

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Green Finance Framework

GasNet  
24 August 2021

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>• Green Finance Instruments (e.g., bonds, commercial paper, loans, promissory notes, other green instruments)</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• Green Bond Principles (2021), as administered by ICMA, LMA</li><li>• Green Loan Principles (2021), as administered by LMA, EU Taxonomy Delegated Act (June 2021)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• GasNet Green Finance Framework (as of August 2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• As long as the Green Finance Framework remains unchanged</li></ul>

## CONTENTS

Scope of work .....	3
ISS ESG ASSESSMENT SUMMARY .....	4
ISS ESG SPO ASSESSMENT .....	6
PART I: GREEN FINANCE INSTRUMENTS LINK TO GASNET'S SUSTAINABILITY STRATEGY .....	6
A. ASSESSMENT OF GASNET'S ESG PERFORMANCE .....	6
B. CONSISTENCY OF THE GREEN FINANCE INSTRUMENTS WITH GASNET'S SUSTAINABILITY STRATEGY .....	8
PART II: ALIGNMENT WITH GBPs (ICMA) AND GLPs (LMA) .....	11
PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE .....	17
A. CONTRIBUTION OF THE ELIGIBLE CATEGORIES TO THE UN SDGs .....	17
B. ALIGNMENT OF THE ELIGIBLE GREEN PROJECTS WITH THE EU TAXONOMY .....	18
ANNEX 1: Methodology .....	27
ANNEX 2: Quality management processes .....	28
About ISS ESG SPO .....	29

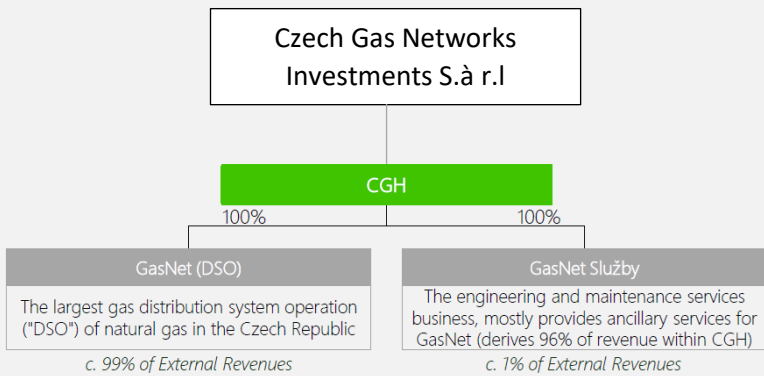
## Scope of work

GasNet (“the company”) commissioned ISS ESG to assist with its Green Finance Instruments by assessing three core elements to determine the sustainability quality of the Framework:

1. Green Finance Instruments’ link to GasNet’s sustainability strategy – drawing on GasNet’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. GasNet’s Green Finance Framework (August 2021 version) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBPs) and Loan Market Association’s (LMA) Green Loan Principles (GLPs).
3. Eligible project categories – whether the projects contribute positively to the UN SDGs, align with the EU Taxonomy Climate Delegated Acts on Climate Change Mitigation and Adaptation (June 2021).<sup>1</sup>

<sup>1</sup>[https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en)

