

EP Infrastructure

2023 Green Finance Framework

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- ❑ The Information should be read in conjunction with the Green Finance Framework as of July 2023 published on www.epinfrastructure.cz.

Presenting team



Gary Mazzotti

Chief Executive Officer, Vice-chairman of Board Of Directors

- >30 years of experience
- Serves on boards of other EPIF entities



Václav Paleček

Finance Director

- >10 years of experience
- Serves on boards of other EPIF entities



Petr Choutka

Sustainability Manager

- 8 years of experience

Agenda

- 1) Decarbonization strategy and role of green financing
- 2) Annex: Green Finance Framework



Creation of the Green Finance Framework represents a logical step for EPIF to link the future financing to execution of its transition plan

Decarbonization strategy

- ❑ As an operator of critical energy infrastructure, EPIF aims to play a **leading role in the transition to a zero-carbon energy system**. In the last few years, EPIF has developed robust decarbonisation strategy with **clearly defined roles for each asset in a net-zero world**
- ❑ EPIF views the **role of gaseous fuels as paramount** in the energy transition. EPIF acknowledges the temporary role of natural gas as a transitional fuel and the need to replace it with renewable gases. EPIF aims to ensure that its future Capex is predominantly directed towards adaptation of these assets to **renewable gases** such as hydrogen or biomethane once these are deployed on a commercial scale
- ❑ Significant portion of **future Capex** is planned to be aligned with the **EU Taxonomy criteria (> 60% expected)**
- ❑ **Key decarbonization pillars** are (i) phase out of lignite in district heating, (ii) adaptation of the gas infrastructure for renewable gases, and (iii) robust leak detection and repair programs to control methane leakage
- ❑ In May 2023, EPIF's strategy was further supported by declaration of **medium-term and long-term decarbonization commitments** with the main goal of reaching **net zero operations by 2050**
- ❑ EPIF's sustainability efforts acknowledged by a strong **ESG risk rating of 17.8 (low risk)¹** from Morningstar Sustainalytics (4th position out of over 94 companies from the multi-utilities sector) and **ESG score of 63/100** from S&P Global Ratings

Green Finance Framework

- ❑ EPIF has established its Green Finance Framework ("Framework") to reinforce its decarbonisation strategy and **to link the proceeds from future financing to execution of its transition plan**
- ❑ Key building blocks of the Framework are (i) close alignment with the substantial contribution criteria of the **EU Taxonomy**, (ii) alignment with the **ICMA Green Bond Principles** and (iii) **external assurance** of the allocation and impact reporting
- ❑ Key assets identified as eligible for green financing are represented by the **gas and power distribution grids** and **district heating systems** (cogeneration plants including adjacent heating networks)
- ❑ EPIF solicited Second Party Opinions ("SPO") on its framework from (i) **Shades of Green**, now part of **S&P Global** which assigned the **Light Green** shading² to the framework and (ii) **Sustainable Fitch** which assigned a qualification of **"Good"**³ to the framework. Both SPO providers find the framework is aligned with the ICMA Green Bond Principles

1. Last full rating update was performed in December 2022 with the score of 18.2. The score was slightly updated in April 2023 to 17.8, securing EPIF the 4th position out of 94 companies within the multi-utilities sector
2. Details on the Shades of Green methodology available here <https://www.spglobal.com/ratings/en/products-benefits/products/shades-of-green>
3. Details on the Sustainable Fitch methodology available here <https://www.sustainablefitch.com/products/second-party-opinions>

EPIF Green Finance Framework is aligned with the ICMA Green Bond Principles and closely follows the EU Taxonomy

