

Green Finance Framework

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1. Introduction

EP Infrastructure ("EPIF" or "EPIF Group") is a leading European energy infrastructure utility focused on gas transmission, gas and power distribution, heat and power generation and gas storage. EPIF has its principal operations in Slovakia and the Czech Republic, while being also present in Germany. EPIF is a unique European entity with a large and diverse infrastructure asset base.



EP Infrastructure is built on four basic pillars: gas transmission, gas and power distribution, gas storage, and heat infrastructure.



EP Infrastructure

EPIF Group highlights:

• EPIF controls the eustream gas transmission pipeline, a corridor with unique positioning to supply gas to Central European and Southern European gas markets,

irrespective of the gas source and flows pattern (connected to all neighboring countries).

- EPIF is an important gas distributor and electricity distributor in the Slovak Republic and an established operator of district heating infrastructure in the Czech Republic.
- EPIF holds the largest gas storage capacity in the region of Slovakia, Czech Republic and Austria, and also holds a significant share on the German market.

2. Overview of EP Infrastructure's Sustainability Strategy

The EPIF Group aims for the creation of sustainable and environmentally conscious products and services. EPIF recognizes that across its business segments, it emits greenhouse gases ("GHG") and other air emissions. Therefore, EPIF is committed to tracking and reducing its emissions as outlined further below. EPIF aims to align its future capital expenditures ("Capex")¹ with the EU Taxonomy objectives and ensure that the investments in infrastructure are directed towards preparation of the assets for accommodation of renewable gases once these are deployed on a large scale. This shall ultimately enable EPIF to fulfil its GHG emission reduction targets and align it with the EU decarbonization goals.

The EPIF Group acknowledges the serious threat posed by human-induced climate change and is ready to play a major role in the transition to net-zero economy, while ensuring continuity and affordability of the supply of basic commodities through provision of reliable services. EPIF fully endorses the EU's ambition to achieve climate neutrality by 2050, a cornerstone of the European Green Deal and in alignment with the goal of the Paris Agreement to limit global average temperature increase to well below 2°C above pre-industrial levels, while pursuing efforts to limit the temperature increase to 1.5°C. EPIF is convinced that the development of the European energy system will continue to be guided by these long-term decarbonization objectives.

Decarbonization commitments

EPIF aims to demonstrate that the allocation of proceeds to the eligible assets and Capex in line with the Green Finance Framework (or "Framework") shall contribute to meeting the following decarbonization targets which EPIF approved in May 2023:

- Reduce CO₂ emissions by 60% by 2030 EPIF has created a clear and resilient transition roadmap for its assets, thereby guiding EPIF Group to a 60% reduction in Scope 1 & 2 CO₂ emissions compared to the 2022 level.
- Reduce methane emissions in line with the Global Methane Pledge² EPIF fully supports the goal of the Global Methane Pledge announced at the COP 26 summit in November 2021. By joining the Pledge, participants commit to taking voluntary measures that will collectively contribute to reducing global methane emissions by at least 30 percent from 2020 levels by 2030.
- Phase out coal by 2030 EPIF has commenced conversion of its existing, and predominantly lignite-fired heating plants, to a balanced mix of gas and biomass units by 2030, complemented by waste incinerator plants. The existing lignite boilers might only be used as a backup source beyond this year. EPIF strives to accelerate the transition and complete conversions of all assets several years ahead of the coal exit

¹ Capex as defined in the EPIF EU Taxonomy assessment disclosed in the 2022 Sustainability report

² https://www.globalmethanepledge.org/

deadline in the Czech Republic, which, as communicated in the Policy Statement of the Government, is contemplated to be set for 2033.

- Achieve carbon neutrality in respect of Scope 1 & 2 emissions by 2040
- Achieve Net Zero operations in respect of Scope 1 & 2 emissions by 2050

These targets are supported by long-term emission reduction pathways that have been developed for each individual segment within the EPIF Group.

The segmental pathways have been consolidated into a comprehensive pathway for the EPIF Group, as depicted in the chart below. Furthermore, a detailed action plan has been formulated for each segment, outlining the specific measures and strategies to be implemented to achieve the decarbonization targets.



The primary objective when developing the EPIF Group's decarbonization goals and emission reduction pathways was to ensure alignment with scientific principles and the Paris Agreement's aim to limit global warming to no more than 1.5°C. To achieve this, EPIF aimed to align its pathway with the Science Based Targets initiative (SBTi), which is widely regarded as the gold standard for science-based target setting. However, EPIF is classified as an Oil & Gas Group by SBTi, which means it cannot currently seek verification of its targets from SBTi. Nevertheless, EPIF endeavored to align the pace of its greenhouse gas emission reductions with the SBTi's absolute target criteria, which involves a target of reducing emissions by at least 42% by 2030 relative to the 2022 level. EPIF aims to surpass this requirement by targeting a 60% reduction in emissions during the same period. Regarding its long-term objective, EPIF complies with the SBTi's requirement and is committed to achieving Net Zero operations by 2050.

