



**LG Energy Solution, Ltd.**

**GREEN FINANCING FRAMEWORK**

**February 2023**

## 1. Background

Incorporated in December of 2020 after split-off from LG Chem, LG Energy Solution (“LGES” or the “Company”) has been with the EV market since its inception and has grown into a global company with almost 30,000 employees across the world.

LGES is primarily engaged in research, development, manufacture, and sales of battery-related products applied to electric vehicles (EVs), energy storage systems (ESSs), IT devices, power tools, and light EVs. LGES has established extensive production, sales, and R&D networks with automotive OEMs as the major buyers.

The company has production sites across the globe, commanding approximately 24% global market share in battery production as of 2021 year-end. As of 3Q 2022, LGES recorded cumulative sales of KRW17tn and operating profit of KRW976bn.

With a mission to provide diverse energy solutions, LGES continues to drive innovation and strengthen its core competencies for optimal product solutions. LGES aspires to create a sustainable and better future and will lead the green energy industry through its distinguished technology.

### LG Energy Solution’s ESG Strategy

LG Energy Solution aims to become an eco-friendly company that prioritizes environment, fulfills its social responsibilities, and creates sustainable future values in its business activities. To this end, we established an ESG vision of “We CHARGE toward a better future,” selecting and promoting 8 critical areas related to the environment, human rights, safety, and society, as well as four key areas including climate action, closed-loop recycling, human capital, and responsible supply chain management. By 2030, we plan to focus on managing four key areas by converting to 100% renewable energy, reusing waste batteries, eliminating human rights risks, and establishing a clean and transparent supply chain for raw materials and batteries that consider environment and human rights.

#### 1. Climate Action: Achieving Carbon Neutrality by 2050

LG Energy Solution is a leading company that plays a pivotal role in transition into a carbon-neutral society. We seek to take initiative in addressing global climate change by reinforcing our cooperation with partners to decrease energy use and greenhouse gas emissions at business sites, as well as to reduce carbon emissions in the battery industry in general. As part of our initiative to achieve carbon neutrality by 2050, we plan to convert 100% of electric power used at every domestic and overseas business site to renewable energy by 2030.

#### 2. Circular Economy: Establishing a Closed Loop by 2025

With the rapid growth in the electric vehicle battery market, millions of tons of batteries are used every year, resulting in a steady increase in the number of used batteries. LG Energy Solution is developing ways to reuse these batteries for ESS. To minimize environmental contamination and create a closed loop of resources, we are conducting various research projects to recycle waste batteries generated from manufacturing of batteries.

### 3. Human Rights Management: Creating Risk-free Business Sites for Human Rights

LG Energy Solution recognizes that respect for human rights is the most critical element of business. Based on our management philosophies "People-oriented Management", we established and declared "Global Human Rights and Labor Policy" founded on guaranteeing and respecting human dignity and rights to freedom and happiness.

### 4. Human Capital Management: Promoting Diversity, Equity and Inclusion

LG Energy Solution pursues a culture that respects 'diversity' of individuals and does not tolerate any form of discrimination based on individuals' differences; that ensures 'equity' in access, opportunity, resources and power to thrive; and that embraces 'inclusion' based on mutual understanding, respect and trust. With the development of company-wide "Diversity, Equity and Inclusion Policy," as of January 2023, we endeavor to fulfill its commitment toward a sustainable future that is more diverse, equitable and inclusive across all global sites and for all our members, and to bring sustainable value for society by developing and implementing programs tailored to national and local context..

### 5. Product Stewardship: 100% Green Products by 2022

LG Energy Solution is committed to provide environmentally friendly materials and solutions to customers, creating a sustainable future for all. To this end, we provide efficient and valuable solutions in environmental and economic aspects throughout the entire production process – from R&D to disposal of batteries.

### 6. Advanced Environmental Health and Safety: Zero Environmental Safety Accidents

LG Energy Solution is building and operating a comprehensive environmental safety and health management system based on ISO14001 and ISO45001 standards. Fully understanding the significance of these elements, we are taking robust initiatives to prevent accidents.


### 7. Responsible Supply Chain Management: Advancing Due Diligence on Critical Raw Materials

LG Energy Solution has established a code of conduct that suppliers must follow since 2016. It stipulates regulations on human rights, labor rights, ethics, environmental sustainability, and responsible mineral procurement that suppliers must comply with to operate sustainable supply chains. We implement the code from selection stage for new suppliers to verify adequacy of their respective supply chain management system and effectively supervise supply chain risks.

