables.com\)](https://lugos-renewables.com)