EPIF is also already taking steps to enable a reduction of its Scope 3 emissions, including the installation and upgrading of infrastructure that will support the delivery of hydrogen and low carbon gases, the production of energy, heat/cool from these sources and supporting broader energy sector initiatives to scale up production. As a next step, EPIF also aims to enhance transparency and accountability with regards to Scope 3 emissions, making its first commitment to report on these emissions for 2024 in the first half of 2025 and to set a time bound reduction target.

Carbon footprint of EPIF

Scope 1

EPIF's direct CO_2 emissions originate primarily from combustion of lignite and municipal waste in the heating plants, combustion of gas in the compressor stations as part of the gas midstream infrastructure and operation of vehicles owned by EPIF Group entities. Approximately 98% of the direct CO_2 emissions is externally verified by a certified third party as these emissions fall under the EU Emissions Trading Scheme (ETS). The key steps to achieve the emission reductions in line with EPIF's targets are:

- Conversion of the existing and predominantly lignite-fired heating plants to a balanced mix of newly built gas-fired CCGT plants and waste incinerator plants, complemented by already existing biomass units and one waste incinerator plant. Full conversion away from lignite is envisaged by 2030.
- Ensuring hydrogen readiness of the gas turbines installed at the CCGT plants with envisaged full combustion of renewable gases in the long term.
- Transition of the compressor fleet at the gas midstream infrastructure from natural gas to renewable gases and electricity.

EPIF's direct methane emissions arise from the leakage of natural gas from its networks and storage facilities. EPIF's methane emissions are categorized into three activities: (i) fugitive emissions - unintentional gas leaks from the pipelines, (ii) venting - intentional release of gas for the purpose of repair and maintenance of pipes and compressors, and (iii) incomplete combustion - gas that is emitted due to its improper combustion within compressors. The key measures to reduce the methane emissions are:

- Robust Leak Detection and Repair program in place
- Gradual replacement of steel pipes at the gas distribution network with impermeable polyethylene pipes
- Elimination of venting to the maximum extent feasible

The calculation methodology for methane emissions differs depending on the specific business activities (transit, distribution, storage) and involves a certain degree of estimation.

Scope 2

Scope 2 emissions are associated with the consumption of externally sourced electricity and heat with the following key categories:

- Purchased electricity to cover the network losses in the power distribution network operated in central Slovakia.
- Purchased electricity to power electric compressors and other technology as part of the gas midstream and downstream infrastructure.
- Purchased electricity to power the pumping stations at the district heating networks.
- Purchased electricity and heat to cover consumption of administrative and other buildings.

Scope 2 emissions are calculated using the location-based method where the volumes of power and heat purchased for own consumption are multiplied by average emission intensity of the grid in the respective country.

These indirect emissions are relatively low due to the generally low emission intensity of the Slovak power generation sector (113 g/kWh in 2021)³ where approximately 95% of EPIF's power consumption occurs, which is predominantly powered by nuclear and hydroelectric plants. Furthermore, the remaining coal-fired power plants are scheduled to be decommissioned within the next few years in line with the Slovakia's coal phase-out plan. As part of the commitment to carbon neutrality, EPIF anticipates a substantial reduction of these

³ <u>https://www.eea.europa.eu/ims/greenhouse-gas-emission-intensity-of-1</u>

indirect emissions by 2030, with complete elimination by 2040, achieved primarily through power purchase agreements across all business segments.

Scope 3

EPIF strives for transparency regarding the impact of its operations throughout the entire value chain, starting from suppliers and extending to the end use of commodities. However, at present, EPIF does not disclose its Scope 3 emissions. As part of its recent target-setting process, EPIF examined industry best practices for disclosing Scope 3 emissions from the end use of gas transmitted, stored, or distributed through its infrastructure. Given the volumes of gas accommodated in EPIF's infrastructure in 2022, the estimated Scope 3 emissions resulting from the end use of gas amount to approximately 70 million tons of CO_2 equivalent. This is twenty times higher than the Scope 1 and 2 emissions, which are covered by one of EPIF's decarbonization targets.

As stated above, EPIF is committed to publish its Scope 3 emissions as part of its regular disclosure starting in the first half of 2025 (covering the year 2024) and to set a Scope 3 reduction target in the same year. However, EPIF has limited control over the composition of gases that shippers and their customers choose to transport or store via its infrastructure.

Nevertheless, EPIF undertakes several activities to reduce its Scope 3 emissions by efforts to accelerate the adoption of renewable gases. EPIF is already in the process of transforming its infrastructure as can be demonstrated by:

- Enabling suppliers of renewable gases such as biomethane to deliver gases to the end consumers through the EPIF's distribution network.
- Demonstrating flexibility and technological readiness to accept other renewable gases such as hydrogen, initially at lower blends.

In doing so, EPIF ensures that once sufficient sources of hydrogen and low-carbon/renewable gases are available, EPIF can accommodate the supply in support of the energy transition.

