Governance Manual

Contents

List of the abbreviations

Abbreviation	Definition
Manual	Governance Manual
SB	Supervisory Board
BoD	Board of Directors who serve on the Supervisory Board
Company	Companies under CCEF's Portfolio
Project	Lakhami HPP and Akhalkalaki HPP projects collectively as well as individually
Management	The list of the positions that are collectively referred as Management is seen below: • General Director • Technical Director • ESG lead • Financial Director
MC	Management Committee as defined in 2.3. Key individuals from the Management and the Fund team
Fund	Caucasus Clean Energy Fund that owns c. 82% and 72% stakes in AGD and AIS LLCs respectively
Fund team	Key individuals form the Fund team: • Technical lead • ESG lead • Operations Lead • Finance Lead
MW	Megawatt

1. Purpose of the Governance Manual

The Governance manual (the "Manual") serves as a basic framework and ensures that:

- Resources are utilized efficiently
- There is a clear delineation of the roles as well as responsibilities between the management and the Fund team
- There is a good governance practice that ensures diligent decision-making process, cultivates accountability, and minimizes the principal-agent conflict of interest
- Heighted check and balance instruments are in place to minimize future uncertainties and reduced likelihood of unforeseen events as well as event reversal risks
- Best course of the actions is done to meet agreed-upon goals and objectives
- There is a heightened scrutiny on each aspect of the project development related to technical, ESG, financial and legal
- Produced reports and records are standardized, accurate and reliable
- There is an effective control by the Management, the Fund and the BoD over project development timeline and budget.

The Management is responsible for implementing this governance manual while the SB and Management Committee as well as the Fund team (namely, Technical, ESG and Operations leads) are responsible for overseeing the efficient execution.

2. Governance

2.1. Supervisory Board (SB)

The Role of the Supervisory Board

The project is governed by a hierarchical governing structure. The two-tier system is comprised by a supervisory board as well as management committee. The role of the supervisory board is to oversee the development of the project and ensure that:

- The Management acts in line with their fiduciary duties
- All efforts are made to develop the project with highest integrity, responsibility, and accountability
- Management implements and follows the strategy defined and decisions made by the SB
- All ongoing activities are in line with the goal to develop the project in the most efficient manner.

Election of Supervisory Board Members

Supervisory board members are elected by the Partners at a General Meeting for the term of two (2) year. After expiry of the term of any SB Member, his/her powers shall be extended until the election of a new SB Member. In the event of the resignation, retirement or vacation of office of the Nominee, the relevant Partner(s) shall be entitled to nominate another person in place of such Nominee and the Partners shall ensure that such nominee is promptly appointed and ratified as a SB Member

Partners must appoint SB Member based on suitability for that vacancy, at a General Meeting, regardless of race, color, ethnic or national origins, disability, age, gender (including pregnancy), marital status or sexual orientation. SB Member must ensure that they comply fully with the organization’s equal opportunities policy.

Schedule and Frequency of the SB Meetings:

Supervisory Board meeting are held quarterly.

Date of the Supervisory Board meeting is agreed during the previous meeting. Presentation describing reporting period is covered during the SB meeting which is sent to other attendees 5 days before the meeting.

Content of the SB presentation:

The presentation for the board meeting is developed by the project team. The deck should cover development over the reporting period and incorporate:

- Key developments regarding technical, ESG, financial, commercial, legal, administrative, HR etc. over the reporting period
- Project development schedule with focus on the items on the critical path
- Consideration regarding the most critical items
- Detailed analysis of the potential risks as well as mitigation tools
- The presentation may also cover the updates on the material events that have been incurred before the reporting period but will have its implication on the present/future period.

This will allow the BoD to make decisions based on the latest information and ensure that project development is closely watched by the second-tier governing body.

Decision making power of the BoD:

All key decisions pursuant to the Article of the Company are approved by the BoD.

Management should present an updated budget to the BoD during each meeting with detailed Budget versus Actual (“BvA”) analysis and expected cash needs over the remaining period.

Each new budget item as well as any negative deviation from the budgetary item should be approved by the Board. Thus, (i) insertion of any new items or (ii) accepting of negative deviation should be presented before the Board for approval.

The Management has the full discretion to utilize the approved budget and make adjustments related to timing, payment arrangement etc. provided that the total sum is unchanged over the remaining time of the construction period.

For the sake of efficiency SB may delegate specific decision towards either the Management or the Management Committee. The delegation should specifically subject, allowable deviation and term of validity.