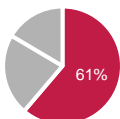
Use of Proceeds	<ul style="list-style-type: none">✓ Refinancing of existing assets or financing of new Capex and Opex✓ Key green project categories: Renewable Energy; Energy Efficiency
Process for Project Evaluation and Selection	<ul style="list-style-type: none">✓ Overseen by the Green Finance Committee in accordance with the eligibility criteria✓ Eligible green projects reflect the IFRS balance sheet values of assets or spent Capex
Management of Proceeds	<ul style="list-style-type: none">✓ Proceeds managed in a portfolio approach✓ Capex and Opex will qualify with no lookback period✓ EPIF to ensure the green asset + Capex values exceed the green bond proceeds
Reporting	<ul style="list-style-type: none">✓ Annual allocation reporting (until full allocation)✓ Annual impact reporting
External Review	<ul style="list-style-type: none">✓ Second Party Opinions on the GFF by S&P Shades of Green and Sustainable Fitch✓ Allocation and impact report to be externally assured
Alignment with best market standards	<ul style="list-style-type: none">✓ ICMA Green Bond Principles 2021 (incl. the updated appendix I of June 2022)✓ LMA/LSTA/APLMA Green Loan Principles 2023✓ Close alignment with the substantial contribution criteria of the EU Taxonomy Regulation for climate change mitigation

Key assets envisaged for the green financing are represented by gas and power distribution grids and district heating systems



Gas distribution grid

Indicative green
asset value:
EUR 2.1bn



(Represents value of the hydrogen-ready sections of the network)

Highlights

- Monopoly gas network operator in Slovakia with grid length of almost 35,000 km
- 59% of the network made of polyethylene, fully hydrogen-aligned material. The replacement of the remaining pipes is gradually accelerated
- SPPD connected the first biomethane station in 2022 and operates a registry of renewable gases

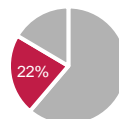
Key decarbonization levers

- 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



Power distribution grid

Indicative green
asset value:
EUR 0.8bn



(Represents value of the distribution network)

Highlights

- Grid spanning over 35,500 km in central Slovakia, enabling power supply to more than 780,000 connection points
- Integral part of the European interconnected system
- Over the past five years, 88% of the newly connected capacity have been renewable energy sources, mainly solar

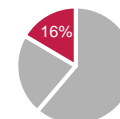
Key decarbonization levers

- Scope 2 emissions from purchased power for network losses to be reduced by increasing reliance on zero-emission power
- Reinforcing the grid to enable fast deployment of renewables



District heating systems

Indicative green
Capex value:
EUR 0.6bn



(Represents net Capex planned for CCGT units + value of existing district heating networks and biomass units)

Highlights

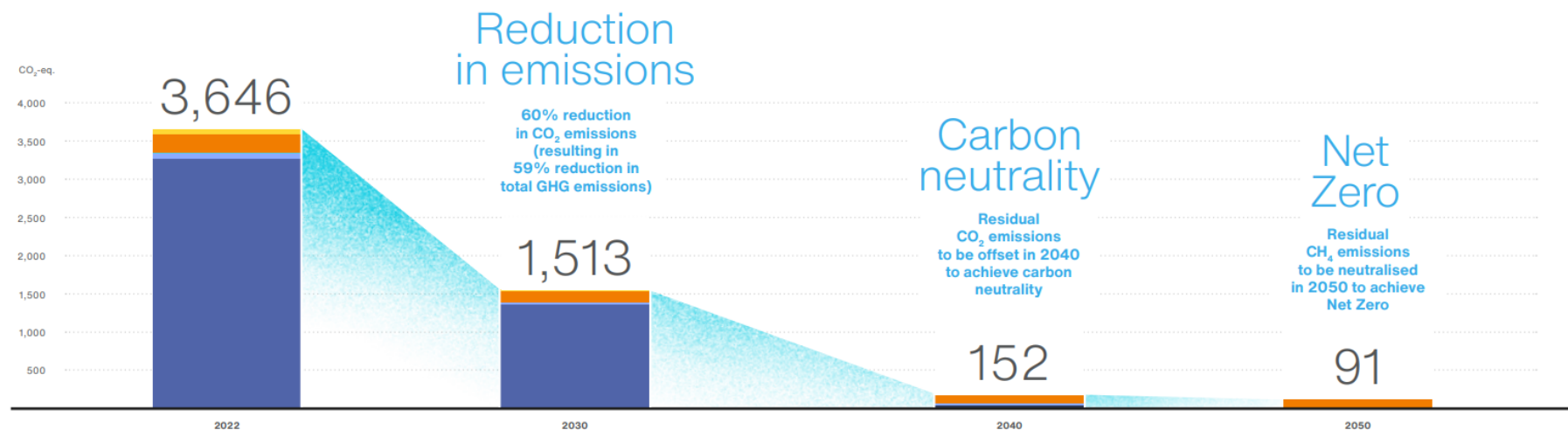
- EPIF operates three cogeneration heating plants including adjacent heat networks in the Czech Republic, supplying heat to more than 150,000 end consumers
- Dispatchable power generation sources with vital contribution to the power grid stability