EPIF has less direct influence on the availability of hydrogen and low carbon/renewable gases given its role in the value chain. Having said this, EPIF does make an effort to support the broader ecosystem in the decarbonization agenda through partnerships and initiatives to support the scale-up. Eustream, SPPD and Nafta all play a role in supporting the development of interconnected energy systems in Europe, including its adaptation for hydrogen.

For the financial year 2022, EPIF had its Scope 1 and Scope 2 GHG emissions externally verified for the first time in line with the ISAE 3000 assurance standard. The EPIF Group aims to continue to implement this external auditing practice in future reporting years, including also Scope 3 emissions in the assurance process when EPIF makes its first disclosure in the first half of 2025.

Decarbonization strategy

The following sections display how each of EPIF's segments is contributing towards the Net Zero goal for EPIF and how EPIF perceives the role of gaseous fuels in the energy transition and a fully decarbonized energy system.

Decarbonization strategy – Role of gaseous fuels

According to the Net Zero by 2050 report by IEA⁴, hydrogen and hydrogen-based fuels are recognized as a crucial pillar for achieving decarbonization goals. The report highlights the need for rapid expansion of low-carbon hydrogen in various sectors such as power generation, hard-to-abate industries, aviation, shipping, or long-haul road transport. In the Climate Change 2022 report by IPCC⁵, supplying the energy system predominantly with renewable power will require a broad portfolio of balancing mechanisms, including electrolytic hydrogen. The EU Impact Assessment Report⁶ on regulation pertaining to renewable gases indicates that the overall consumption of gaseous fuels is projected to undergo only a minor decline until 2050, with approximately 85% of current gas demand expected to persist. However, the composition of these fuels will undergo a significant shift, with biomethane, synthetic methane, and hydrogen gaining increasing prominence, while fossil methane may still have a limited role in a net-zero world, potentially in conjunction with carbon capture, utilization, and storage (CCUS) technology.

Ongoing initiatives, such as the EU Hydrogen Backbone and the Central European Hydrogen Corridor, underscore the necessity of establishing adequate infrastructure for the transport and storage of this diverse mix of gases. This entails refurbishing existing infrastructure to the fullest extent possible to minimize capital expenditure requirements, as well as developing new infrastructure to bridge any gaps. One prospective model for the future could involve the establishment of two parallel infrastructures: one dedicated exclusively to 100% hydrogen and another one for methane (comprising biomethane, synthetic methane, fossil methane, and potentially blended with hydrogen). These two systems could mutually support each other, with hydrogen potentially being converted to synthetic methane or vice versa, depending on the balancing needs of individual networks.

Decarbonization strategy – District heating

As an operator of critical district heating infrastructure in the Czech Republic, EPIF aims to ensure continuity of its operations in a low-carbon economy. Apart from providing reliable heat supplies to more than 150 thousand end consumers in major regional cities, the plants represent dispatchable power generation sources with significant contribution to grid stability. The current fuel mix of the heating plants is primarily lignite-based, comprising approximately 86% share in 2022, and is supplemented by biomass and municipal waste as complementary sources. In an increasingly decarbonized world, EPIF anticipates that the flexibility and reliability of these assets will become even more vital for grid stability, due to the rising share of intermittent renewable sources in the European energy mix. Therefore, EPIF has commenced conversion projects to complete phase out of lignite by 2030 and replace the fleet by a balanced mix of gas fired CCGT plants, biomass units and waste incinerator plants. During the transitional period, EPIF envisions that the CCGT units will primarily rely on natural gas, while concurrently ensuring that the technology is suitably equipped to combust a proportion of renewable gases. This proportion is projected to progressively increase, with the potential to ultimately reach 100%. EPIF is committed to using solely renewable gases in the gas turbines for heat and power generation by 2035, in line with the EU Taxonomy criteria,

⁴ <u>https://www.iea.org/reports/net-zero-by-2050</u>

⁵ <u>https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SPM.pdf</u>

⁶ <u>https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD%3A2021%3A455%3AFIN&qid=1639998727689</u>

subject to sufficient availability of these gases (hydrogen, biomethane, synthetic methane) and adequate infrastructure in place for their distribution. As EPIF's influence on the development of the market with renewable gases is peripheral, EPIF's commitment needs to be perceived as a commitment to technical readiness to combust renewable gases. EPIF has contracted technologies readily available to combust certain proportion of hydrogen from the outset (ca 15% by volume), with the optionality included in the contracts with gas turbine manufacturers to increase the share to 30% or 70%. Adaption of the gas turbines for hydrogen combustion involves relatively limited adjustments, such as replacement of the gas burner. While adjustment of the turbines to 100% hydrogen is also technically feasible, EPIF perceives as more likely to complement hydrogen with biomethane which has similar characteristics as natural gas. EPIF considers these technologies not only as a medium-term solution to replace coal and reduce emissions quickly but also as a long-term solution to provide zero carbon dispatchable heat and power generation sources and to limit the usage of natural gas only to the transitional period. The projected development of CO₂ emissions from the heating plants until 2030 is illustrated in the following chart.