**ISS ESG ASSESSMENT SUMMARY**

SPO SECTION	SUMMARY	EVALUATION <sup>2</sup>
<p><b>Part 1:</b></p> <p><b>Green Finance Instruments link to issuer’s sustainability strategy</b></p>	<p>Czech Gas Networks Investments S.à r.l. (“CGNI” or “the issuer”) holds 100% of the shares in Czech Grid Holding a.s. (“CGH”). The core of the Czech Grid Holding business is the distribution of natural gas in the Czech Republic provided by two companies – GasNet and GasNet Služby.</p>  <pre> graph TD     A[Czech Gas Networks Investments S.à r.l.] -- 100% --&gt; B[CGH]     B -- 100% --&gt; C[GasNet (DSO)]     B -- 100% --&gt; D[GasNet Služby]     C --- E["The largest gas distribution system operation ('DSO') of natural gas in the Czech Republic c. 99% of External Revenues"]     D --- F["The engineering and maintenance services business, mostly provides ancillary services for GasNet (derives 96% of revenue within CGH) c. 1% of External Revenues"]     </pre>	<p><b>Consistent with issuer’s sustainability strategy</b></p>
	<p>GasNet is exclusively involved in the operation and maintenance of natural gas distribution systems in the Czech Republic. As a regulated natural gas distribution system operator (DSO), GasNet’s major environmental challenges are to ensure the integrity of its pipelines and to avoid fugitive emissions through leakages. For a natural gas provider, ensuring health and safety of employees and contractors is among the most relevant ESG issues. GasNet’s natural gas distribution current activities do not have an overall positive or negative net environmental impact. While natural gas is a fossil fuel responsible for significant GHG emissions, it is the cleanest-burning fossil fuel with much lower levels of carbon dioxide and air pollutant emissions than coal and oil.</p> <p>In Czech Republic, the National Energy and Climate Plan that set national decarbonation goals<sup>3</sup>, highlights the key role that gases must play to reach the country’s environmental objectives while ensuring energy access to its population (e.g., “with a gradual phasing out of coal sources, the use of natural gas, biogas and, prospectively, synthetic methane and hydrogen will increase in the Czech Republic”). Thus, GasNet, being the main Gas Network Operator in the country and financing retrofitting of existing gas distribution networks to</p>	

<sup>2</sup> ISS ESG’s evaluation is based on the GasNet’s Green Finance Framework (June 2021 version), and on the ISS ESG Indicative Corporate Assessment applicable at the SPO delivery date.

<sup>3</sup> Reduce national greenhouse gas emissions by 30% by 2030 compared to 2005 and increase the share of renewable energy sources in gross final energy consumption from 13% in 2020 to 22% in 2030.

[https://ec.europa.eu/energy/sites/ener/files/documents/cs\\_final\\_necp\\_main\\_en.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/cs_final_necp_main_en.pdf)

enable the integration of hydrogen and other low-carbon gases, will have a key role to play in the national decarbonation strategy<sup>4</sup>.

As the issuer is only responsible for the operation and maintenance of natural gas distribution systems, and not for gas production or storage, it is worth noting that projects financed under this framework may still be used to distribute natural gas in the transition phase, whereby the share of low-carbon gases, e.g. biomethane or hydrogen, will increase in the future.

The Use of Proceeds category financed through GasNet's Green Finance Instruments is consistent with the company's sustainability strategy and address material ESG topics for the issuer's industry. The rationale for issuing green bonds and using other green financing instruments is clearly described by the issuer.

**Part 2:**

**Alignment with GBPs and GLPs**

The issuer has defined a formal concept for its Green Finance Instruments regarding Use of Proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Bond Principles administered by the ICMA and the Green Loan Principles administered by the LMA.

**Aligned**

Eligible project categories include "Transmission and distribution networks for renewable and low-carbon gases" (category 4.14 of the Delegated Acts) and "Installation, maintenance and repair of energy efficiency equipment" (category 7.3 of the Delegated Acts). These Use of Proceed categories have a significant contribution to SDG 13 "Climate Action".

**Part 3:**

**Alignment of the Use of Proceeds with the EU Taxonomy**

ISS ESG assessed the alignment of GasNet's due diligence processes against the requirements of the EU Taxonomy (Delegated Acts on Climate Change Mitigation and Adaptation of June 2021).

The (re)financed<sup>5</sup> green eligible projects under the "Transmission and distribution networks for renewable and low-carbon gases" category are considered to be aligned with the EU Taxonomy and the relevant activity-specific Technical Screening Criteria (TSC), Do No Significant Harm (DNSH) Criteria and Minimum Social Safeguards. Environmental Impact Assessment does not apply to construction activities carried out by GasNet and. However, the company conducts regular environmental impact risks assessment for all operational activities as a legislative requirement on a yearly basis.