Key decarbonization levers

- Conversion away from lignite to a balanced mix of gas-fired plants, biomass units and waste to energy plants
- Ensuring hydrogen readiness of the gas turbines to gradually increase share of renewable gases and ultimately replace natural gas

EPIF's decarbonization commitments

Projected GHG emissions



Source: EPIF 2022 Sustainability report

Decarbonization commitments

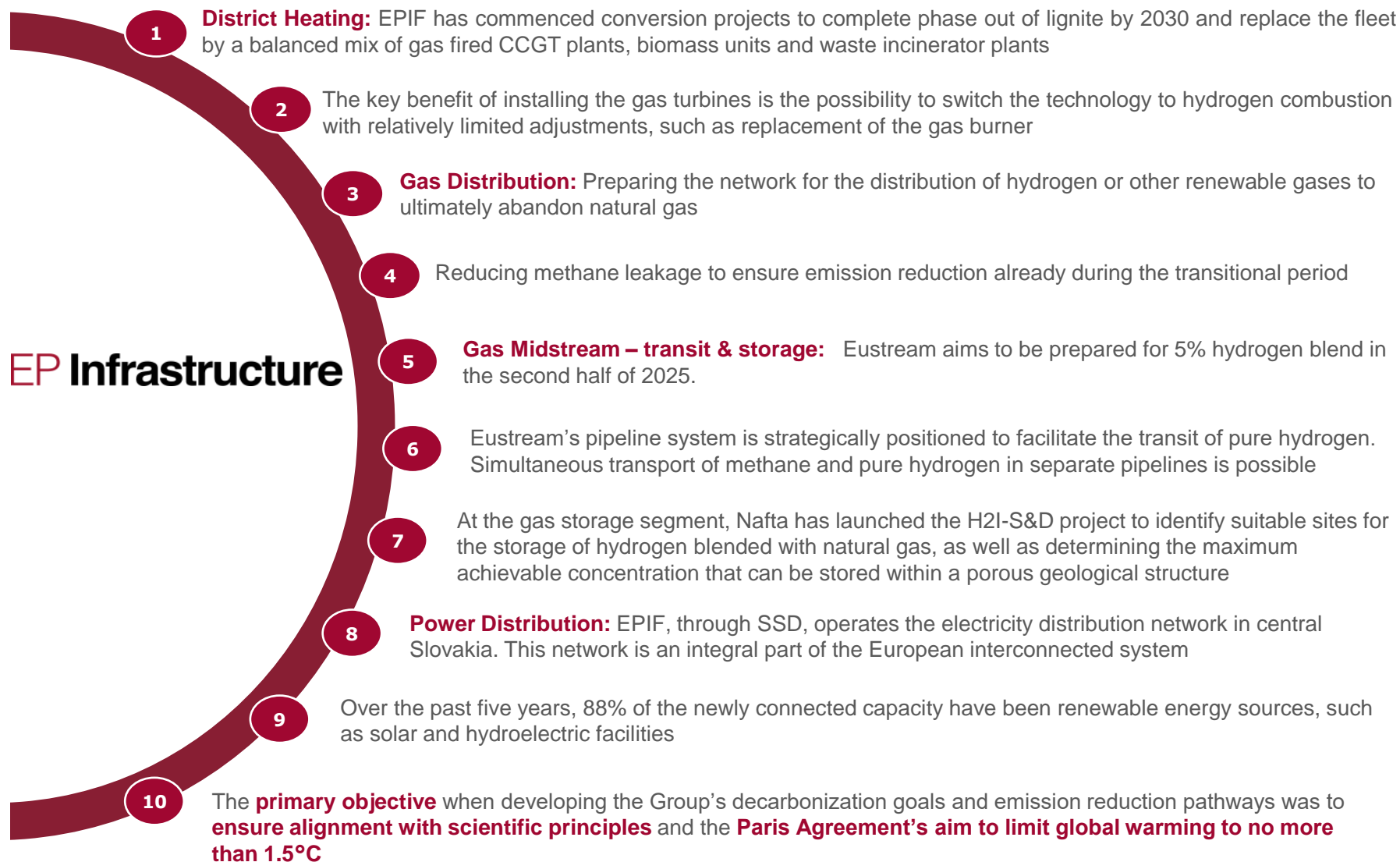
- ❑ Reduce scope 1 & 2 CO₂ emissions **by 60% by 2030** compared to the 2022 level
- ❑ Reduce methane emissions in line with the **Global Methane Pledge¹**
- ❑ Phase out coal **by 2030**
- ❑ Achieve **carbon neutrality** in respect of Scope 1 & 2 emissions by **2040**
- ❑ Achieve **net zero** operations in respect of Scope 1 & 2 emissions by **2050**
- ❑ Start collection of **Scope 3²** emissions for 2024 (to be disclosed in the first half of 2025) and set a time bound Scope 3 reduction target afterwards