Decarbonization strategy – Gas distribution

As a monopoly distributor of natural gas in Slovakia, EPIF's subsidiary SPP-Distribúcia ("SPPD") plays a pivotal role in ensuring a reliable supply of gas, which is considered a lowcarbon transitional fuel that facilitates the integration of renewable energy sources. Recognizing the need to eventually replace natural gas with zero-carbon alternatives, EPIF's decarbonization efforts are focused on two key areas:

- Reducing methane leakage to ensure emission reduction already during the transitional period.
- Preparing the network for the distribution of hydrogen or other renewable gases to ultimately abandon natural gas.

EPIF considers distribution of hydrogen as instrumental in decarbonizing various sectors, including hard-to-abate industries such as steel manufacturing, heavy transportation (shipping, aviation, long-haul trucks), dispatchable power generation, or fertilizer production.

SPPD acts as a facilitator for the interaction between producers and potential end consumers of hydrogen, particularly large industrial entities seeking viable solutions for decarbonization.

Major actions undertaken by SPPD are:

- Reinforcement of its Leak Detection & Repair (LDAR) program. SPPD has increased the frequency of leak surveys in recent years, reducing the methane emissions by 25% between 2020 and 2022. SPPD applies a risk-based approach for conducting leak detection surveys, prioritizing more frequent inspections of the network's most susceptible areas. SPPD uses innovative technologies such as drones to inspect inaccessible areas or in-line sensors to conduct internal pipeline inspections.
- Ongoing replacement of older steel pipes with those made of polyethylene. This
 material possesses superior permeability characteristics, making it suitable for the
 potential distribution of pure hydrogen. In the interim period, when fossil natural gas is
 still being distributed, polyethylene pipes serve as a reliable barrier against methane
 leakage.
- Testing lower blends of hydrogen in the existing infrastructure. In 2022, SPPD successfully completed a pilot project in which 10% of hydrogen was blended into the gas distribution network in a small village in Slovakia. This project aimed to test the interaction of the networks, as well as the performance of appliances such as boilers and cookers at households and commercial customers.
- Enabling the integration of biomethane stations with the network. Additionally, SPPD manages the renewable gases registry, providing biomethane producers with guarantees of origin. These guarantees can be purchased by gas consumers aiming to reduce their carbon footprint in their operations.

Substantial portion of the Capex spent by SPPD in the future will be oriented towards ensuring feasibility of full hydrogen adoption:

- In local low-pressure networks, polyethylene pipes are now the default choice for replacing old steel pipes. By the end of 2022, polyethylene pipes accounted for 59% of the total length of the local networks (more than 15,000 km out of the total length of approximately 27,000 km of low & medium pressure pipes). While SPPD had been replacing around 140 km of aging steel pipes annually in recent years, the organization is striving to increase the replacement rate to approximately 200 km per year by 2030 and further accelerate it to 300 km per year beyond 2030. The key objective is to convert the entire low- and medium-pressure pipeline to polyethylene.
- While the high-pressure network cannot be converted into polyethylene, hydrogen compatibility is ensured through appropriate steel grade and management of the operating pressure. All newly replaced high-pressure pipes are fully hydrogen aligned.
- At pressure reduction stations, certain components need to be replaced or retrofitted to enable proper functioning. To ensure compatibility with 100% hydrogen distribution, a full replacement of the reduction stations might be necessary to increase their capacity accordingly and accommodate the same amounts of energy as hydrogen has lower volumetric density compared to natural gas.
- Current metering devices are partly ready for measurement of 10-20% hydrogen blends. Full replacement of the meters will be required for accurate measuring of 100% hydrogen.

Decarbonization strategy – Gas midstream: transit and storage

In order to address significant disparities between projected hydrogen production and consumption across various regions in Europe, the establishment of a robust hydrogen transit and storage infrastructure is imperative. This infrastructure should not only connect regions within Europe but also neighboring regions with abundant hydrogen potential, such as North Africa or Ukraine. A robust infrastructure shall ensure the security of supply for future hydrogen off-takers, as well as the security of demand for potential investors in hydrogen generation. Transport of hydrogen via pipelines is relatively cheap compared to alternative transport modes such as shipping (3-5x times as estimated by the European Hydrogen Backbone initiative). And the costs of refurbishment the existing infrastructure is relatively modest compared to development of a new dedicated pipeline. Therefore, utilization of existing gas transit and storage infrastructure will be crucial to ensure interconnectedness of the energy markets at acceptable costs.

In accordance with the EU Regulation on renewable and natural gases, including hydrogen, all gas transmission system operators will be required to accept gas flows with a hydrogen content of up to 2% by volume at interconnection points between Union Member States in the natural gas system. Eustream aims to be prepared for 5% hydrogen blend in the second half of 2025. The necessary adjustments are primarily expected to involve the replacement of metering equipment and other components of the network.

