



Green Finance Framework

November 16, 2022

**Green Bond Issuance and Green Loan
Borrowing of NAP Nyrt.**



Introduction

The goal of NAP Nyrt. (hereinafter referred to as NAP) is to become a highly efficient renewable energy-producing company through the acquisition of project companies and photovoltaic investments. The company produces green energy in 55 photovoltaic plants with an overall installed capacity of 27.5 MW in Zala and Baranya County, Hungary.

NAP was founded in 2020 by seven individuals with significant entrepreneurial experience who saw outstanding opportunities in the dynamic development of the Hungarian photovoltaic market. In the autumn of 2021, the company became a public company. The trading of stocks started in 2021 October on the BÉT Xtend market. Currently, NAP Nyrt. has HUF 5.95 billion share capital and a cca. 47% free-float.

Commitment to social and environmental values

We at NAP Nyrt. recognised our responsibility to our planet, our communities and our customers a long time ago. This responsibility guides our sense of purpose, inspiring our commitment to the transition to sustainable energy production. From the very beginning, we have focused on sustainability during our work.

Our priority is to increase the company's total solar capacity to around 100 MW through a series of private and public capital raisings by the end of 2024, which will contribute significantly to Hungary's annual green electricity production. Our operation is characterised by environmental protection, transparent and efficient corporate structure and social responsibility.

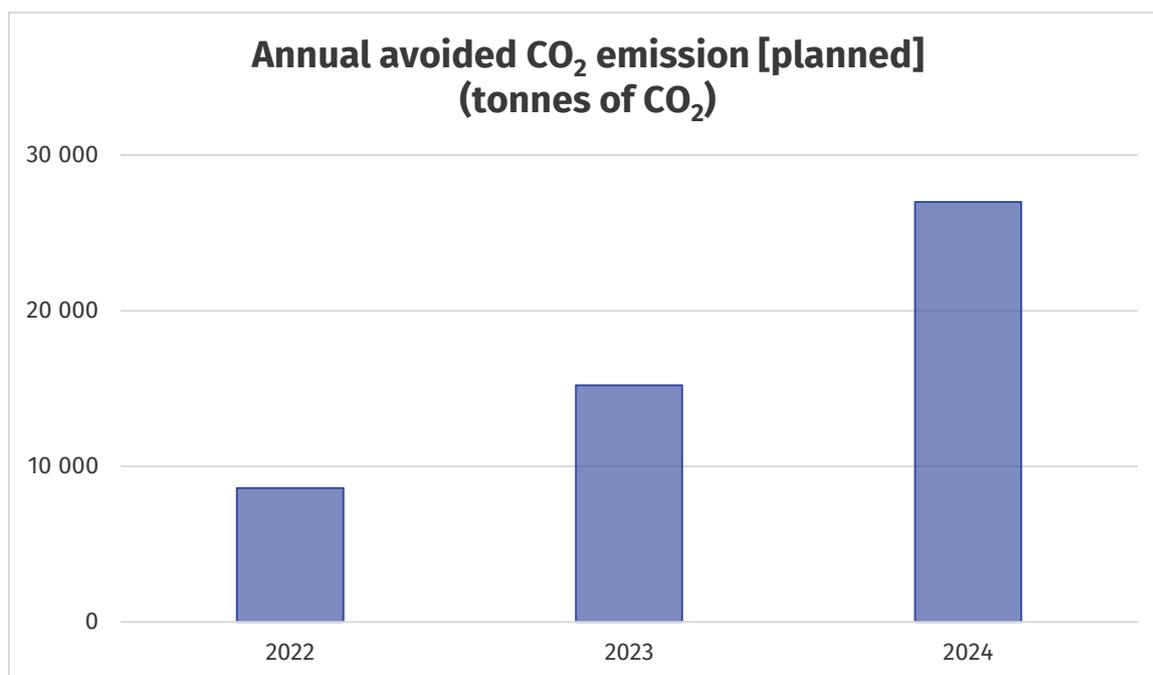


Figure 1: Planned annual avoided CO₂ emission¹ by solar capacities at NAP

	2022	2023	2024
Capacity (MW AC)	30	60	100
Energy generated (GWh)	36.98	65.25	115.85
CO ₂ saving (tonnes of CO ₂)	7 323	12 923	22 944

Table 1: Planned annual CO₂ savings

As well as producing green energy in an environmentally friendly and responsible way, we place great emphasis on transparent corporate governance and social responsibility as our company grows.