To ensure effectiveness of the process and avoid need of extra checks with the BoD, the Management and Management Committee might be empowered with the authority to act on behalf of the SB provided within predetermined deviation limits (e.g. cost may deviate +/- US$ 50k).

The Management is responsible to consider the need of such approval beforehand and seek such delegation from the BoDs during the SB meetings.

2.2. Board Independence Statement

Key element of successful and effective corporate governance is maintaining a board of directors and key management persons independent, ensuring unbiased oversight and decision-making procedure in the best interest of all stakeholders within the organization. Thus, stringent criteria were established for evaluating the independence of directors:

- **Employment History:** The director must not have held an executive position within the company during the past years.
- **Family Members and Employment:** The director must not be related to anyone who is an executive officer in the company or any of its parent or subsidiary entities.
- **Customer or Supplier Affiliation:** The director must not have affiliations with any significant customer or supplier of the company.
- **Not-for-Profit Affiliation:** The director must not be connected to a not-for-profit organization that receives substantial contributions from the company.
- **Other Conflicts of Interest:** The director must not have any other conflict of interest that the board deems inconsistent with being considered independent.

2.3. Management Committee

In line with the two-tier governance practice there is a Management Committee ("MC") that consists of key individuals from the Management as well as the Fund team:

- General director (the Management)
- Technical director (the Management)
- Admin team member responsible for Document Control Centre ("DCC")
- Technical Lead (the Fund team)
- ESG Lead (the Fund team)

MC is called by the Management and represents an internal periodic forum to discuss important matters and enrich the decision-making process with different perspectives from technical, ESG, financial, compliance angles.

MC acts within the approved budget limits defined by SB, However, SB within its sole discretion can delegate specific task with allowable deviation limit as well as predetermined terms in case there is a need of an urgent action. An illustrative case is as follows: MC can select the service provider from the shortlisted company within 45 days and final cost may deviate from the approved budget by US$ 50k (2.5%).

2.4. Management of the Company

The Management has the key role in the project development with the full discretion to manage the project, lead daily operations of the Company with the goal to ensure efficient development of the project and simultaneously steward the shareholders interest as much as practicable.

The Management should conduct risk management audit periodic and/or ad-hoc basis associated to the project development phase (risks correlated to projects are indicated in Risk Management section 10.0) and present it to Management Committee if needed.

The Management should always act in the best interest of the company as required by the fiduciary duty and being accountable toward the Fund and Shareholders.

3. Technical Section

Due the long-term nature of the business each decision made “today” has a multiyear implication on each project and its profitability.

Efficient development significantly increases the likelihood of success; however, inefficiency can be easily translated into the irrecoverable “heritage”.

The efficiency of the decisions could be measured using Cost-Benefit Analysis as described later.

Each key decision should be weighed up by the cost consequences (value for money analysis) reported either to the Fund Technical lead or discussed during the MC meetings. An illustrative and non-comprehensive list of the material decisions is listed below:

- Contractor selection above the contract price of US$ 50k,
- Technical monitoring
- The Fund Technical Lead should be always reported about the key changes and decisions around the project developments.

Optimization of the development schedule is an equally important task for the Company. This could be achieved through two-step approaches only:

- prepare as realistic and holistic working process and increase efficiency as possible,
- continuously improve the working process and increase efficiency based on the further cost-benefit analysis.

During the pre-construction as well as construction phase the Management is responsible to submit monthly reports including:

- progress update for each key dimension
- updated project development strategy as well as actual-vs-planned analysis
- H&S aspects related to the project development.

4. ESG Section

The Fund has a laser-like focus on ESG and is pioneering to implement in the local market, the highest ESG standards aligned to the good international practices. Commitment towards the highest ESG standards is ensured by the Environmental and Social Management System (ESMS), implementation of which is checked by the external ESG consultant, as well as ESMS audit and the Fund’s investors through regular reporting.

The Fund has adopted Environmental and Social Management System (ESMS) to be adhered to by the portfolio companies while managing daily operations and ensure in compliance with the indicated practice

The ESG serves as a cornerstone to ensure that project development is de-risked from environmental and social risks and “social license to operate” is obtained and maintained over the lifespan of the project.

ESG is obtaining increased interest globally and exponential growth over the recent years is expected to become even more persistent. These dynamics create an additional requirement before the Company, however on the flip of the coin, these trends create a tremendous opportunity to for the first movers to meet the ongoing market dynamics, and exploit associated positive externalities.