1. <https://www.globalmethanepledge.org/>

2. The major source of scope 3 emissions is represented by end use of gas which is transited, distributed or stored via the EPIF infrastructure. Based on 2022 figures, the estimated Scope 3 emissions resulting from the end use of gas amount to approximately 70 million tons of CO₂ equivalent. This is twenty times higher than the Scope 1 and 2 emissions, which are covered by one of EPIF's decarbonization targets.



EPiF's decarbonization strategy: Key highlights



EPIF's hydrogen initiatives overview

Transit

- ❑ Eustream is a member of European Clean Hydrogen Alliance and **European Hydrogen Backbone** which promote Europe-wide hydrogen adoption
- ❑ The **Central European Hydrogen Corridor** initiative is being promoted by a group of four leading Central European gas transmission infrastructure companies in Ukraine, Slovakia, the Czech Republic, and Germany
- ❑ A pilot project for green hydrogen production will be also launched at the Veľké Kapušany compressor station, where **green hydrogen** produced on site from solar electricity is planned to be used **to drive compressors**

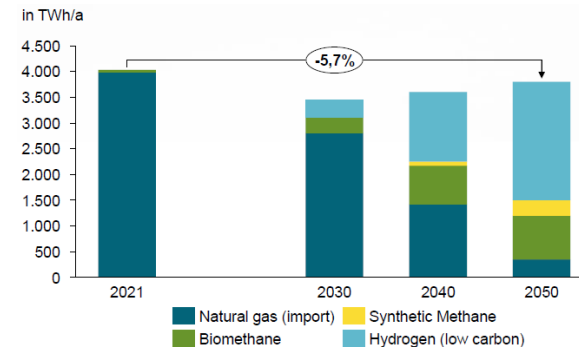
Distribution

- ❑ In 2022, SPPD successfully completed the **H2Pilot project** where it blended 10% of H2 into the gas distribution network and tested interaction of the networks as well as appliances in households and commercial customers
- ❑ SPPD is expected to be ahead of its European peers in hydrogen readiness due its modern network consisting of a **high share of polyethylene pipes** and its integration along the gas value chain

