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Green Bond Allocation & Impact Report

May 2023

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Abbreviations and Definitions

Bond	Inaugural Green Bond issued by Czech Gas Networks Investments, S.à r.l. on September 8, 2021, XS2382953789
CEE	Central and Eastern Europe
CGNI	Czech Gas Networks Investments, S.à r.l. and / or its subsidiaries
Company	Czech Gas Networks Investments, S.à r.l. and / or its subsidiaries
DSO	Distribution System Operator
EUR	Euro(s)
Financing Data	Financial and non-financial data for the period starting on September 1, 2021 and ended on December 31, 2022
GasNet	GasNet, s.r.o. – Subsidiary of CGNI. CGNI holds 100% of the shares in Czech Grid Holding a.s. (CGH), which owns 100% of the shares in GasNet and GasNet Services
GBP	Green Bond Principles
GHG	Greenhouse gas
GLP	Green Loan Principles
Green Finance Framework	Green Finance Framework issued by the Company on August 25, 2021
Green Finance Instruments	Green bonds, green loans, green project financing, etc.
Group	Czech Gas Networks Investments, S.à r.l. and / or its subsidiaries
ICMA	International Capital Markets Association
ISS ESG	ISS Corporate Solutions, Inc.
LMA	Loan Market Association
Net proceeds	Proceeds of Green Finance Instruments after deducting any related issuance costs (e.g. underwriting fees, legal fees, etc.)
PE	Polyethylene
Refinancing Data	Financial and non-financial data for the period starting on January 1, 2019 and ended on August 31, 2021
SPO	Second Party Opinion

#1 Introduction

This is our second report on the allocation of the net proceeds from our Inaugural Green Bond issued in September 2021 and on their impact. The Bond worth EUR 500 million has been issued successfully, with the main purpose of financing investments to prepare our network for the future distribution of low carbon gases, notably hydrogen. The issuance of the Bond clearly demonstrates CGNI's dedication to contribute to Climate Change Mitigation and to support a sustainable Czech economy for the benefit of all our stakeholders. Moreover, it underscores CGNI's commitment to adapt its operations and infrastructure to meet the growing demand for alternative, sustainable low-carbon energy sources, such as hydrogen or biomethane. It also signals our recognition of the importance of proactive investment to remain competitive in a rapidly evolving energy landscape.

The Net proceeds are mainly used to replace steel pipelines with hydrogen-ready polyethylene pipelines. In 2022, we have invested a total of EUR 136 million in the reconstruction of our pipelines, with 64% (EUR 88 million) of the investment being allocated towards the development of polyethylene (PE) pipelines. It's worth noting that 100% of the total investments in the reconstruction of our pipelines can be regarded as “hydrogen-ready”,

meaning that they are being equipped and prepared to facilitate the envisaged transition to hydrogen.

By publishing this report, CGNI aims to promote transparency and accountability in its operations, as well as to encourage other companies in the natural gas industry to adopt more sustainable practices and thus support Europe on its way to net zero target by 2050.

We believe that acting responsibly is fundamental to creating value for all our stakeholders. We are confident that this report will offer valuable insights into our activities and demonstrate our unwavering dedication to a sustainable future.

The Inaugural Green Bond has been issued exclusively to finance and refinance projects contributing to Climate Change Mitigation, more specifically, based on our Green Finance Framework that was published on August 25, 2021, proceeds from the Inaugural Green Bond must be earmarked exclusively against projects in the following categories:

- Renewable energy (Transmission and distribution networks for renewable and low-carbon gases);
- Energy-efficiency (Installation, maintenance, and repair of energy efficiency equipment).

¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Article 10), see [here](#).

Key Data on CGNI Green Bond

Senior Unsecured Green

Bond Type

9/8/2021

Issue Date (mm/dd/yyyy)

8

Term (years)

BBB+ / BBB+

Rating (S&P / Fitch)

0.45

Coupon (% p.a.)