Eustream's pipeline system is also strategically positioned to facilitate the transit of pure hydrogen. With four to five parallel pipelines in place, it is well-suited for potential simultaneous transport of methane and pure hydrogen in a dedicated line in the future. This underscores eustream's commitment to ensuring safe and efficient transport of hydrogen, in compliance with regulatory requirements and industry best practices.

Nafta, the key operator of gas storage facilities in Slovakia, intends to initiate a project with the objective of identifying suitable sites for the storage of hydrogen blended with natural gas, as well as determining the maximum achievable concentration that can be stored within a porous geological structure. To this end, Nafta has launched the H2I-S&D project, which has been endorsed as one of the initial Important Projects of Common European Interest (IPCEI) in the domain of hydrogen. Nafta consistently evaluates possibilities for storing alternative gases within its current gas storage facilities. When it comes to storing hydrogen, however, the porous structures managed by Nafta present greater challenges compared to salt caverns.

Decarbonisation strategy – Power distribution

EPIF, through its subsidiary Stredoslovenská distribučná a.s. (SSD), operates the electricity distribution network in central Slovakia. This network is an integral part of the European interconnected system, which aligns with the EU Taxonomy's substantial contribution criteria. The sustainability aspect of this operation is further supported by the significant presence of low-carbon sources connected to the network. Over the past five years, 88% of the newly connected capacity have been renewable energy sources, such as solar and hydroelectric facilities. The remaining connected technologies mainly consist of gas-fired plants. By facilitating the expansion of renewable power generation sources, SSD plays a vital role in helping the EU achieve its decarbonization goals.

In addition to its efforts in promoting renewable energy, SSD recognizes the importance of addressing its indirect carbon footprint. This includes compensating for power network losses through additional power purchases. However, due to the generally low emission intensity of the Slovak power generation sector, which primarily relies on nuclear and hydroelectric plants,

these indirect emissions remain relatively low. Moreover, Slovakia has a coal phase-out plan in place, with the remaining coal-fired power plants scheduled for decommissioning in the next few years. As part of EPIF's commitment to carbon neutrality, EPIF anticipates a substantial reduction in these indirect emissions by 2030, ultimately aiming for complete elimination by 2040.

EPIF's Focus on hydrogen

EPIF operates infrastructure suitable for cost-efficient hydrogen adoption. Hydrogen adoption is widely recognized as an important step towards a low carbon economy. This fuel of the future could serve as an effective medium for the transportation and storage of renewable energy.

The perception of hydrogen has dramatically changed in recent years. Renewable energy power generation is growing considerably, and new ways to store and transport energy are now a key focus.

EPIF's existing gas transmission and distribution infrastructure can be retrofitted to support hydrogen, while the gas storage assets are also evaluated to assess its hydrogen compatibility. To this end, EPIF has already launched hydrogen-dedicated research and development projects. The unique, geographically strategic position for future hydrogen transmission further positions EPIF to be a key player in hydrogen adoption.



Governance

The EPIF Board of Directors is regularly informed on ESG matters by the ESG Officer and CEO Gary Mazzotti. The Board approves sustainability reports with the decarbonization targets, the underlying decarbonization strategy and Capex plans that underpin the emission

reduction goals, with each segment's directors responsible for preparing their respective plans.

To ensure the effective management of health, safety, and environmental aspects of day-today operations, EPIF has established the Health, Safety, and Environmental Committee. This committee is responsible for evaluating pertinent policies, offering guidance, and making recommendations concerning crucial safety, health, environment, and security matters. The committee provides quarterly reports to the EPIF Board of Directors and closely monitors key performance indicators. Consisting of five members appointed by the EPIF Board of Directors for an indefinite term, the committee convenes approximately five times a year.

Policies connected to ESG Area

EPIF has put in place a number of policies connected to ESG area, such as ESG Master Policy⁷, setting out a comprehensive policy framework for the EPIF Group as well as defining the core principles for sustainability related policies within the EPIF Group and its core subsidiary companies, and Environmental Policy⁸, defining the EPIF Group's commitments in regard to behavior that has a direct or indirect impact on the environment. EPIF's policies address various aspects of its operations including biodiversity, procurement, diversity and inclusion, as well as anti-corruption measures.

Contribution to UN SDGs



Ensure access to affordable, reliable, sustainable and modern energy for all EPIF actively promotes the transition towards a new

energy model, one that is more sustainable and inclusive for the energy and utilities sector. Around 92% of EPIFS Adjusted EEITDA is derived from gas transmission, gas and power distribution, and gas storage activities, which have relatively limited carbon footprint (more details provided in the Environmental section of this Report). In the heat infrastructure segment, EPIF puts significant effort into accelerating our transition to less emission-intensive sources of energy (e.g. biomass, municipal waste and natural gas).



Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all

As a major energy provider, EPIF contributes significantly to economic growth and fair employment. We pride ourselves on being able to create jobs for individuals and provide energy to families, companies, and other entities, all of which are crucial for a wellfunctioning society. Through our services, we promote sustainable and inclusive development and support socio-economic progress.



Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

One of EPIF's major societal contributions is its operation of reliable, safe, and high-quality energy infrastructure. Notably, EPIF continues to be a key driver of innovation for sustainable industrialisation among its competitors. Our recent efforts include increased digitalisation of activities and services, and enhanced transparency. Furthermore, we invest in innovative solutions such as hydrogen, enabling future energy systems. We believe hydrogen is more than a low carbon product because it links different energy sectors and thus increases flexibility and resilience of our economies.



Ensure sustainable consumption and production patterns

When providing services, EPIF thinks long-term, which is why we aim to promote energy efficiency. It is imperative to us to ensure quality pipelines, as well as the other parts of our distribution and transmission systems. We proudly employ people who are committed to contributing to the preservation of the environment by maintaining the highest level of infrastructure efficiency. Additionally, we are dedicated to raising customer awareness on responsible energy consumption and savings.



Take urgent action to combat climate change and its impacts

At EPIF, we are strongly committed to focusing our efforts on climate action. This is evident, for example, in our gradual shift towards a lower emission-intensive energy mix and our aim to reach carbon neutrality by 2040. We are also committed to continuously gathering data and pursuing strategies that will mitigate the impacts of climate change.



Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels

At EPIF, ethics is at the core of our values. It is important for us to have moral principles at the forefront of all our work, so that we can continuously create inclusive opportunities. We do this, for example, by ensuring trust through inclusive governance, fostering collaborative relationships, and addressing social conflict.

⁷ <u>https://www.epinfrastructure.cz/wp-content/uploads/1-EPIF-Master-ESG-policy.pdf</u>

⁸ <u>https://www.epinfrastructure.cz/wp-content/uploads/2-EPIF-Environmental-policy.pdf</u>

3. Rationale for Green Finance Framework

The creation of this Framework is a consistent and tangible step to further EPIF's commitment to sustainability and to mobilize all its stakeholders around this objective. The Framework covers issuance of green finance instruments ("Green Financing") and allows for the alignment of funding instruments with the material sustainability topics, related investments, and targets. By further promoting its sustainability ambitions (both internally and externally) and reinforcing engagement with investors and other stakeholders, EPIF believes any issuance will accelerate the journey towards its sustainability ambition. The sustainable finance instruments issued under this Framework are intended to contribute to implementing the decarbonization strategy of EPIF described above.

4. EPIF Green Finance Framework

In line with the ICMA's 2021 Green Bond Principles (GBP), as well as the 2023 LMA Green Loan Principles administered by the Loan Market Association ("LMA"), this Framework is presented through the following core components:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting
- External Review

Through this Framework, EPIF may issue different green finance instruments (which may include, but are not limited to, bonds, including private placements, loans, and commercial paper).

4.1 Use of Proceeds

EPIF intends to allocate an amount equivalent to net proceeds of Green Financing to finance or refinance, in whole or in part, a portfolio of projects aligned with the eligibility criteria in this Framework ("Eligible Green Projects") within the following eligible categories. Eligible Green Projects can include asset values, investments and Capex and operational expenditure ("Opex") associated with the eligibility criteria outlined below ("Eligibility Criteria"). Assets, Capex and Opex will qualify with no lookback period. Opex shall typically represent noncapitalized portion of repair and maintenance of the eligible assets. No variable operating costs (such as fuel costs) can be included within eligible Opex.

The portfolio of Eligible Green Projects ("Eligible Green Project Portfolio") will incorporate assets at their most recent IFRS balance sheet value. This value will be consistently revised to account for ongoing investments and depreciation charges.

ICMA GBP/GLP Project Category	Eligibility Criteria	UN SDGs	Link to EU Taxonomy
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Renewable Energy Electricity distribution infrastructure	 Assets, Investments, Capex and Opex relating to electricity distribution infrastructure and equipment that meets one of the following criteria: a) The system is the interconnected European system, i.e. the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinated systems b) Over 67% of newly connected generation assets comply with the 100gCO2/kWh threshold (over a rolling 5-year period), or c) The grid's average emissions factor is less than 100gCO2/kWh but excluding any grid connections of power plants that are more CO2 intensive than 100gCO2/kWh (as a proxy for this threshold any direct grid connections of power plants other than wind, solar or hydro⁹ energy will be excluded) 	7 AFFORMATE AND DEAM GRAY	Substantial contribution to Climate Change Mitigation: 4.9 Transmission and distribution of electricity
Renewable Energy Gas distribution infrastructure	 Assets, Investments, Capex and Opex relating to renewable and low-carbon gas distribution infrastructure and equipment: Construction or operation of new transmission and distribution networks dedicated to hydrogen or other low-carbon gases Conversion/repurposing of existing natural gas networks to 100% hydrogen Retrofit of gas transmission and distribution networks that enables the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low carbon gases in the gas system 		Substantial contribution to Climate Change Mitigation: 4.14 Transmission and distribution networks for renewable and low carbon gases
Energy Efficiency District heating networks	 Assets, Investments, Capex and Opex relating to Pipelines and associated infrastructure for distribution of heating and cooling produced using at least 50 % renewable energy, 50 % waste heat, 75 % cogenerated heat or 50 % of a combination of such energy and heat Construction and operation Refurbishment Modification to lower temperature regimes; Advanced pilot systems (control and energy management systems, Internet of Things). Co-generation of heat/cool and power from bioenergy, as per the substantial contribution criteria to climate change mitigation of the Climate Delegated Act (Annex I) under 4.20 High efficiency co-generation of heat/cool and power from fossil gaseous fuels as per the	13 CLANER CONTRACTOR	Substantial contribution to Climate Change Mitigation: 4.15 District heating/cooling distribution 4.20 Cogeneration of heat/cool and power from bioenergy 4.30 High efficiency co- generation from of heat/cool and

