

## **Aydem Renewables**

### **Green Financing Framework**

JULY 2021



## 1. Introduction to Aydem Renewables

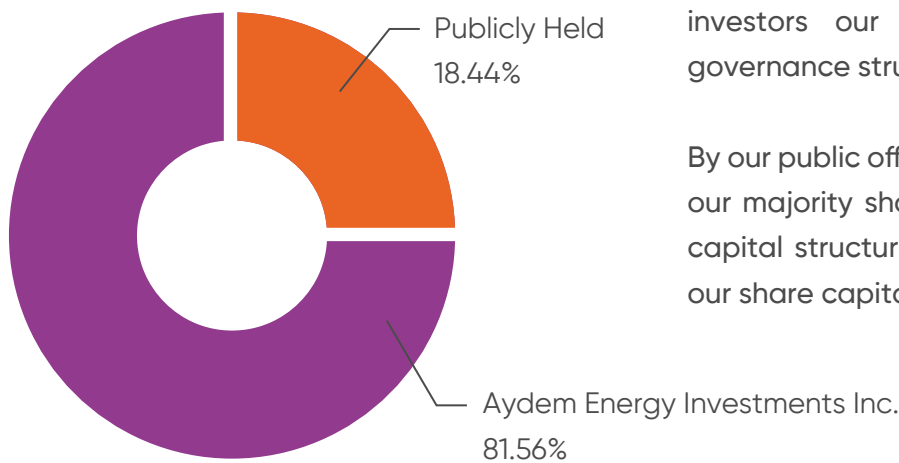
### 1.1 Overview

At Aydem Renewables, since our establishment, we have focused on clean and renewable energy, with an approach that considers the sustainability of renewable energy generation, natural resources, environment and the needs of future generations for our world and our country.

In our journey that started with the courageous step we took by establishing Turkey's first private hydroelectric power plant in 1995, we are proud of having reached 25 renewable energy power plants, spread throughout Turkey with 1.020 MW installed capacity and an annual average of energy generation of 3.155 GWh<sup>1</sup> today.

With our diverse and comprehensive portfolio consisting of 20 Hydroelectric Power Plants (HPPs), three Wind Power Plants (WPPs), one Geothermal Power Plant and one Biogas Power Plant, we generate clean and renewable energy **in four regions of Turkey** (Black Sea, Aegean, Mediterranean and Marmara), and we contribute to the energy transformation of our country.

Current Capital Structure



In 2021, by realizing our public offering, which was one of the turning points for us, we made our investors our partners and created a robust governance structure and company.

By our public offering, "Aydem Enerji Yatırımları A.Ş. is our majority shareholder, with 81.56% in our current capital structure, and with the remaining 18.44% of our share capital being publicly held.

#### 1.1.1. Hydroelectric Power Plants (HPPs)

With our 20 HPPs, we have reached a total installed capacity of 852.1 MW and an annual average energy generation of 2,732 GWh<sup>2</sup> in Turkey.

Our HPP portfolio covers four different geographical regions that differ in terms of precipitation. 17% (170 MW) of the installed capacity of our portfolio is located in the Aegean region, 37% (375 MW) is in the Mediterranean region, 26% (260 MW) is in the Black Sea region and 5% (46 MW) is in the Marmara region.

1. Run-rate energy generation

2. Run-rate energy generation

### 1.1.2. Wind Power Plants (WPPs)

With our three WPPs, we have reached a total installed capacity of 160.5 MW and an annual average energy generation of 420 GWh<sup>3</sup> in Turkey.

### 1.1.3. Geothermal Power Plants (GPP)

We have a Geothermal Power Plant with an installed capacity of 6.9 MW in the Sarayköy-Kızıldere area in Denizli, which we commissioned in 2008 in Turkey's first high-potential geothermal field discovered for energy generation purposes.

### 1.1.4. Kumkısık LFG

In our biogas power plant with an installed capacity of 0.7 MW in the Kumkısık region in Denizli, we generate energy as a result of the process of drawing the methane gas formed in the collected garbage with a piping system and burning it in a gas engine.