500

Issue Size (mEUR)

100 000

Denomination (EUR)

498.125

Net Issue Proceeds (mEUR)

XS2382953789

ISIN

As of December 31, 2022 the share of outstanding green bonds on total outstanding corporate bonds of the Company equals to approximately 27%.

#2 Green Finance Framework

We published our Green Finance Framework in August 2021. It is based on the International Capital Markets Association Green Bond Principles, 2021 version² and the Loan Market Association Green Loan Principles, 2021 version³. Sustainability rating agency ISS ESG has confirmed the alignment of our Green Finance Framework is in accordance with the Green Bond and Loan Principles in their second party opinion dated August 24, 2021⁴.

The Green Finance Framework was established as an overreaching platform under which the Company intends to issue Green Finance Instruments, which may include bonds (including private placements), commercial papers, loans, promissory notes (*Schuldscheindarlehen*) and any other financial instruments in various formats and currencies, to finance and/or refinance green investments with a positive environmental benefit.

The Green Finance Framework governs the use of Green Finance Instruments within the CGNI Group. We have established a clear decision-making process to determine the eligibility of the nominated Eligible Green Projects. This approach is likewise integrated into the Green Finance Framework.

Eligible Green Projects are selected by a dedicated Green Finance Committee set up within GasNet. This committee verifies the compliance of the selected Eligible Green Projects with the Eligibility Criteria and meets at least on an annual basis. The Green Finance Committee is composed of representatives from the following departments:

- Finance & Controlling;
- ESG & Security; and
- Any relevant business line involved in the selection of Eligible Green Projects when required.

The Green Finance Committee is also responsible for:

- Reviewing the content of the Green Finance Framework and updating it to reflect changes in corporate strategy, technology, market and regulatory developments on a best effort basis;
- Excluding projects that no longer comply with the Eligibility Criteria, or have been disposed of, and replacing them; and
- Reviewing and approving of allocation and impact reporting.

The unallocated proceeds of the Inaugural Green Bond can be invested in accordance to CGNI's liquidity guidelines, in cash, deposits or money market instruments and other capital management activities.

ICMA Green Bonds Principles

Our Green Finance Framework is based on the International ICMA Green Bond Principles, 2021 version² and LMA Green Loan Principles, 2021 version³.

EU Taxonomy

Our Green Finance Framework is aligned as closely as possible with the EU Taxonomy Regulation⁵ and the EU Taxonomy Climate Delegated Act⁶. As the green finance market continues to evolve, CGNI's Green Finance Framework may be subsequently revised or updated to remain consistent with shifting expectations, best market practices and regulatory landscapes.

Eligible Green Projects

Eligible Green Projects are any of the Eligible Green Projects as defined in the following table.

² To be found [here](#)




³ To be found [here](#)

⁴ To be found [here](#)

⁵ Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18, 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, see [here](#).

⁶ Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18, 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, see [here](#)

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EU Economic Activity ⁷ (with NACE Code) ICMA GBP/GLP Category	Eligibility Criteria	Contribution to UN SDG	Contribution to EU Environmental Objectives ⁸
<p>EU Economic activity (NACE Code): Transmission and distribution networks for renewable and low-carbon gases (D35.22, F42.21, H49.50)</p> <p>ICMA GBP/GLP: Renewable Energy</p>	<p>Retrofit of existing gas distribution networks that enables the integration of hydrogen and other low-carbon gases in the network, including any gas distribution network activity that enables the increase of the blend of hydrogen or other low carbon gasses in the gas system</p> <p>Conversion/repurposing of existing natural gas networks to 100% hydrogen</p> <p>Construction or operation of new distribution networks dedicated to hydrogen or other low-carbon gases</p> <p>Measures aimed at leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage</p>	<div><div><div>7</div><div>AFFORDABLE AND CLEAN ENERGY</div><div></div></div><div><div>13</div><div>CLIMATE ACTION</div><div></div></div></div>	<p>Substantial contribution to Climate Change Mitigation (Article 10), including but not limited to:</p> <p>1.a) Generating, transmitting, storing, distributing or using renewable energy in line with Directive (EU) 2018/2001, including through using innovative technology with a potential for significant future savings or through necessary reinforcement or extension of the grid</p>
<p>EU Economic activity (NACE Code): Installation, maintenance and repair of energy efficiency equipment⁹ (F42, F43, M71, C16, C17, C22, C23, C25, C27, C28, S95.21, S95.22, C33.12)</p> <p>ICMA GBP/GLP: Energy Efficiency</p>	<p>Energy efficiency measures aimed at improving the general level of efficiency at GasNet buildings such as (but not limited to):</p> <ul style="list-style-type: none">○ Replacement of existing windows with new energy efficient windows○ Installation and replacement of energy efficient light sources	<div><div><div>13</div><div>CLIMATE ACTION</div><div></div></div></div>	<p>Substantial contribution to Climate Change Mitigation (Article 10), including but not limited to:</p> <p>1.b) improving energy efficiency, except for power generation activities as referred to in Article 19(3)</p>