### 8. Shared Growth and Greater Impact on Local Communities

LG Energy Solution strives to create a battery ecosystem that grows together with its suppliers as we believe that our competitive edge hinges on that of our suppliers. Furthermore, through efficient use of energy, we fully utilize our capabilities to solve various local community issues and endeavor to bring about positive change.

## LG Energy Solution's UN SDGs-Linked Activities

Sustainable Development Goals	Description	LG Energy Solution's Activities
 No Poverty	End poverty in all its forms everywhere	<ul style="list-style-type: none"><li>Activities designed to support local communities, such as the welfare fund for the underprivileged, donation of books and daily necessities</li></ul>

	<b>Good Health and Well-being</b>	Ensure healthy lives and promote well-being for all at all ages	<ul style="list-style-type: none"> <li>Youth health &amp; education projects and environment protection activities</li> <li>Improving the environment of communal homes for children</li> </ul>
	<b>Quality Education</b>	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	<ul style="list-style-type: none"> <li>Operating programs designed to nurture science and technology talent</li> </ul>
	<b>Gender Equality</b>	Achieve gender equality and empower all women and girls	<ul style="list-style-type: none"> <li>Managing an organizational culture and female talent management based on gender equality</li> </ul>
	<b>Affordable and Clean Energy</b>	Ensure access to affordable, reliable, sustainable and modern energy for all	<ul style="list-style-type: none"> <li>Implementing a project designed to distribute renewable energy linked to ESS in remote regions / Operating Hope Green Power Plant</li> </ul>
	<b>Decent Work and Economic Growth</b>	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	<ul style="list-style-type: none"> <li>Operating “Areum Nuri” to create jobs for persons with disabilities</li> <li>Supporting mutual growth with partners</li> </ul>
	<b>Industry, Innovation and Infrastructure</b>	Build resilient infrastructure, promote sustainable industrialization and foster innovation	<ul style="list-style-type: none"> <li>Conducting research to develop new technologies/products for future growth such as next-generation batteries</li> </ul>
	<b>Reduced Inequalities</b>	Reduce inequality within and among countries	<ul style="list-style-type: none"> <li>Organizational culture based on diversity, equity, and inclusion (DEI)</li> </ul>
	<b>Responsible Consumption and Production</b>	Ensure sustainable consumption and production patterns	<ul style="list-style-type: none"> <li>Promoting zero landfill to minimize environmental impact</li> <li>Utilizing renewable energy during battery production</li> </ul>
	<b>Climate Action</b>	Take urgent action to combat climate change and its impacts	<ul style="list-style-type: none"> <li>Developing goals to reduce GHG emissions</li> <li>Building a decision-making system for climate change</li> <li>Building/operating a global energy management system</li> </ul>
	<b>Peace, Justice and Strong Institutions</b>	Promote just, peaceful and inclusive societies	<ul style="list-style-type: none"> <li>Conducting compliance education for employees</li> <li>Obtaining the ISO 37301 (compliance management system) certification</li> </ul>
	<b>Partnerships for the Goals</b>	Revitalize the global partnership for sustainable development	<ul style="list-style-type: none"> <li>Joining RBA, RMI, RLI, RE100, EV100, GBA, FCA, UNGC initiatives</li> </ul>

## LG Energy Solution’s ESG Initiatives

LG Energy Solution is committed to creating values for sustainable future by strengthening environmental, social and governance (ESG) management. It intends to track the progress using ESG indicators, disclose the information in a transparent manner, and leverage partnership with relevant stakeholders by joining global initiatives. Below are some of the initiatives LG Energy Solution has taken to join the global effort to address climate change:

**RE100 (Renewable Electricity 100%):** LG Energy Solution joined the RE100 initiative in April 2021 and committed to use 100% renewable electricity in all business sites by 2030.

**EV100 (Electric Vehicle 100%):** LG Energy Solution joined the EV100 Initiative in April 2021, committing to switch 100% of our owned and contracted fleets to electric vehicles by 2030.

**FCA (Fair Cobalt Alliance):** LG Energy Solution joins forces to FCA to promote community development activities and support sustainable changes in artisanal and small-scale mining communities in the Democratic Republic of the Congo, with an aim to eradicate forced labor and child labor.