⁹ Connections to hydro will only be eligible if aligned with the substantial contribution criteria to climate change mitigation of the Climate Delegated Act

EPIF has identified assets or investments that meet the criteria mentioned above and are considered suitable for Green Financing. The list provided below highlights the most significant assets in terms of value and should not be seen as an exhaustive overview of potential projects that could be financed through Green Financing. EPIF recognizes that its infrastructure will continue to accommodate predominantly natural gas in the foreseeable future to meet the demand for this fuel. However, a key principle guiding future investments in gas infrastructure will be its ability to incorporate renewable gases and facilitate a transition away from natural gas.

Power distribution network in central Slovakia

The network represents a vital part of the interconnected European system. Its maintenance and further development are vital to increase its resilience to accommodate the ramp up of renewable generation sources in the European energy mix. The network facilitates the expansion of renewable generation sources. Over the past five years, 88% of the newly connected capacity have been renewable energy sources, such as solar and hydroelectric facilities.

Hydrogen ready parts of the gas distribution network in Slovakia

The existing natural gas distribution network is well-suited to accommodate renewable gases and has the capability to connect biomethane facilities. SPP Distribúcia manages a registry of renewable gases, allowing end consumers interested in decarbonization to purchase guarantees or origin from biomethane suppliers. The projected growth of biomethane indicates its increasing importance, with an estimated potential to contribute up to 10% of Slovakia's current gas consumption. Looking ahead, efforts are underway to gradually prepare the network for a complete transition to 100% hydrogen utilization. Presently, approximately 59% of the local networks are constructed using polyethylene, a material fully compatible with hydrogen distribution. Additionally, all newly installed pipes are made from this hydrogenready material, ensuring full preparedness for the transition to hydrogen distribution. Given that the gas distribution network already covers a significant portion of Slovakia, reaching approximately 94% of the population, future Capex spent on expansion of the network is likely to be negligible. Instead, the primary focus will be on converting and upgrading the existing network to ensure readiness of the network for a wide range of renewable gases.

¹⁰ On Feb 2, 2022, the EU Commission presented a "complementary delegated climate act to accelerate decarbonisation" (see press release, EU Commission of 02.02.2022, https://ec.europa.eu/commission/presscorner/detail/de/ip_22_711). Gas activities are considered to play an important role as a transitional activity and are in line with EU climate and environmental objectives; construction and operation of electricity generation plants (as per 4.29) and cogeneration plants (as per 4.30) using fossil gaseous fuels are considered to be taxonomy-aligned activities, subject to minimum requirements.

District heating networks in the Czech Republic

The heating networks facilitate the distribution of hot water, primarily generated through a highly efficient cogeneration process. EPIF, which also manages the adjacent heating plants responsible for supplying heat to the network, predominantly relies on lignite as the energy source. However, EPIF is committed to fully decarbonizing these sources, as detailed in the subsequent section.

CCGT heating plants in the Czech Republic

EPIF intends to transition from the current lignite-based heating plants to a balanced combination of low carbon technologies. The incorporation of biomass units and waste incinerator plants will contribute to diversification efforts, but the primary focus will be on Combined Cycle Gas Turbine (CGGT) units. These units are recognized as fully compatible with the future net zero energy system. When evaluating these technologies, EPIF places significant importance on their ability to accommodate various renewable gases, including hydrogen. As the share of renewable energy sources is expected to increase rapidly, the dispatchable CCGT units will play an increasingly vital role as peaking sources, ensuring the security of energy supply and grid stability. The conversion of these units to renewable gases is crucial to ensure their continued utilization within the net zero economy.