The following reporting and meeting schedules to ensure efficient information flow within the Company and the Fund are established:

- Weekly and monthly ESG reporting to Fund ESG Manger by the company’s ESG Manager, provided based on the template approved by the Fund
- Weekly H&S reporting illustrating all the developments around the project
    - Technical lead to be also copied in the distribution list,
- Monthly ESG reporting to the Fund by the company, provided based on the template approved by the Fund
- Weekly ESG meetings attended by the Fund’s ESG manager and facilitated by the company’s ESG Manager, which cover key updated on the week. Those meeting could also be attended by extended ESG team, technical and PR team members
- ESG is also key discussion topic of the Supervisory Board meetings as well as weekly Management Committee meetings.

Management is responsible to ensure that:

- H&S is strictly followed and all personal on-site is insured,
- The contractor and sub-contractors are in compliance with ESG standards set by the Fund
- Mitigate any reputational risks.

5. Financial Section

The financial reports include financial statements, project budget and Budget vs Actual (“BvA”) analysis that are necessary to enable the management to assess the Company’s financial position and financial performance. The simple premise of the reporting is to provide a useful information in making decisions about providing / allocating economic resources including, but not limited to, equity and debt instruments.

A detailed and fully articulated framework of the financial statements is a separate document (Financial Manual) that guides the development of the detailed financial reporting.

The globalization of capital flows and active involvement of foreign investors require reporting to be done in line with IFRS standards.

The standard set of the financial reporting is mostly focused on the historical performance and, as said earlier, aims to present faithfully the information; however, considering the development stage of the project, there is an enhanced importance of the accurateness of the budget and cash projections.

The key individuals in the team severally and collectively are responsible for providing the best estimation about the further development schedule as well as cost items. The financial team is translating the information into the numbers, but key inputs are delivered by the team, thus, budget preparation is the team-wide exercise. This does not release the finance team from being primarily responsible for making as efficient checks as practicable. Indeed, there might be some uncertainty about the future transactions, that necessitate judgment in estimates.

The non-exhaustive list of the key financial information to be prepared by the team as well as timeline is as follows:

- Cash budget[1] within 5 days from the month-end
    - Detailed BvA analysis illustrating detailed variance analysis for each key line items
- Full set of the financial statements within 15-20 days from the month-end
- Preferably Monthly (but at least quarterly) reconciliation with the customer
- Debt schedule with detailed information about accrued interest and principal repayment for the reporting period, including market reference rate ("MRR") dynamics
- Capital accounts must include summary of the cash inflow from the shareholders.

6. Legal Section

The Management has a role and responsibility to ensure that (i) the projects are in compliance with the legal contractual or legislative requirements and (ii) interest of the Company is guarded by the contractual terms to the extent of practicality, (iii) there are effective controlling mechanism to ensure legal obligations including deadlines are diligently monitored. The goal is to ensure that, at best, risks are transferred from the Company and, at worst, retained risks are monitored well and early identifiable measure are in place.

The Management has the discretion to address legal matters within their capacity; However, important legal matters could be outsourced and discussed with external legal counsel upon discretion of the Director and/or MC.

It always includes a component of judgement to determine whether the matter is "too important" or material. The Management should consult with the MC whether the item could be insourced or needs external support.

7. HR Section

The management has the discretion to compose the team and allocate tasks within the team under their sole discretion.

[1] US$ is the presentation currency of the budget; Fx rates used while translating items in US$ must be presented separately.

Recruitment / termination

The candidate with the respective qualification is nominated by the Management. The Fund team members within their competence should be involved in the recruitment process including interviewing meeting (Technical, ESG or Financial leads must attend the interviews with candidates for technical, ESG and finance teams, accordingly).

Any recruitment for managerial positions should be presented to and approved by SB, while employment for non-managerial positions should be approved by MC upon nomination by the Management.

The Company must recruit the most suitable person for each vacancy, regardless of race, color, ethnic or national origins, disability, age, gender (including pregnancy), marital status or sexual orientation. Employee involved in the recruitment process must ensure that they comply fully with the organization's equal opportunities policy at every stage of the recruitment process.

The Fund HR has a right to be involved actively in the recruitment process including assistance is section candidates and as well as participating in the interviewing process.

Any monetary incentive (either through an increase in payroll and/or finance development activities) should be included in the budget of the project. Wherever possible, existing employees will be invited to apply for promotion opportunities when a suitable vacancy arises. Any deviation beyond that limit needs to be presented before and approved by the Supervisory Board.