**GBA (Global Battery Alliance):** LG Energy Solution seats on the Board of Directors for the GBA and provides oversight to the Secretariat and all GBA activities, which includes, but not limited to, developing a battery passport scheme and relevant sustainability reporting guidelines, promoting multi-stakeholder collaboration in the areas of responsible critical minerals sourcing, energy access and circularity.

**RBA (Responsible Business Alliance):** LG Energy Solution is the first Korean battery manufacturer to join RBA in 2021. RBA is the world's largest industry coalition dedicated to corporate social responsibility in global supply chains. LG Energy Solution is held accountable to an RBA Code of Conduct, in the areas of labour, health and safety, environment, and ethics; and committed to driving sustainable value for workers, the environment and business throughout the global supply chain.

**RMI (Responsible Minerals Initiative):** We have joined RMI to procure minerals in ethical and transparent manner. RMI, an initiative under RBA, was established in 2008 to respond to human rights and environmental issues in the procurement process of minerals such as cobalt.

**RLI (Responsible Labor Initiative):** To improve the labor and human rights in the global supply chain, LG Energy Solution joined RLI as the first Korean battery company in 2021. RLI, an initiative under the RBA, was established in 2017 to respond to issues regarding forced labor, child labor, and working conditions.

**UNGC (United Nations Global Compact):** LG Energy Solution pledged to adhere to the 10 principles of the UNGC in the areas of human rights, labor, environment and anti-corruption. It is committed to aligning strategies and operations with universal principles and taking actions that advance sustainable goals.

**TCFD (Task Force on Climate-related Financial Disclosure) :** LG Energy Solution is the first Korean battery manufacturer to declare support for the TCFD. With the official declaration, LG Energy Solution reiterates its commitment and support for accurate and timely disclosure of climate-related financial information.

## 2. LG Energy Solution's Green Financing Framework

The aim of this Green Financing Framework is to facilitate transparency, disclosure, integrity and quality in LGES' Green Bond/Loan for interested investors and stakeholders. LGES intends to issue Green Bond/Loan to fulfil its environmental responsibilities, financing investments and R&D activities that contribute to sustainable development by earmarking the proceeds for projects and expenditures that fall within the Eligible Project Categories.

The Green Financing Framework ("Framework") has been developed to address the four key pillars in line with the ICMA Green Bond Principles 2021 ("GBP") and LMA's Green Loan Principles 2021 ("GLP");

1. Use of Proceeds
2. Process for Projects Evaluation and Selection

3. Management of Proceeds
4. Reporting

The Framework may be subsequently revised or updated as the green finance market continues to evolve.

## 2.1 Use of Proceeds

An amount equal to the net proceeds of LGES' Green Bond/Loan will be used to finance and/or refinance, in whole or in part, new or existing projects ("Eligible Projects") from any of the Eligible Project Categories as defined below:

### Eligible Project Categories

Eligible Project Categories	Eligible Criteria	Example / Eligible Projects	UN SDG
Low Carbon Transportation	Development, manufacturing, acquisition of low carbon transportation components	<ul style="list-style-type: none"> <li>Capital investment for construction of manufacturing facilities and R&amp;D for batteries for pure electric vehicles, bicycles, and motorcycles</li> <li>Capital investment and R&amp;D for waste battery recycling</li> </ul>	Target 11.2: Sustainable cities and communities – By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all
Energy Efficiency	Promote energy savings and increase efficiency of energy use	<ul style="list-style-type: none"> <li>Capital investment for construction of manufacturing facilities for Energy Storage System (ESS)<sup>1</sup> and R&amp;D for ESS design</li> <li>Expenditures aiming to improve the energy efficiency of LGES' corporate and manufacturing facilities or internal supply chain, including but not limited to:               <ul style="list-style-type: none"> <li>Installation of ESS</li> <li>Installation of LED lighting or improvement to ventilation systems</li> </ul> </li> </ul>	Target 7.3: Affordable and Clean Energy – By 2030, double the global rate of improvement in energy efficiency

### Exclusionary Criteria

Proceeds from LGES' Green Bond/Loan will not be allocated to the following projects and/or activities:

- Gambling
- Tobacco
- Alcohol
- Weapons and arms trade
- Adult entertainment
- Fossil fuel (e.g. production, distribution, remediation and associated energy efficiency technologies)
- Luxury sectors
- Child labour
- Forced labour