⁷ Supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives, see [here](#)

⁸ Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18, 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, see [here](#)

⁹ The activity complies with minimum requirements set for individual components and systems in the applicable national measures implementing Directive 2010/31/EU

Second Party Opinion

ISS ESG, one of the world’s leading rating agencies in the field of sustainable investment, reviewed and confirmed the alignment of the Green Finance Framework with the ICMA’s 2021 Green Bond Principles and LMA’s 2021 Green Loan Principles. ISS ESG provided a Second Party Opinion (SPO). In addition, ISS ESG assessed and confirmed the alignment of Green Finance Framework with the EU Taxonomy Climate Delegated Act (June 2021 version).



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#3 Use of Proceeds

In line with its Green Finance Framework, CGNI allocated part of the Net Proceeds of the Inaugural Green Bond to finance and refinance capital expenditures linked to Eligible Green Projects occurred between the years 2019 and 2022. Refinancing

capital expenditures represent the funds spent prior to September 2021, month of the issuance of CGNI's Inaugural Green Bond, and financing capital expenditures represent the funds spent on or after September 1, 2021 through December 31, 2022.

45.9% of the Net proceeds of the Inaugural Green Bond have been used to refinance Eligible Green Projects (i.e., funds spent prior to September 2021, month of the issuance of CGNI's Inaugural Green Bond).

As of December 31, 2022, **EUR 151,6 million** of the Net Proceeds of the Inaugural Green Bond remain to be allocated to Eligible Green Projects. These unallocated proceeds have been invested in

accordance to CGNI's liquidity guidelines, in cash, deposits or money market instruments and other capital management activities. More specifically, unallocated proceeds have been used for partial repayment of outstanding bank borrowings in September 2021.

As of December 31, 2022, all Eligible Green Projects already financed or refinanced using Net Proceeds, have been realized in the **Czech Republic**.

Key Data on Net Proceeds Allocation

Eligible Green Projects (mEUR)										
ICMA Green Bond and Loan Principles Category	EU Economic Activity (NACE Code)	2019	2020	From Jan. to Aug. 2021	Total Refinancing for the Period	Financing (Sept. 2021 - Dec. 2021)	2022	Total	% of Total Allocated Amounts	
Renewable energy	Transmission and distribution networks for renewable and low-carbon gases (D35.22, F42.21, H49.50)	84.2	84.1	60.4	228.7	30.2	87.6	346.5	100%	
Energy efficiency	Installation, maintenance and repair of energy efficiency equipment ⁹ (F42, F43, M71, C16, C17, C22, C23, C25, C27, C28, S95.21, S95.22, C33.12)	0	0	0	0	0	0	0	0%	
Total in mEUR		84.2	84.1	60.4	228.7	30.2	87.6	346.5	100%	

⁹ The activity complies with minimum requirements set for individual components and systems in the applicable national measures implementing Directive 2010/31/EU

#4 Impact Reporting

In line with its Green Finance Framework and the previously detailed allocation, CGNI presents below the impact indicators on the refinanced projects (with funds spent prior to September 2021, month of the issuance of CGNI's Inaugural Green Bond) and on the financed projects (funds spent between September 1, 2021 and December 31, 2022).