Storage

- ❑ Nafta participated in several projects focused on storage innovations and commenced internal projects focused on **assessing the impact of various concentrations of hydrogen on gas storage facilities**
- ❑ Nafta is working on the assessment of hydrogen impact (2% vol.) on its infrastructure (reservoirs, wells and surface technology)
- ❑ Nafta's **H2-Infrastructure Storage & Distribution** project is one of the first Important Projects of Common European Interest (IPCEI) in the hydrogen area

Average of methane and hydrogen supply scenarios



Sources: TYNDP 2022, EHB 2021, EPIF calculations



Source: EPIF 2022 Sustainability report






Agenda

- 1) Decarbonization strategy and role of green financing
- 2) **Annex: Green Finance Framework**



Use of proceeds

- ❑ Under the Green Finance Framework EPIF intends to issue green finance instruments to finance and/or refinance a portfolio of projects aligned with the eligibility criteria in the Green Finance Framework
- ❑ Eligible Green Projects can include asset values, investments and Capex and operational expenditure (“Opex”)

GBP/GLP Category	Description Eligible Green Projects: Eligibility Criteria	Contribution to UN SDGs	Link to EU Taxonomy
Renewable Energy Electricity distribution infrastructure	<ul style="list-style-type: none"> ❑ Assets, Investments, Capex and Opex relating to electricity distribution infrastructure and equipment that meets one of the following criteria: <ul style="list-style-type: none"> 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 hydro¹ energy will be excluded) 		Substantial contribution to Climate Change Mitigation: 4.9 Transmission and distribution of electricity
Renewable Energy Gas distribution infrastructure	<ul style="list-style-type: none"> ❑ Assets, Investments, Capex and Opex relating to renewable and low-carbon gas distribution infrastructure and equipment: <ul style="list-style-type: none"> • 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 gasses 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	<ul style="list-style-type: none"> ❑ Assets, Investments, Capex and Opex relating to: <ul style="list-style-type: none"> • 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 substantial contribution criteria to climate change mitigation of the Complementary Climate Delegated Act on gas energy activities (Annex I) under 4.30 ❑ Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system as per the substantial contribution criteria to climate change mitigation of the Complementary Climate Delegated Act on gas energy activities (Annex I) under 4.31 	 	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 power from fossil gaseous fuels 4.31 Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system

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

Project Evaluation and Selection & Management of Proceeds

EPIF's Green Finance Committee

Eligible Green Projects will be selected by a dedicated Green Finance Committee set up within EPIF, which consists of members from the following departments (with the possibility of other parties being nominated as subject matter experts):



The Green Finance Committee is responsible for:

- ❑ Reviewing the content of EPIF's Green Finance 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;
- ❑ Liaising with relevant business finance segments and other stakeholders on the above.
- ❑ The committee will meet at least on annual basis

Alignment with EPIF's internal policies

The Eligible Green Projects are aligned with EPIF's related internal sustainability policies and management processes. Set out below are some examples of relevant codes and policies:

- ❑ ESG Master Policy
- ❑ Environmental Policy
- ❑ Biodiversity Policy
- ❑ Procurement Policy
- ❑ Cybersecurity Principles
- ❑ Code of Conduct
- ❑ Tax Governance policy
- ❑ KYC Directive

Management of proceeds

- ❑ **Management of proceeds rules:** portfolio approach with no look back period for Capex and Opex
- ❑ **Tracking process:** vehicles underlying Green Financing are flagged as to be used for a particular green finance instrument in an internal system to avoid double counting for any subsequent financial asset
- ❑ **Level of allocation:** 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
- ❑ **Unallocated proceeds:** EPIF will hold unallocated net proceeds in cash and /or invest in other short-term liquid instruments

Reporting

- ❑ EPIF will make and keep readily available **reporting on the allocation of the portfolio** of Eligible Projects **after a year from the issuance** of the green finance instruments, **to be renewed annually until full allocation**