<sup>1</sup> Main purpose of LGES' ESS is for storing renewable energy

- Violations of international standards that LG Energy Solution upholds<sup>2</sup> and any applicable national and international laws
- Any projects with adverse impacts on the environment (e.g., toxic emissions, biodiversity loss) and society (e.g., abuse of human rights of women, indigenous peoples, minorities and other marginalized or disadvantaged communities), and
- Large-scale hydro-power projects with a generating capacity of over 25 megawatts

## 2.2 Project Evaluation and Selection

The Project Evaluation and Selection Process is a key process in ensuring that the net proceeds raised by the LGES' Green Bond/Loan are allocated to projects and assets which meet the eligibility criteria as defined in Section 2.1.

A dedicated Green Financing Working Group ("GFWG") has been created to oversee the entire issuance process and to ensure that all eligible projects and assets meet the eligibility criteria defined in Section 2.1. The GFWG is composed of [Business Strategy Team, Planning & Coordination Team, Safety & Environment Team, ESG Strategy Team, while being coordinated by Finance Department].

Annually, the GFWG will review the allocation of the Green Bond/Loan proceeds to the Eligible Projects and determine if any changes are necessary. The GFWG will ensure that all projects included under the Eligible Use of Proceeds still align with the Eligibility Criteria or determine if replacement / deletion / additions are necessary.

For refinancing, the Green Bond/Loan could be used for Eligible Projects completed in the [three] full years prior to the Green Bond/Loan issuance year.

## 2.3 Management of Proceeds

An amount equal to the net proceeds of Green Bond/Loan will be earmarked for allocation within LGES' general account. LGES' [treasury team] will track the net proceeds through a separate Green Bond/Loan register that includes details on issuing terms of Green Bond/Loan and amount allocated to Eligible Projects.

The Green Bond/Loan register will be reviewed annually by the GFWG. The review would include details of selected projects, such as a brief description of the project, the amount of allocated proceeds, anticipated expenditures of projects, and other relevant information.

The GFWG will also review management of unallocated portion of the net proceeds yet to be earmarked for Eligible Projects. Pending the full allocation, all or a portion of the net proceeds pending allocation will be held in accordance with LGES' general liquidity management policy and exclusionary policy set out in Section 2.1 of this Framework. The unallocated can be invested in cash, cash equivalents, investment grade securities or other marketable securities and short-term instruments or other capital management activities.

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<sup>2</sup> Universal Declaration of Human Rights, UN Guiding Principles on Business and Human Rights, the 10 Principles of UN Global Compact, relevant conventions of the International Labour Organization, the OECD Guidelines for Multinational Enterprises, the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, the RBA Code of Conduct, and all applicable legal requirements



LGES' may issue Green Bond/Loan in any currency, jurisdiction and market reflecting its current and future business needs. The net proceeds may be swapped or hedged into different currencies subject to the company's needs.

## 2.4 Reporting

The reporting will be available to investors within approximately one year from the date of the Green Bond/Loan issuance and yearly thereafter until the proceeds have been fully allocated. LGES may also elect to publish a report or a notice in the event of any material changes that would affect the portfolio of Eligible Projects.

The reporting will include allocation reporting and impact reporting and will be publicly available on LGES' website.

### *Allocation reporting*

- Allocation per Eligible Project Category
- Example of projects financed by the proceeds, including their description (location, category, progress) and the corresponding allocated amount (in US\$ and/or EUR)
- Balance amount of unallocated net proceeds
- Share of financing and refinancing

### *Impact reporting*

Until full allocation, LGES will provide annual impact reporting on relevant impact metrics for each category of Eligible Projects on a best effort basis.

Eligible Project Categories	Reporting Indicators
Low Carbon Transportation	<ul style="list-style-type: none"> <li>• Case study of electric vehicles that use batteries supplied by LGES</li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>• Amount of energy saved (kWh)</li> <li>• CO<sub>2</sub> (or other GHG) emissions avoided / reduced (tonnes of CO<sub>2e</sub>)</li> </ul>

## 3. External Reviews

### *Second Party Opinion*

LGES will engage DNV for an independent External Review in the form of a Second Party Opinion to provide assurance on the Green Financing Framework and its alignment with the GBP and GLP. The Second Party Opinions will be made available on LGES' website.