**Positive**

The (re)financed<sup>4</sup> green eligible projects under the "Installation, maintenance and repair of energy efficiency equipment" category are considered to be aligned with the EU Taxonomy and the relevant activity-specific Technical Screening Criteria (TSC), Do No Significant Harm (DNSH) Criteria and Minimum Social Safeguards.

<sup>4</sup> The geographic location of the country allows only for limited use of renewables wind and solar compared to other countries.

<sup>5</sup> Capital expenditures with a three-year look-back period and three-year looking forward period.

## ISS ESG SPO ASSESSMENT

### PART I: GREEN FINANCE INSTRUMENTS LINK TO GASNET'S SUSTAINABILITY STRATEGY

#### A. ASSESSMENT OF GASNET'S ESG PERFORMANCE

**Methodological note:** Please note that GasNet is not part of the ISS ESG Corporate Rating Universe. Thus, the below sustainability profile is an assessment conducted by the analyst in charge of the 'Gas and Electricity Network Operators' sector mainly based on publicly available information. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

#### Key Issues of the industry

1. Facilitation of the energy transition and resource efficiency
2. Environmentally safe operation of plants and infrastructure
3. Accessibility and reliability of energy and water supply
4. Business ethics and government relations
5. Worker safety and accident prevention

#### Indicative ESG risk and performance assessment

GasNet is exclusively involved in the operation and maintenance of natural gas distribution systems in the Czech Republic. As a natural gas distribution system operator (DSO), GasNet's major environmental challenges are to ensure the integrity of its pipelines and to avoid fugitive emissions through leakages. The company's pipelines are relatively new and modern (i.e., a majority of the company's pipelines is less than 30 years old and made of polyethylene), and replacement programs are in place for older steel pipelines. GasNet refers to pipeline inspections, emergency response plans and measures to ensure pipeline integrity.<sup>6</sup> The company is currently working on a structured approach to reduce methane leakages (e.g., working group in place to define a calculation methodology for fugitive emissions) with initial measures to be implemented starting end of 2021. GasNet has set an internal target to reduce network losses and the number of leakages has decreased in recent years. However, as greenhouse gas emissions data disclosed does not include fugitive methane emissions<sup>7</sup>, the actual carbon footprint of GasNet's operations cannot be assessed and no concrete greenhouse gas emissions reduction target is in place.

For a natural gas provider, ensuring health and safety of employees and contractors is among the most relevant ESG issues. GasNet has implemented a group-wide health and safety management system. Yet, the health and safety management system is not certified to an international standard. While the consolidated accident rate for both employees and contractors is at a common industry level, it has increased in recent years.

<sup>6</sup> A pipeline integrity management (PIM) tool is in place for low and mid pressure pipelines. A tool is currently being designed for high-pressure pipelines that represent c. 40% of GasNet's network.

<sup>7</sup> Data should be available by the end of the year according to the company.

### *Indicative product portfolio assessment*

- **Social impact of the product portfolio:**

The operation of natural gas distribution systems is considered to have no positive or negative net social impact.

- **Environmental impact of the product portfolio:**

GasNet's natural gas distribution activities do not have a positive or negative net environmental impact. While natural gas is a fossil fuel responsible for significant GHG emissions, it is the cleanest-burning fossil fuel with much lower levels of carbon dioxide and air pollutant emissions than coal and oil. The National Energy and Climate Plan of the Czech Republic, that set national decarbonation goals, highlights the key role that gases must play to reach the country's environmental objectives while ensuring energy access to its population. Thus, being the main Gas and Network Operator, GasNet has a key role to play to support Czech Republic decarbonation strategy.

### *Key Controversy risk for the industry*

Based on a review of controversies in the period of 1 January 2019 – 14 April 2021, the greatest risk reported against companies operating in the Gas and Electricity Network Operators industry relate to activities that may have adverse impacts on the environment and human rights. This is closely followed by activities related to labour rights. The top three issues that have been reported against companies within the industry are as follows: alleged failure to assess environmental impacts, poor stakeholder consultation and failure to prevent water pollution. This is closely followed by the alleged failure to respect the right to an adequate standard of living, failure to respect consumers' rights and failure to respect the right to health.