The Company has implemented performance development system for the staff in order to identify, set and review the personal and professional development target of the staff

The Company must have a HR registry including key information of the employee. The registry should be aligned with the local legislation reading the protection of the personal information.

Salary Policy

It is the objective of the Company's remuneration structure to establish competitive levels of salary which reflect market practice across all functions.

There is no contractual entitlement to a pay increase. There is likely to be differentiation in the level of adjustments from time to time and from person to person

Job Promotion Policy

Promotion to a job with more seniority may receive a salary adjustment to reflect the increased responsibilities of a particular role. It is also possible to receive a salary adjustment in the absence of a promotion should an employee's performance or market conditions merit such. Conversely, it is possible to obtain a promotion absent a salary adjustment

Promotion within the Company is based on merit and without regard to race, color, ethnic or national origins, disability, age, gender (including pregnancy), marital status or sexual orientation.

Equal Opportunities

Companies is committed to providing equal opportunities in employment. This means that all job applicants and employees will receive equal treatment regardless of race, color, ethnic or national origins, disability, age, gender (including pregnancy), marital status or sexual orientation

8. Government Relations

The management has the discretion to have a strategic discussion related to the project development with the central as well as local government. The non-exhaustive list of the items that needs the constant and timely communication with the government includes: MoUs, construction permits, EIAs, Forest usage permits, etc.

The management of the Company should immediately raise any key concerns in the process of GR to the Fund though MC and board meetings to seek for the support from the Fund to ensure the efficient development of the project, manage the bureaucratic burden and expedite the process to the extent possible.

9. Cost Benefit Analysis

The ultimate goal of the Company is to build any project as efficiently as possible. Efficiency is determined by the following key components such as: time, cost and quality.

Although these 3 components are contradicting to each other at one sight, there is always a prudent balance where they are becoming complements rather than supplements.

The tool to see the optimal intersection is Cost-Benefit and/or Pros-Cons analysis.

With this background any material decision should be backed by Cost-Benefit and/or Pros-Cons analysis. The analysis should include quantitative as well as qualitative analysis.

The template of the analysis widely depends on the topic under discussion but there are must items to be covered under the consideration:

- List of the variable used in the analysis (aka key variables),
- Potential benefit (in terms of absolute numbers as well as PV terms),
- Best estimation of the cost (initial outlays as well as potential periodic expenses),
- Net benefit analysis (in terms of absolute numbers as well as PV terms),
- Break Even Point analysis,
- Sensitivity analysis (and probability weighted simulations, if feasible) illustrating how outcome is affected by changes in the assumptions.

It is preferable to measure each aspect in terms of numerical items as much as possible If this is not possible, judgement is required.

The benefit of this approach goes beyond the format of the analysis and assists the project to explore several alternatives, identify not only directly observable outcomes but also analyze potential externalities as well, foresee cause and effect implications and, thus, select the soundest option.

The Fund team has the right to ask the Management to revise Cost-Benefit Analysis if the latter lacks diligence and important qualitative and/or quantitative aspects. If so, the Management has to revise the analyses and submit revised analysis within 3 working days after the revision request

10. Risk Management

This is the direct responsibility of Management as well as Supervisory Board to ensure that there are effective mechanisms for Loss Prevention as well as Loss Reduction.

- Loss Prevention is the process of taking actions to reduce the probability that a loss event will occur.
- Loss reduction is the process of seeking to reduce the size of a loss if a loss event occurs.

The risk management matrix below shows the risk tolerance of the Company as a function of the frequency and severity. The matrix can be used to decide:

- when it is appropriate to accept (retain) risk,
- when it is best to reduce the potential magnitude (or severity) of the risk, and
- when it makes sense to transfer risk.

Risk Management Matrix		
Loss characteristics	High frequency	Low frequency
High severity	Risk avoidance	Risk transfer (insurance)
Low severity	Risk reduction	Risk retention

- **Risk avoidance:** assumes removal of the possibility that an event involving loss will occur,
- **Risk transfer:** involves insurance companies that are too risky for the project,
- **Risk reduction:** small-magnitude risks with low threat to provide material adverse impact will be retained (i.e., self-insured),
- **Risk retention:** risk clearly falls below the materiality threshold and could be retained over the normal course of the business.

Case-specific needs analysis should be run to classify the event and the magnitude/severity reduced to the point where the expected cost is equal to the expected benefit.

As a rule of thumb, benefit from the risk mitigation activity should exceed the foreseen cost / threat that could be provided by the specific event.