- ❑ **The allocation report to provide indicators such as:**

1	Allocated proceeds
2	Unallocated proceeds
3	Financing ² vs Refinancing ³
4	Regional split
5	Percentage and amount of taxonomy eligible and taxonomy aligned activities

- ❑ EPIF will make and keep readily available **annual reporting on the impact of the portfolio** of Eligible Green Projects **after a year from the issuance** of the Green Finance Instruments, **to be renewed annually**

- ❑ On a best effort basis, EPIF intends to adhere the impact reporting to prevailing requirements as laid out in the **ICMA “Harmonized Framework for Impact Reporting” (June 2022)**

- ❑ **The impact report to provide indicators such as:**

- ❑ 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

1. Such reports can include the allocation and impact of several outstanding green finance instruments, however, displayed separately
2. Financing defined as the value of Capex and Opex recorded after the issue date of a green finance instrument
3. Refinancing defined as the value of assets existing as of the issue date of a green finance instrument

Mapping of EPIF's GFF on Climate Transition Finance Handbook

1 Issuer's climate transition strategy and governance

Assessment: **Disclosure recommendations adopted.**

- Recommendations by ICMA:
 - ✓ A long-term target to align with the goals of the Paris Agreement (e.g. the objective of limiting global warming ideally to 1.5°C and, at the very least, to well below 2°C);
 - ✓ Relevant interim targets on the trajectory towards the long-term goal;
 - ✓ Disclosure on the issuer's levers towards decarbonisation, and strategic planning towards a long-term target to align with the goals of the Paris Agreement;
 - ✓ Clear oversight and governance of transition strategy; and,
 - ✓ Evidence of a broader sustainability strategy to mitigate relevant environmental and social externalities and contribute to the UN Sustainable Development Goals.

2 Business model environmental materiality

Assessment: **Disclosure recommendations adopted**

- ✓ Discussion of the materiality of the planned transition trajectory may be included in the disclosures referenced for Element 1 above.

3 Climate transition strategy to be science-based including targets and pathways

Assessment: **A majority of the disclosure recommendations adopted**

- Recommendations by ICMA: Issuer's climate strategy should reference science-based targets and transition pathways. The planned transition trajectory should:
 - ✓ be quantitatively measurable (based on a measurement methodology which is consistent over time);
 - ✓ be aligned with, benchmarked or otherwise referenced to recognized, science-based trajectories where such trajectories exist;
 - ✓ be publicly disclosed (ideally in mainstream financing filings), include interim milestones, and;
 - ✓ be supported by independent assurance or verification

Also,

- ✗ Short, medium, and long-term greenhouse gas reduction targets aligned with Paris Agreement – short term targets are missing
- ✓ Baseline;
- ✓ Scenario utilised, and methodology applied (e.g. ACT, SBTi, etc.);
- ✗ Greenhouse gas objectives covering all scopes (Scope 1, 2 and 3) – scope 3 is missing; and,
- ✗ Targets formulated both in intensity and absolute term – targets are aligned with SBTi's absolute target criteria

4 Implementation transparency

Assessment: **A majority of the disclosure recommendations adopted**

- ✓ CapEx roll-out plan consistent with the overall climate transition strategy and climate science and discussion of how it informs CapEx decision-making;
- ✓ Phase-out plan regarding activities/products incompatible with the climate transition strategy;
- ✓ Green CapEx, as a percentage of total CapEx and how the ratio may be expected to evolve over time;
- ✗ Disclosure on the percentage of assets/revenues/expenditures/divestments aligned to the various levers;
- ✓ A qualitative and/or quantitative assessment of the potential locked-in GHG emission from an issuer's key assets and products;
- ✗ Assumptions on the internal cost of carbon; and
- ✗ Disclosure on adverse impacts on the workforce, community and surrounding environment, and related strategies used to mitigate those negative impacts.