During our work, we strive to create safe operating and working conditions and to build ethical partnerships between colleagues and business partners as well. Both the activities and the organisational structure of our company ensure our investors a high level of transparency. We place a high priority on innovation, which is reflected in our operations, investments and management.

In the second half of 2022, the Company plans to establish its green finance framework, certified by an acknowledged third-party agency. Following the planned

¹ Calculation based on: <https://www.eon.hu/content/dam/eon/eon-hungary/documents/lablec/Kotelezotajekoztatas/Forrasosszetetel-alaptabla-2020-USP.pdf>

attainment of the green finance framework rating, NAP will aim to qualify for an ESG rating in the coming years, in line with the ESG recommendations of the BÉT.

The third-party certification and planned, future compliance with the ESG criteria could open the path for NAP into dedicated green funds for institutional investors.

Given the geopolitical developments in Europe, we are convinced that one of the priorities of the European Union as well as the Hungarian government, is to achieve greater energy independence and encourage further capacity building in renewable energy production by providing preferential green financing schemes. NAP intends to actively participate in such financing programmes.

In the long-term, investments in other renewable energy production units, like onshore wind farms could be a possibility. Furthermore, NAP does not exclude the geographic diversification of its energy production portfolio.

Risks

While the long-term irradiation trends show an upward tendency, this „linear” annual increase of 0.17% could be influenced by weather variations associated with climate change. Among other factors, the temperature rise could have a negative impact, as the temperature coefficient of solar cells is typically around 0.4%/°C so that every one-degree-Celsius increase in temperature induces a 0.4% efficiency loss. On the contrary, less and less snow may help the production in wintertime.

Green Finance Framework

The main objective of issuing Green Bonds or obtaining Green Loans is to increase NAP's investment in green and sustainable development projects. To ensure alignment with market best practices, the current framework has been prepared following the guidelines of the ICMA. Green Bond Principles 2022 and Green Loan Principles 2021 include the following sections:

- 1. Use of Proceeds**
- 2. Process for Project Evaluation and Selection**
- 3. Management of Proceeds**
- 4. Reporting**
- 5. External review**

This Framework will apply to any Green Bond issued or any Green Loan obtained by NAP. This Framework may be updated in the future to ensure continued alignment with the Green Bond Principles, Green Loan Principles or EU Taxonomy. Any updated version of this Framework will either keep or improve the current levels of transparency and reporting disclosures.

1. Use of Proceeds

Green proceeds – which are classified under eligible project categories (see the next table) – can be used only for directly fulfilling sustainable environmental and climate goals or indirectly helping these goals without harming the environment. NAP will take account of EU Taxonomy environmental objectives and one goal from the United Nations 17 SDGs.

An amount equivalent to the net proceeds of the Green Bonds or Green Loans will be used to finance or refinance, in whole or in part, existing and future eligible projects that meet the Eligibility Criteria as defined in the following table. The planned green funding is dedicated to new projects; however, the Company intends to keep an option for possible refinancing in the future.

The KPIs of the eligible project criteria will be detailed later in the section concerning Impact Reporting. The eligible use of proceeds also contributes to the SDGs as listed below.