ISS ESG conducted a controversy screening in the context of this SPO based on publicly available information on July 14<sup>th</sup>, 2021. No controversy has been found that can be attributed to GasNet.

## B. CONSISTENCY OF THE GREEN FINANCE INSTRUMENTS WITH GASNET'S SUSTAINABILITY STRATEGY

### *Key sustainability objectives and priorities defined by the issuer*

According to GasNet, since 2019, and its separation from innogy Czech Republic, the company has increased its focus on sustainability and has started operationalising an ESG framework into the core of its business strategy. To integrate sustainability and corporate responsibility into its business endeavors, GasNet has developed four ESG principles underpinning commitment and encompassing all key areas:

- **Embody safety standards and health protection:** For GasNet, maintaining the integrity of its gas networks without endangering safety of the general public, employees and contractors is a priority. The Workplace Health and Safety policy outlines GasNet's commitment to safety and how it is integrated into its operations. Moreover, GasNet has an ongoing company-wide Safety Assurance Programme in place. The Programme aims to combine specific corrective measures with the development of a revised Safety Management System:
  - o The first improvement measures were proposed and implemented for the start of new construction season in 2021;
  - o Long-term improvement to continue in the coming years with the vision of achieving the goal of zero incidents.
- **Believe in sustainability and the future of gas:** GasNet aims to monitor the direct and indirect impact of its activities and to minimize the adverse environmental impacts where possible. Moreover, the company is eager to develop and implement an accelerated retrofit of the network to allow for future distribution of low carbon gases like biomethane, hydrogen and syngas. Environmental performance is regularly disclosed through reports to various stakeholders and is considered to be defining for GasNet's future business. GasNet's shareholders strive to set and achieve ambitious decarbonisation targets for all portfolio companies (Net Zero emissions by 2050).
- **Care about its people and the communities around GasNet:** GasNet's Social management strategy focuses on two key areas (Supporting its Employees and Engaging Communities GasNet serves). Community engagement aims to support selected groups such as youth, firemen, disadvantaged communities, etc.
- **Conduct business in a responsible and considerate way:** GasNet recognises the importance of integrating ESG into every aspect of the business. Therefore, an ESG engine (composed of full-time staff sitting in the ESG & Security Department) responsible for the development of ESG strategy and ensuring the implementation of an ESG framework into operations has been set up.

Dedicated senior personnel are supporting coordination of key ESG initiatives that cut across the entire organization.



### *Rationale for issuance*

The National Energy and Climate Plan of the Czech Republic, that set national decarbonation goals<sup>8</sup>, highlights the key role that natural gas and low carbon gases must play to reach the country's environmental objectives while ensuring access to affordable and reliable energy for its population (e.g., "with a gradual phasing out of coal sources, the use of natural gas, biogas and, prospectively, synthetic methane and hydrogen will increase in the Czech Republic")<sup>9</sup>.

Given the country's reliance on natural gas and low carbon gases as a key enabler to reduce GHG emissions, the gas distribution networks will have to evolve to receive more complex mixture of greener gases such as:

- Natural gas as transformation fuel blended with biomethane;
- Natural gas blended with hydrogen, up to a maximum level of 20%;
- Natural gas blended or replaced by synthetic gases up to a level of 100%;
- Full hydrogen.

GasNet, that is exclusively involved in the operation and maintenance of gas distribution systems in the Czech Republic, will have a key role to play to transform the Czech gas distribution network to allow for the distribution of natural gas, biomethane, synthetic methane and/or hydrogen<sup>10</sup> to customers while maintaining safety, reliability, and sustainability.

According to GasNet, investing in network transformation to assure network readiness to the entire value chain is the first and the most important step of a wider sustainable investment program including the development of the projects below:

- Connection of heating plants to the network (to favor a transition from coal to gas);
- Connection of biomethane plants;
- Preparation of the network for hydrogen distribution (e.g., by replacing materials, accelerating replacement or changing network structure);
- Sector coupling to the transport sector;
- Etc.