## 1.2 Aydem Renewables' Comprehensive Sustainability Strategy and Policies

We continue to contribute to our country's growth in a sustainable manner and to **aim for a better future for the environment, society and future generations.**

As a **leading renewable energy company**, Aydem Renewables is aware of its role in the clean energy transition of Turkey as well as the whole world. For continued long term success of our business we aim to generate renewable energy without interruption by increasing our installed capacity; **create value for our stakeholders and society** and adopt an approach which is aligned with rising global standards as well as respecting sustainability needs of natural resources, the environment and the future generations.

As part of our motto **"Always going forward for the environment"**, we lead the clean energy transition and invest in the environment without ever neglecting our environmental performance and responsibility.

We know that our **employees** are among our greatest values and most important stakeholders. In line with our respect for the working environment, we aim to **go forward** for our employees, by constantly improving our working environment, paying attention to what our employees have to say, providing safe and healthy working spaces to them and maintaining high-performance and constant development.

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3. Run-rate energy generation

We keep working relentlessly so that the performance of **our Company** is sustainable in all respects. In order to **go forward for our Company**, while turning into an innovative, future-focused and digital Aydem Renewables, we also support the energy supply of our country as a result of our efficient energy generation.

We generate and endeavor for **Society**. By stating that “we support sustainable development”, we acknowledge the importance of our business, especially in an era where the risk of climate change increases each day, in order to ensure that the current and future generations can exploit fairly the opportunities of development. In this path, we aim to continue increasing social awareness and working as well as investing for the public in an effort to **go forward** and improve both ourselves and our society.

In 2020, for the purpose of strengthening our engagement with sustainability issues, we took a crucial step and signed **the United Nations Global Compact (UNGC)**, which is the world’s most comprehensive sustainability platform offering universal principles to guide the future of doing business. As a result of signing the UNGC, **we commit to abide by 10 principles regarding human rights, labor standards, environment and anti-corruption.**

**With the signature of our General Manager and the direct support of the Chairman of the Board of Directors**, is another indication of the fact that **the concept of sustainability is embraced by the top management of our Company.**

As a leading renewable energy company, we actively participate in the global **fight against greenhouse gas emissions and climate change** due to the nature of our activities. We are aware that energy management practices have a high impact on **the fight against climate change**. Therefore, we adopt a **responsible consumption approach** at every point where energy is used (machinery, equipment, tools, facilities, fields, offices, etc.), by using the latest technology possible in our power plants. We **reduce our waste and emission** and aim for high efficiency in the generation of purely renewable energy.

### 1.2.1. Robust Sustainability Governance

As a result of our corporate transformation process, we have an **effective Board of Directors** who go beyond the responsibility of loyalty and care and adopt the principles of **accountability, responsibility, fairness, clarity and transparency**, our **governance, oversight mechanisms and policies**, on the basis of **our corporate governance approach.**

In our activities, we act **in line with all relevant local regulations**, including the “Communiqué on Corporate Governance”<sup>4</sup> of the Capital Markets Board (“CMB”), and consider many of the non-obligatory principles in this regulation as contributions to our corporate governance model and act with this awareness.

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4. The purpose and scope of the regulation is to determine the principles of corporate governance and principles and procedures on related party transactions, which shall be applied by corporations.

As Aydem Renewables, which is currently Turkey's **largest pure-play** renewable energy generation company by installed capacity, while continuing to generate the **Clean Energy of the Future**, and with our **sustainable, innovative and people-oriented** approach, we adopt a management approach that considers **environmental, social and governance** criteria in all our strategic and operational decision-making mechanisms for the future of our society and a more sustainable world, through various committees represented at the level of the **members of Board of Directors, General Manager, Assistant General Manager, Directors**.

### 1.2.1.1. The Board of Directors

For us, **corporate governance** refers to the way we manage, control and monitor the company and our activities.

The **Board of Directors**, which lead the **integration of our sustainability approach** into all business processes, is the **highest governance authority** responsible for tasks such as overseeing the company's sustainability performance, as well as defining strategic targets, defining the corporate governance strategy, detecting and allocating human and financial resources needed, monitoring the performance of management, and overseeing the company's compliance with legislation, its Articles of Association and internal regulations and policies. Environmental, social and governance criteria are also constantly monitored by the Board of Directors through Key Performance Indicators.

The Board of Directors currently consists of 8 members, six of whom are non-executive members. Four of the non-executive members are independent Board Members.

### 1.2.1.2. Committees

Our sustainability governance, which we embed in our corporate governance system and different aspects of which are handled by committees directly reporting to the Board of Directors ("BoD"), is an indicator of our **Company's integrated governance**.