NAP’s SDGs contribution:

- The installation of renewable energy sources can contribute to reaching targets of Goal 7 (Ensure access to affordable, reliable, sustainable and modern energy for all)

ICMA eligible project category	Contribution to UN SDGs	Eligibility criteria (and example projects)	EU Taxonomy regulation activities
Renewable energy	 7.2	Acquisition of solar energy systems Development of renewable energy projects associated with solar power (Example: development of energy storage unit, linked to solar energy systems)	4.1 Electricity generation using solar photovoltaic technology

Applying Do No Significant Harm Criteria

To assess alignment with EU Taxonomy, we have established that all our eligible projects meet the Do No Significant Harm criteria on the remaining EU Taxonomy environmental objectives, according to the technical screening criteria:

- **Climate change adaptation and Climate change mitigation:** During project development processes chronic and acute climate-related hazards will be

considered to ensure that the projects are prepared for the extremes of climate change.²

- **Protection and restoration of biodiversity and ecosystems:** For sites/operations located in or near biodiversity-sensitive areas (including the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas, as well as other protected areas), an appropriate assessment, where applicable, has been conducted and based on its conclusions the necessary mitigation measures have been implemented.³
- **Circular Economy:** The activity assesses the availability of and, where feasible, uses equipment and components of high durability and recyclability, that are easy to dismantle and refurbish.⁴
- **Water:** Not applicable to EU taxonomy activity 4.1.
- **Pollution prevention:** Not applicable to EU taxonomy activity 4.1.

Exclusions

The proceeds of Green Bond or Loan Instruments are not to be used to finance standalone projects connected to highly polluting activities, nuclear energy generation, weapons and defence purposes, gambling, and potentially environmentally harmful resource extraction. Also, NAP will not finance standalone projects connected to activities that would significantly endanger the environmental objectives of the EU Taxonomy regulation.

² <https://ec.europa.eu/sustainable-finance-taxonomy/assets/documents/CCM%20Appendix%20A.pdf>

³ <https://ec.europa.eu/sustainable-finance-taxonomy/documents/CCM%20Appendix%20D.pdf>

⁴ https://ec.europa.eu/sustainable-finance-taxonomy/activities/activity_en.htm?reference=4.1

2. Process for Project Evaluation and Selection

The Board of Directors ensures the separated allocation, use and control of the green proceeds. The Board monitors the use of proceeds for eligible green projects and compliance with the set of criteria of the Green Finance Framework for further and ongoing investment decisions. The Board covers the process from project identification to evaluation, approval, and implementation and also provides a high level of transparency.

The project selection and evaluation are based on:

- expected eligible amounts
- a pre-defined set of eligibility criteria described earlier in the Use of Proceeds chapter

Only assets and projects that comply with the set of criteria are eligible to be financed with green finance instruments. The Board supervises the selection of projects, acquisitions, and investments, and reviews the allocation of funds. It identifies and manages the social and environmental risks associated with the Projects, taking measures to reduce negative environmental impacts.

The Board can ask external experts for assistance with certain questions when necessary. They work together constantly with an external sustainability expert with environmental competence, who will support the selection and decision process. They will provide external professional advisory services for all eligible green investments.

Currently, the company does not have its own Green Strategy.

The Board monitors the development of KPIs, benchmarks and other selected and targeted environmental impact indicators. The Board contributes to, and supervises, the potential further development of the Green Finance Framework as well as initiating the revision, amendment and renewal of the Framework, if necessary. The Board also assists in the Green Finance reporting activity, ensures documentation preparation for external audits, and focuses on the Allocation and Impact Reporting. They contribute to the selection of entities for the audit and other external verification processes.

3. Management of Proceeds

NAP intends to allocate the net green proceeds to the Eligible Green Project Portfolio, selected following the pre-defined set of criteria in the section on Use of Proceeds. All eligible projects have to be approved by the Board. NAP acknowledges renewable energy production will receive a lot of attention from EU-level and national regulators and policymakers. Many industry-specific infrastructural challenges will have to be addressed such as grid capacity, balancing and the creation of efficient energy storage units as the sector continues to grow. NAP is open to such developments in the future and is looking to be fully compliant with the technical requirements for the future development of the sector. The primary aim of the funds is to acquire and/or refinance already-producing solar projects, but NAP wishes to retain the flexibility to be able to spend parts of the funds on potentially developing solar projects or other renewable related assets, such as the acquisition or development of energy storage units.

The proceeds will be kept in a separate account and will be the subject of a separate accounting procedure. Proceeds will be allocated to eligible green assets within a timeframe of 0-24 months of issuance, depending on the size and timeline of the project. The refinancing option for projects is available for the entire duration of the bond or loan financing.