Between January 1, 2019 and December 31, 2022 the total share of PE pipelines in local networks increased by approximately 1.9% from 70.2% to 72.1%, out of which 0.4% belongs to an increase that occurred in 2022.

With respect to its technical and capacity conditions, as of December 31, 2022, CGNI's gas network is ready to distribute up to 100% of biomethane or a blend with a share of hydrogen up to 20%.

Impact Indicators

ICMA Green Bond and Loan Principles Category	EU Economic Activity (NACE Code)	Eligibility for Green Bonds	Impact Metric	Impact Metric Methodology	Refinancing	Financing	Total
Renewable energy	Transmission and distribution networks for renewable and low-carbon gases (D35.22, F42.21, H49.50)	100%	Length of PE pipelines installed	Km of PE pipelines installed during given period	657	270	928
			% of PE pipelines installed in local networks	Length of PE pipeliness installed in local networks divided by total length of all pipilines installed in local networks during given period	96.6%	98.6%	98.6%

69.6%

OF THE NET PROCEEDS HAVE BEEN ALREADY
USED TO REFINANCE AND FINANCE ELIGIBLE
GREEN PROJECTS

Limited Assurance Report



Independent Auditor’s Assurance Report on selected information of Czech Gas Networks Investments S.à r.l. (the “Company”)

To the Board of Managers

In accordance with our agreed terms of engagement dated 1 February 2023, we have completed our limited assurance engagement to report on the preparation of the selected information for the Green Notes due 2029 (ISIN XS2382953789) of the Company prepared by the Board of Managers of the Company (the “Selected Information”) and contained in the Section 3 “Use of Proceeds” in the Company’s Green Bond Allocation and Impact Report 2022. The applicable criteria on the basis of which the Board of Managers has prepared the Selected Information are described in the Section 2 “Green Finance Framework” in the Company’s Green Bond Allocation and Impact Report 2022 (the “Basis of Preparation”).

Responsibility of the Company’s Board of Managers for the Selected Information

The Board of Managers of the Company is responsible for the preparation of the Selected Information on the basis of the applicable criteria described in the Basis of Preparation.

Our independence and quality management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and

as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies International Standard on Quality Management 1, as adopted for Luxembourg by the CSSF, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Inherent limitations

The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measures and measurement techniques and can affect comparability between entities.

Responsibilities of the Réviseur d’entreprises agréé

Our responsibility is to express a limited assurance conclusion on the Selected Information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) ‘Assurance Engagements other than Audits or Reviews of Historical Financial Information’, as issued by the International Auditing and Assurance Standards Board (IAASB) and as adopted for Luxembourg by the Institut des Réviseurs d’Entreprises (the “IRE”) and in accordance with the

Luxembourg legislation and with the professional standards issued by the IRE.

This standard requires that we plan to perform our work to obtain limited assurance as to whether the Selected Information were prepared by the Board of Managers of the Company, in all material respects, in accordance with the Basis of Preparation.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

The selection of such procedures depends on our professional judgment, including the assessment of the risks of management’s assertion being materially misstated. The scope of our work comprised, among others, of the following procedures:

- assessing and testing the design and functioning of the systems and processes used for data-gathering, collection, consolidation and validation, including the methods used for calculating and estimating the information and data presented in the Selected Information;
- conducting interviews with responsible officers; and
- inspecting internal and external documentation.

We have evaluated the Selected Information against the Basis of Preparation. The accuracy and completeness

of the Selected Information are subject to limitations given their nature and the methods for determining, calculating, or estimating such information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information has not been prepared, in all material respects, in accordance with the Basis of Preparation.

Restriction of use and distribution of the report

This report, including the opinion, has been prepared for and only for the Board of Managers of the Company in accordance with the terms of our engagement letter and is not suitable for any other purpose. We do not accept any responsibility to any other party to whom it may be distributed.

PricewaterhouseCoopers, Société coopérative Luxembourg,
May 24, 2023

Represented by
Emanuela Sardi

Contacts



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Safety Responsibility Respect