### The Early Detection of Risk Committee (BoD Level Committee)

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Through the **Early Detection of Risk Committee** (BoD Level Committee), all risks, **including risks related to sustainability and climate change**, we monitor and ensure its management with their non-financial effects, including their effects on our **employees**, all our **stakeholders, society and environmental impact**, in addition to their financial aspects.

### The Board Investment Committee

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We take the most effective decisions for our renewable energy investments, by taking into account **environmental, social and governance criteria** in our investment assessment integrated in our **Board Investment Committee**. Due to the focus of our business, we contribute to **the fight against climate change and our sustainability approach** with every investment we make.

### The Board Sustainability, Environment, Occupational Health and Safety Committee

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We consider and thoroughly **evaluate issues related to our own operations and value chain** regarding sustainability through the **Sustainability, Environment, Occupational Health and Safety Committee**, which is a part of our robust corporate governance. We ensure the development and implementation of a safe behavior approach, including in the Company's **environmental regulations and activities** and by the Company's **sustainability, occupational health and safety** culture which includes its employees and all business facilities. At the same time, we inform the **Board Investment Committee**, the **Early Detection of Risk Committee** and the **Board of Directors** about preventative and remedial actions to ensure the implementation of sustainability principles, areas that may create opportunities, and operational results through the Committee.

### The Board Audit Committee

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Assurance is given by the **Board Audit Committee** regarding internal control environment and risk management system of Aydem Renewables.

### Occupational Health and Safety, Environment, Social Team

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We perform all power plant-based and operation-based sustainability assessments in cooperation with **Power Plant Sustainability Leaders** and our colleagues in the **Sustainability Management Team**. This is in addition to assessments conducted by other committees affiliated with our Board of Directors.

### 1.2.1.3. Our Policies

As a part of our governance model, we meticulously construct and implement our Company policies and management system. We ensure that our Committees work more effectively with the presence of our policies and, on the other hand, we standardize the management model within the Company.

The policies, that all functions within the company will benefit from, have been formed on the main and related sub-titles such as Risk Management, Sustainability, Environment, Compliance, Human Resources, Occupational Health and Safety and Information Security.

**Integrated Management System Policy:** We ensure that all internal processes support each other by our **Integrated Management System Policy**. We expect our employees to fully comply with all Company policies, otherwise we take the necessary actions immediately.

Our **Sustainability Policy**, which is a reflection of our understanding of sustainability and that we have created in order for our employees to converge to this understanding, covers all our activities and sustainability issues. It is a guidance document detailing how sustainability issues should be managed, taking into account environmental, social and governance criteria, remedial actions that can be taken and areas for continuous improvement. We aim to support the sustainable development and growth of our country by implementing this policy. **We touch every sensitive topic in the field of sustainability and determine the necessary criteria for their management with all our existing policies in addition to Sustainability Policy.**

Through our **Environment Policy**, we focus on adapting to the climate change fight, zero waste and supporting sustainability while working to do better for today and for the future in order to protect biodiversity, with the awareness that natural resources are limited. We continue to contribute to the **sustainable growth** of our country and to prepare **a better future for the environment, society and future generations with renewable energy generation.**

We accept the protection of the environment as a fundamental responsibility of its existence, beyond legal requirements by adopting a management approach that focuses on **"Respect for Human and Environment"**.

**Occupational Health and Safety Policy:** Within the framework of our Occupational Health and Safety Policy, issues related to employee health and safety are managed. This is one of the highest priority issues for our Company and is an indicator of our **"people-oriented"** business conduct. With our policy, it is aimed to develop the existing culture within the Company in this area, take proactive actions and manage processes that comply with all legal regulations.

**Human Rights Policy:** We commit to oversee the rights of the people living in the regions where we operate, to comply with national and international laws and regulations regarding Human Rights, to ensure that our business partners also comply, to make decisions in line with the United Nations Universal Declaration of Human Rights in all our investment activities and operations involving these activities, and to organize our activities accordingly, among our employees, not to tolerate discrimination under any circumstances, to value the differences of our employees, to embrace diversity in order to achieve our goals, to provide equal rights for all our employees and to plan equal opportunities, to support women's participation in the workforce, to improve the gender balance in the decision-making mechanisms of our companies, and to promote women in our company's Board of Directors and senior management, to increase the rate of employment, to support the right of our employees to freedom of expression in the workplace by enabling cooperation with non-governmental organizations, not to allow the violation of the safety and health principles of our employees and to take the necessary precautions, to be sensitive to the environment for a liveable and green world, and to consider the principle of nature protection as a priority in all its activities.