There may be periods when certain proceeds cannot be fully allocated to an eligible green project. In such cases, at the own discretion of the company, net proceeds will be allocated to temporary investments such as bank deposits or government bonds. Investments in fossil fuel related assets are excluded. The information about actual allocation will be published for investors and updated annually until full allocation, on the NAP website. To ensure a high level of transparency, the use of proceeds can be potentially audited by an external auditor, to verify the internal tracking method and the allocation of funds from Green Finance proceeds.

Exclusions

The proceeds of Green Bond or Loan Instruments are not going to be used to finance standalone projects that do not satisfy the eligibility criteria, or are connected to highly polluting activities, nuclear energy generation, weapons and defence purposes, gambling, and potentially environmentally harmful resource extraction. Also, NAP will not finance standalone projects connected to activities that would significantly endanger the environmental objectives of the EU taxonomy regulation.

4. Reporting

NAP commits to publishing a Green Bond or/and Loan Report (Green Finance Report) on its website no later than one year after borrowing or issuance of financial instruments and annually thereafter or until the full allocation of green finance instruments proceeds. The Board of Directors is responsible for the auditing process and the CEO is responsible for the reporting processes. The Green Finance Report is intended to be harmonised with the financial reporting process of the company.

The company will provide a list of the green projects to which Green Bond or Loan proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and the environmental impact of projects. Furthermore, NAP will share the proportion of the green proceeds within the whole project portfolio and the current amount of unallocated green proceeds.

However, it may occur that confidentially agreements, competitive considerations or a large number of underlying projects limit the amount of detail that can be made available. In such instances, information may be presented on an aggregated portfolio basis. The company will align the reporting with the portfolio approach described in the “GBP – Harmonised Framework for Impact Reporting, June 2022.”

Allocation Reporting

NAP will provide information on the allocation of the net proceeds of its Green Bond or Loan. The information will contain relevant details including the following:

- Amount of net proceeds allocated to Eligible Project Categories as defined in the section of Use of Proceeds compared to the green proceeds amount, preferably in percentage terms
- A list of Eligible Projects related to the proceeds; the number of projects accompanied with the net allocated amounts
- The remaining balance of unallocated net proceeds, if any
- The proportional allocation of net proceeds to existing projects and new projects;
- The proportional allocation of net proceeds to financing and refinancing

The company will link each project to individual bond issues or borrowings and will report the share of each eligible project which has come from green financing.

Impact Reporting

The company will provide impact reporting at the level of each Eligible Project Category which has been defined in the section on the Use of Proceeds. Impact reporting, where feasible, may contain metrics recommended by the Harmonised Framework for Impact Reporting. The method used by NAP to measure the level of annual avoided CO2 emission is based on the equivalent published by the major Hungarian electricity suppliers. This equivalent is published annually.

Moreover, an impact report must be published at least annually. Impact Reports are planned to be harmonised with the company’s other reporting processes.

Eligible Project Category	Eligible Projects	KPIs
Renewable energy	Acquisition of solar energy systems	<ul style="list-style-type: none"> • Annual CO₂ emission saving (Co₂ t / year) measured separately for solar energy • Total capacity of renewable energy production (MW / year) measured separately for solar energy • Annual renewable energy generation (MWh / year) measured separately for solar energy
	Development of renewable energy projects associated with solar power	<ul style="list-style-type: none"> • Total capacity of energy storage (MW / year) • Annual CO₂ emission saving (Co₂ t / year) • Total capacity of renewable energy production (MW / year) • Annual renewable energy generation (MWh / year)

5. External review

NAP plans to apply to a certification agency to provide a Second-Party Opinion on the Green Finance Framework, evaluating the environmental added value of NAP Green Bonds or Loans, and their alignment with the ICMA – Green Bond Principles 2022 and Green Loan Principles 2021. The External Review will be available publicly on NAP’s website.

NAP may request on an annual basis, starting one year after issuance or borrowing and until maturity, a limited assurance report of the allocation of the green instruments’ proceeds to eligible green projects, provided by an external auditor.