EPIF's transition plan reflects the ESRS requirements

ESRS E1-1 (16 a-j) requirements¹



a. GHG emission reduction targets



b. Decarbonization levers and key actions



c. Financial resources for implementing transition plan



d. Locked-in GHG emissions



e. EU Taxonomy alignment (Revenues, Capex)



f. Capex amount invested in coal, oil and gas during reporting period



g. EU Paris-Aligned Benchmarks (PAB Equity or Bond Index)



h. Embedding transition plan in overall business strategy and financial planning



i. Transition plan approved by administrative, management and supervisory bodies



j. Update on progress in implementing transition plan

EPIF's implementation of ESRS E1-1 (16 a-j) requirements



Paris-aligned targets for 2030 with 1.5°C path for emissions aligned with SBTi² absolute target criteria (Scope 1&2), Scope 3 is currently being assessed



Coal phase out by 2030, increasing reliance on zero-emission power, fuel switch from coal to mix of gas-fired plants, biomass units and waste to energy plants to carbon neutral gases/hydrogen



Share of EU Taxonomy aligned Capex is expected to be more than 60% in the medium term



Coal phase out by 2030, ensuring hydrogen readiness across the gas networks and heating plants



EU Taxonomy aligned Capex at 56% in 2022, EPIF aims to align expenditures with the EU Taxonomy objectives preparing for accommodation of renewable gases once these are deployed on a large scale



Capex related to gas plants and gas midstream and downstream infrastructure largely dedicated to adoption of green gases



EPIF has the ambition to meet the PAB benchmark requirements in the medium-term following the coal exit



EPIF has fully integrated the transition plan into its overall business strategy



EPIF's transition plan has been approved by the EPIF Board of directors



EPIF reports and monitors its progress on an annual basis

1. Source: https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en.

2. Please note that EPIF cannot obtain external certification from the Science Based Targets initiative on its targets as EPIF is considered as an Oil & Gas company. SBTi is preparing a dedicated methodology for the Oil & Gas sector

EPIF Sustainability Governance Structure

Governance

- ❑ The EPIF Board of Directors collectively bears responsibility for achieving decarbonisation targets and approving sustainability reports with the decarbonisation strategy. The ESG Officer and CEO Gary Mazzotti informs and updates the Board on ESG matters. Additionally, the Board approves Capex plans that underpin the decarbonisation goals, with each segment's directors responsible for preparing their respective business plans.

EPIF Board of Directors

- ❑ Seven members
- ❑ Directs operations and acts on its behalf, represents EPIF in all matters related to daily business management
- ❑ Approves EPIF's sustainability commitment, top ESG challenges and annual sustainability reports
- ❑ Approves sustainability policies, corporate strategy and monitors progress to achieving targets

EPIF Senior Management

- ❑ Responsible for day-to-day operations as well as key business decisions.
- ❑ Drives sustainability commitment, ensuring that it is embedded at every level of the business.
- ❑ Monitors the ESG indicators and analyses the state of EPIF's progress towards its goals and targets

Investment committees at subsidiary level

- ❑ The committees assess material investments
- ❑ Decisions are driven by environmental requirements and long-term strategy of the EPIF Group

Green Finance Committee

- ❑ Ensuring alignment of the investments financed from green instruments with the Eligibility Criteria
- ❑ Overseeing, approving and publishing the allocation and impact reporting, including external assurance statements

Health & Safety Committee

- ❑ The Committee reviews relevant policies, provides guidance, and makes recommendations regarding key safety, health, environment and security decisions
- ❑ Five members appointed by the EPIF BoD for an indefinite period of time and it meets around five times a year

Definitions

- ❑ **Eligibility Criteria** represent eligibility criteria outlined in the EPIF's Green Finance Framework
- ❑ **Eligible Green Projects** represent assets, investments, Capex or Opex aligned with the Eligibility Criteria
- ❑ **Eligible Green Project Portfolio** represents a portfolio of Eligible Green Projects
- ❑ **Green Financing** represents issuance of green finance instruments

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