### 1.2.2. Stakeholders' Communication

The opinions of our stakeholders, beyond our sustainability priority analysis, are one of the factors that form the basis of our Company's strategy and objectives.

With this approach, **we communicate with our stakeholders regularly, listen** to their opinions and **accept** their requests within the scope of our prioritized issues, business model, targets and performance, and seek to understand their expectations. More importantly, we want to meet those expectations with our decisions of investments, transformation and business.

### 1.2.3 Aydem Renewables and the UN Sustainable Development Goals (UNSDGs)

While determining our **"always go forward"** motto that is in connection with our corporate strategy within our sustainability approach in line with the **United Nations Sustainable Development Goals (SDGs)**. **We contribute as much as possible to the 17 goals of the SDGs**, which were defined by the United Nations in 2015, and we encourage ourselves to **"always go forward"** in this field. In connection with our sustainability approach, activities, vision and goals, we take SDGs to which we contribute directly or indirectly, as a guide in all our sustainability activities. We know that, in order to realize SDGs that bring together many goals such as **increasing global welfare, ensuring inclusive economic growth and the transition to clean energy, eliminating inequalities in every sense, protecting the ecosystem and resources**, it is of great importance to implement activities that serve purposes such as the **transition to a low carbon economy, combating climate change, conscious production-consumption and protecting our planet**. We, too, act with awareness of Aydem Renewables' responsibility, both in terms of our business conduct and our vision, in order to achieve our goals.



Our company has embraced and directly or indirectly contributed to **10 Sustainable Development Goals** that reflect the 17 Sustainable Development Goals (SDGs) of the United Nations.

### 1.3 Rationale for Issuing Green Financing Instruments

Currently we are Turkey's largest pure-play renewable energy generation company by installed capacity. In order to contribute to the sustainable growth of our country and to create a better future for the environment, society and next generations with renewable energy generation, and to create more value for all our stakeholders, we aim to increase our installed capacity from 1,020 MW to 2,000 MW in the next five years.

We believe that green bonds / loans financing our activities will highlight our sustainability objectives very effectively and provide fixed income investors and lenders with a further tool to assess our progress in contributing to climate change mitigation as well as benefitting the society. Aydem Renewables' Green Projects contribute particularly to the objectives of Climate Change Mitigation and Climate Change Adaptation. We hope the issuance of our Green Financing Instruments will inspire other similar companies to do the same.

## 2. Green Financing Framework

### Alignment with the Green Bond Principles and Green Loan Principles

As part of our continued commitment to sustainability, Aydem Renewables has developed this Green Financing Framework (the "**Framework**") in accordance with the Green Bond Principles 2021<sup>5</sup> ("**GBP**"), administered by the International Capital Market Association (ICMA), and the Green Loan Principles 2021<sup>6</sup> ("**GLP**"), administered by the Loan Market Association (LMA), under which Aydem Renewables can issue Green Financing Instruments.

Green Financing Instruments include Green bonds, Green loans, Green hybrid bonds, green convertible bonds, Green private placements, Green project finance and any other financial instrument where the proceeds can be exclusively allocated to finance or re-finance in part or in full new and / or existing Eligible Green Projects as defined in this Framework.

For each Green Financing Instrument issued, Aydem Renewables will adopt the following as set out in this Framework:

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

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5. ICMA Green Bond Principles 2021 – <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

6. LMA, APLMA, and LSTA Green Loan Principles 2021 – <https://www.lsta.org/content/green-loan-principles/>

This Framework also describes the approach to External Review.

As the Green Bond Principles, the Green Loan Principles, the EU Taxonomy and the green financing market overall are evolving rapidly, this Framework may be updated or expanded in the future. Any future updated versions of this Framework will either keep or improve the current levels of transparency and reporting disclosures, and will replace this version of the Framework.

## 2.1 Use of Proceeds

Aydem Renewables intends to apply an amount equivalent to the net proceeds from any Green Financing Instrument issued by it to finance or refinance, in whole or in part, new and/or existing projects and/or assets meeting the eligibility criteria set out in the table below ("Eligible Green Projects").