The management has the discretion to classify the events under the Matrix and can be presented to the Supervisory Board for further approval if needed.

Risks Associated to Project Level

In addition to this, the company may bear the following risks associated to the project development phase:

- **Business risk:** represents variability of operating income that arises from both firm-specific risk factors and industry risk factors. It can be drilled down with two aspects
  - **Sales risk –** refers uncertainty about the firm's sales. In hydropower industry, it is associated to unfavorable generation patterns and volatility of the electricity prices (determined by demand & supply curves).
  - **Operating risk –** refers to the additional uncertainty about operating earnings caused by fixed operating costs. The greater the proportion of fixed costs to variable costs, the greater a firm's operating risk. Hydropower industry has a high degree of operational

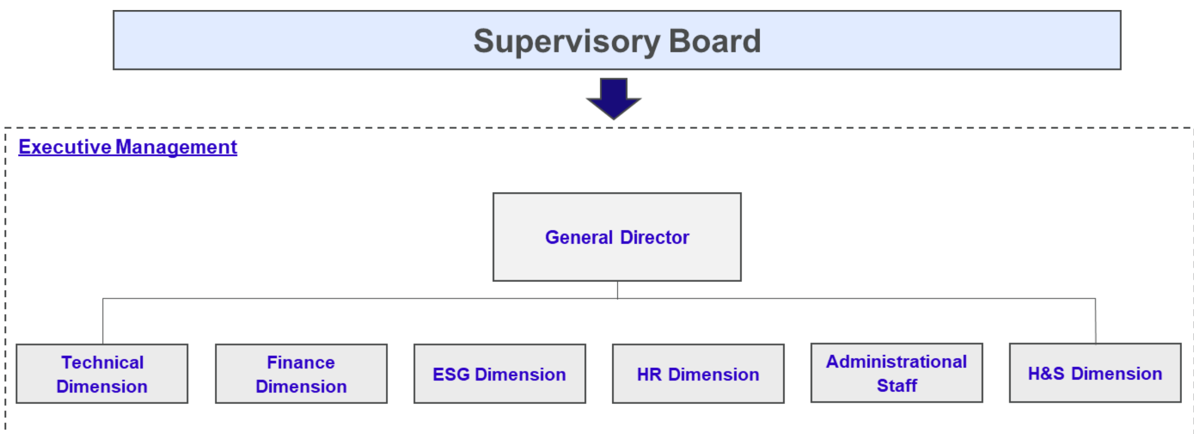
leverage, which means that most of the expenses are fixed by nature and are not linked with the revenue. Therefore, there will be an asymmetrical increase in revenue and operational cost structure.

- **Counterparty risk** – refers probability that one of the party in a transaction might default on its contractual obligation. Providing that, the main product for the company is an electricity, firm requests to its buyer's bank guarantee and/or requests advance payment scheme

- **Financial risk:** systematic risk of being exposed to interest rate risk that is borne by the firm. Interest expense is accrued periodically and paid with principal amount. The greater the proportion of debt in a firm's capital structure, the greater the firm's financial risk.
  - **Solvency risk** – this is the risk that the organization will be unable to continue to operate because it has run out of cash.
- **Market risk:** uncertainty about market prices of assets
- **Liquidity risk:** this is the risk of loss when selling an asset at a time when market conditions make the sales price less than the underlying fair value of the asset.
- **Regulatory & Political risk:** this is the risk that the regulatory environment will change, imposing costs on the firms or restricting its activities. Furthermore, aggressive political actions both internally and externally may deteriorate firm's sustainable operations

10.1. Structural Independence

Organizational Chart



While each and every Dimension have its own Managers/Leads, they are also audited by either third parties or management team.

- Technical and H&S Dimension – The executive management team conducts internal inspections to ensure that the asset is operational and functioning efficiently and all H&S requirements are in place and strictly followed
- Finance Dimension – Each year, a financial audit is carried out by one of the top four audit firms.
- ESG Dimension – Audit of Environmental & Social Management System (ESMS) is provided by independent auditor, also regular monitoring are undertaken by the Fund ESG Manager.

The absence of any Supervisory Board member from the Executive Management Team indicates a clear separation of roles, with the CEO and Chairperson/Board member roles being entirely distinct. Additionally, the CEO presents decisions, which may or may not be approved by the Supervisory Board.

11. Enforcement of the Governance Manual

The enforcement of the Manual is up-to-date, though it undergoes annual revisions