4.2 Process for Project Evaluation and Selection

Projects financed and/or refinanced through Green Financing proceeds are evaluated and selected by EPIF's Green Finance Committee, formed by representatives from Treasury/Financing, Sustainability, Investor Relations and other parties to be nominated as subject matter experts. The Green Finance Committee is responsible for:

- Reviewing the content of this Framework and updating it to reflect changes in corporate strategy, technology, market, or regulatory developments on a best effort basis;
- Updating external documents such as Second Party Opinion (SPO) and related documents from external consultants and accountants;
- Evaluating and defining the Eligible Green Project Portfolio in line with the Eligibility Criteria as set out in the Framework; excluding projects that no longer comply with the Eligibility Criteria or have been disposed of and replacing them on a best effort basis;
- Ensuring that the characteristics of the Eligible Green Project Portfolio have not materially changed, particularly in respect of the transition risk and locking in emissions from the prolonged use of fossil fuels;
- Overseeing, approving and publishing the allocation and impact reporting, including external assurance statements. EPIF may rely on external consultants and their data sources, in addition to its own assessment;
- Monitoring internal processes to identify known material risks of negative social and/or environmental impacts associated with the Eligible Green Project Portfolio and appropriate mitigation measures where possible; and
- Liaising with relevant business finance segments and other stakeholders on the above.

The Green Finance Committee will meet at least on an annual basis and will report to the EPIF Board of Directors at least on an annual basis. Resolutions by the Green Finance Committee will require unanimous consensus of all its members, granting each member the power of veto.

ESG Policies

EPIF complies with official national and international environmental and social standards and local laws and regulations, on a best effort basis across all its activities. These laws are monitored and enforced by the local authorities, amongst others as part of obtaining the necessary permits for new projects and infrastructure maintenance. EPIF's Environmental and Social Risk policies define minimum standards for all its activities, including those financed with the proceeds of Green Financing issued under this Framework. The table below presents an overview of relevant codes and policies established at EPIF Group:

ESG Master Policy	Sanctions Policy
Environmental Policy	Anti-Trust Law Policy
Biodiversity Policy	Policy on Reporting of Serious Concerns
Procurement Policy	Asset Integrity Policy
Cybersecurity Principles	Equality, Diversity and Inclusion Policy
Code of Conduct	Operational Policy
Tax Governance policy	Anti-Corruption and Anti-Bribery Policy
KYC Directive	Anti-Financial Crime Policy

4.3 Management of Proceeds

EPIF intends to allocate an amount equivalent to net proceeds from the Green Financing to finance or refinance, in whole or in part, the Eligible Green Project Portfolio. Projects will be selected in accordance with the Use of Proceeds criteria and the Evaluation and Selection process presented above.

EPIF will strive, over time, to achieve a level of allocation for the Eligible Green Project Portfolio which matches the balance of net proceeds from its outstanding Green Financing. Additional Eligible Green Projects will be added to the EPIF's Eligible Green Project Portfolio to the extent required to ensure that the net proceeds from outstanding Green Financing will be allocated to the Eligible Green Project Portfolio.

Whilst any Green Financing net proceeds remain unallocated, EPIF will hold the proceeds in cash and /or invest in other short-term liquid instruments.

4.4 Reporting

EPIF intends to publish a report on the allocation of proceeds to the Eligible Green Project Portfolio as well as an impact report annually and at least until full allocation or until maturity.

EPIF intends to report the allocation and impact of the net use of proceeds to the Eligible Green Project Portfolio at least at the category level and on an aggregated basis for all EPIF's Green Financing outstanding.

EPIF intends to align its reporting with the approach described in the ICMA "Handbook – Harmonized Framework for Impact Reporting (June 2022)"¹¹ on a best effort basis.

¹¹ https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022-280622.pdf

Allocation Reporting

The allocation report will provide:

- Total amount of assets, investments, and expenditures in the Eligible Green Project Portfolio, per eligible category
- The amount or percentage of new and existing projects (financing vs. refinancing)
- The balance of unallocated proceeds
- The geographic location of the projects, where feasible
- The percentage and amount of taxonomy eligible and taxonomy aligned activities

Impact Reporting

The impact report will provide the following and also include a description of underlying methodology and assumptions used:

- Estimated annual avoided greenhouse gas ('GHG') emissions (in tonnes CO2e/year).
- Installed capacity of low emission sources replacing lignite units (in MW/year)
- Length of the gas distribution infrastructure adapted to hydrogen (in km/year)
- Connection of the renewable generation capacity to the power distribution network (in MW/year)
- Smart grid components installed in the power distribution network, e.g. smart meters

4.5 External Review

Second Party Opinion (pre issuance)

This Framework has been reviewed by (i) Sustainable Fitch and (ii) CICERO Shades of Green, now a part of S&P Global, who have issued an independent Second Party Opinion. The Second Party Opinions as well as this Framework will be accessible through the EPIF's website.

Verification (post issuance)

EPIF intends to request on an annual basis, starting one year after issuance and until maturity (or until full allocation), a limited assurance report of the allocation of the proceeds to the Eligible Green Project Portfolio and the impact reporting, provided by its external auditor (or any subsequent external auditor).

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