In the case of refinancing existing Eligible Green Projects, investments and expenditures which have been made within a three-year period preceding the year of issuance of a Green Financing Instrument shall be considered for inclusion as Eligible Green Projects.

Eligible Green Project Category	Eligibility Criteria	Alignment with the EU Environmental Objective <sup>7</sup>	Alignment with the UN SDG targets <sup>8</sup>
<b>Renewable Energy</b>	<p>Financing related to the acquisition, development, operation and maintenance of renewable energy activities, projects, assets and associated –research &amp; development / construction / production / maintenance costs, including:</p> <ul style="list-style-type: none"> <li>• Production of hydroelectric energy, where necessary environmental and social impact assessments are undertaken and no significant controversies are identified.</li> <li>• Production of wind, solar and geothermal energy</li> <li>• Land acquisition and leasing as part of project development</li> <li>• Purchase of renewable energy applications and technologies and associated equipment</li> <li>• Construction and maintenance work</li> </ul> <p><b>Eligibility criteria:</b> For solar, wind and hydro energy, facilities operating at life cycle emissions lower than 100gCO<sub>2</sub>e/kWh, declining to 0gCO<sub>2</sub>e/kWh by 2050, are eligible. For geothermal energy facilities operating with direct emissions lower than 100gCO<sub>2</sub>e/kWh are eligible.</p> <ul style="list-style-type: none"> <li>• This threshold will be reduced every 5 years in line with a net- zero CO<sub>2</sub>e in 2050 trajectory</li> <li>• Assets and activities must meet the threshold at the point in time when taxonomy approval is sought</li> <li>• For activities which go beyond 2050, it must be technically feasible to reach net-zero emissions</li> </ul>	<p><b>Climate Change Mitigation</b></p> <p>3.1. Manufacture of renewable energy technologies</p> <p>4.3. Electricity generation from wind power</p> <p>4.5. Electricity generation from hydropower</p> <p>4.6. Electricity generation from geothermal energy</p>	 <p>SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all.</p> <p>SDG 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix.</p> <p>SDG 7.3: By 2030, double the global rate of improvement in energy efficiency.</p> <p>SDG 7.a: By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.</p>

7. Aydem Renewables has additionally included a high level alignment with the list of activities included in the EU Taxonomy Climate Delegated Act (Annex 1):

[https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en)

8. UN Sustainable Development Goals <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

## 2.2 Project Evaluation Process and Decision

The process for the evaluation and selection of Eligible Green Projects uses internal expertise:

- Adherence to the use of proceeds requirement, i.e. the definition of Eligible Green Project in accordance with the eligibility criteria in this Framework, will be confirmed by the relevant Business department(s) within the Company.
- The project fulfilment with Aydem Renewables' Sustainability policy and the absence of any material ESG controversies will be confirmed by the Company's Sustainability, Health, Safety and Environment teams.
- The list of selected Eligible Green Projects will be established by the Company's Business and environmental teams, based on internal expertise, and submitted to the Finance Department for validation and selection.

All Eligible Green Projects undertaken by Aydem Renewables are also subject to the following process and approvals:

- Legal and Compliance team review new projects and give an opinion regarding legal/regulatory requirements.
- Project-based Risk assessments are performed, and risks and opportunities are evaluated by the Risk Management Department by taking into account Sustainability and ESG risk issues.
- Chief Financial Officer and General Manager submit the project to the Board Investment Committee in order for an investment decision to be taken.

- The Investment Committee evaluates the Investment Project proposals and reports its evaluation and proposal for the relevant investment to the Board of Directors. The relevant reporting is prepared by taking into consideration the project fundamentals and feasibility analyses, project financing analyses, budget approval and investment criteria.
- The Board of Directors is authorized to make investment decisions regarding Investment Projects. However, the Board of Directors cannot take an investment decision on the relevant Investment Project without the opinion of the Investment Committee.
- KPI results of the investment project and the actualized internal rate of return of the investment project are monitored and reported to the company management and Investment Committee and Board of Directors periodically.
- The action plans in the project-based Risk Assessments are monitored by the company management, Board Investment Committee, Early Detection of Risk Committee (BoD Level Committee) and Board of Directors.

Investment Projects must be carried out in accordance with the following exclusionary criteria:

- i. Not investing in power plants using fossil fuels for power generation;
- ii. Not making investments that do not comply with the Company's sustainability, environment, occupational health and safety, governance and social policies;
- iii. Not having any conflict with obligations under existing agreements, including loan agreements;
- iv. Any asset under construction, development and/or construction has an internal rate of return (IRR) of not less than 10%;
- v. The investment amount of any asset is not more than 20% of the Total Asset Value<sup>9</sup> excluding investments that are considered to have a strategic and significant impact on the long-term policies and growth plans of the Company;
- vi. The total investment amount of the assets under construction is not more than 25% of the Total Asset Value;
- vii. Avoiding concentration of counterparty risk by ensuring that revenues from a single customer are not more than 30% of total revenues;
- viii. Not investing in projects with an adverse impact on UNESCO World Heritage sites or areas designated for nature conservation. (e.g. Wetlands of International Importance under Ramsar Convention) and
- ix. Not investing in projects involving in child labour and forced labour.

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9. "Total Asset Value" means the total asset value stated in consolidated most recent financial statements of the Company.

## 2.3 Management of Proceeds: Allocation Process and Register

The company's financing transactions are carried out on the basis of the Board of Directors' authorization.

### System of tracking the funds

An amount equivalent to the net proceeds of the Green Financing Instruments will be recorded in the Company's financing (Treasury/Financial Affairs Department) accounts. The Treasury team intends to allocate an amount equal to the net proceeds from the Green Financing Instruments to Eligible Green Projects. Pending full allocation, the net proceeds of the Green Financing Instruments will be kept in the cash and cash equivalents account in accordance with our internal liquidity/cash flow policy.

Proceeds are expected to be fully allocated within 24 months of issuance to new projects and / or refinancing of existing projects identified under the use of proceeds section above. For the avoidance of doubt, any net proceeds will not be invested in fossil fuel related projects.

## 2.4 Reporting

For each Green Financing Instrument, Aydem Renewables commits to publish an allocation and impact report annually, and until full allocation of the proceeds, and in the event of any material changes until the maturity date of the relevant instrument. The allocation and impact report will be made available in Aydem's annual Sustainability Report, to be published on its website.

Additional impact data on the key performance indicators below may also be disclosed in Aydem's interim and annual operational reports.

### Allocation Reporting

Aydem Renewables will provide information on the allocation of the net proceeds of its Green Financing Instruments. The information will contain at least the following details:

- The total amount of net proceeds allocated to Eligible Green Projects;
- Breakdown of allocation of proceeds by Eligible Green Project;
- Breakdown of allocation between refinancing and financing; and
- Any unallocated proceeds.

### Impact Reporting

Where possible, Aydem Renewables will aim to provide the following impact metrics as a part of its annual reporting.

### KPIs regarding Renewable Energy Generation

- Capacity of renewable energy plants constructed or rehabilitated in MW
- Expected renewable energy generation (GWh/year)

### KPIs regarding Energy Efficiency

- Annual energy savings in MWh/GWh (electricity)
- Investments for energy optimization

### **KPIs regarding Project Management**

- Completion percentage of Eligible Projects

### **KPIs regarding New Area Consumption**

- New area usage for Eligible Projects

### **KPIs regarding biodiversity protection**

- Number of Environmental Risk Assessments in the context of Eligible Green Projects

### **KPIs regarding Complaints regarding Eligible Green Projects from Society**

- Number of fair complaints received

### **KPIs regarding Government / Local Authority Approval**

- Number of completed local/ Government authority approvals

## **2.5 External Reviews**

### **Pre-issuance:**

Aydem Renewables has retained Sustainalytics to provide a Second Party opinion on the Green Financing Framework, to confirm alignment with the GBP 2021 and GLP 2021 The Second Party Opinion is available at:

<https://www.aydemyenilenebilir.com.tr/sustainability>

<https://www.aydemyenilenebilir.com.tr/investorrelations/reports-and-presentations>

<https://www.aydemyenilenebilir.com.tr/investorrelations>

### **Post-issuance:**

Aydem Renewables will request on an annual basis, starting one year after issuance and until full allocation, an assurance report on the allocation of the Green Financing Instrument proceeds to Eligible Green Projects, provided by its external auditor.