<sup>8</sup> Reduce national greenhouse gas emissions by 30% by 2030 compared to 2005 and increase the share of renewable energy sources in gross final energy consumption from 13% in 2020 to 22% in 2030.  
[https://ec.europa.eu/energy/sites/ener/files/documents/cs\\_final\\_necp\\_main\\_en.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/cs_final_necp_main_en.pdf)

<sup>9</sup> The geographic location of the country allows only for limited use of renewables wind and solar compared to other countries.

<sup>10</sup> 90% of the local networks already consist of fully-fledged PE pipelines, the primary objective is to convert the remaining 10% of networks to full PE status as well.

*Contribution of Use of Proceeds categories to sustainability objectives and priorities*

ISS ESG mapped the Use of Proceeds categories financed under this Green Finance Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the “Gas and Electricity Network Operators” sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<b>Transmission and distribution networks for renewable and low-carbon gases</b>	✓	✓	Contribution to a material objective
<b>Installation, maintenance and repair of energy efficiency equipment</b>	✓	✓	Contribution to a material objective

**Opinion:** *ISS ESG finds that the Use of Proceeds financed through this Green Finance Framework are consistent with the issuer’s sustainability strategy and with key ESG industry challenges. The rationale for issuing green financing instruments is clearly described by the issuer.*

## PART II: ALIGNMENT WITH GBPs (ICMA) AND GLPs (LMA)

### 1. Use of Proceeds

The net proceeds of GasNet’s Green Finance Instruments will be used to finance and/or refinance, in whole or in part, new or existing projects (“Eligible Green Projects”) from any of the Eligible Green Project Categories as defined below.

GBP/GLP CATEGORY – EU ECONOMIC ACTIVITY (WITH NACE CODE)	ELIGIBILITY CRITERIA	CONTRIBUTION TO EU ENVIRONMENTAL OBJECTIVES <sup>11</sup>
<p><b>EU Economic activity</b> (NACE Code): Transmission and distribution networks for renewable and low-carbon gases (D35.22, F42.21, H49.50)</p> <p><b>ICMA GBP/GLP:</b> Renewable Energy</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Conversion/repurposing of existing natural gas networks to 100% hydrogen</li> <li>• Construction or operation of new distribution networks dedicated to hydrogen or other low-carbon gases</li> <li>• Measures aimed at leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage</li> </ul>	<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><b>EU Economic activity</b> (NACE Code): Installation, maintenance and repair of energy efficiency equipment<sup>12</sup> (F42, F43, M71, C16, C17, C22, C23, C25, C27, C28, S95.21, S95.22, C33.12)</p> <p><b>ICMA GBP/GLP:</b> Energy Efficiency</p>	<ul style="list-style-type: none"> <li>• Energy efficiency measures aimed at improving the general level of efficiency at GasNet buildings such as (but not limited to): <ul style="list-style-type: none"> <li>○ Replacement of existing windows with new energy efficient windows</li> <li>○ Installation and replacement of energy efficient light sources</li> </ul> </li> </ul>	<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>

<sup>11</sup> 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. To be found [here](#)

<sup>12</sup> The activity complies with minimum requirements set for individual components and systems in the applicable national measures implementing Directive 2010/31/EU.

**Opinion:** ISS ESG considers the Use of Proceeds description provided by GasNet’s Green Finance Framework as aligned with the GBPs and the GLPs. The Eligible categories shall respect defined and transparent criteria. Those criteria are publicly available in the EU Taxonomy Climate Delegated Acts on Climate Change Mitigation and Adaptation (June 2021 version) and are aligned with the issuer’s broader sustainability strategy. Environmental benefits are clearly described and linked to EU Environmental Objectives. As the issuer is only responsible for the operation and maintenance of gas distribution systems, and not for gas production, it is worth noting that projects financed under this framework may still be used to distribute natural gas, whereby the share of low-carbon gases (e.g. biomethane) will increase in the future.

## 2. Process for Project Evaluation and Selection

### Roles and responsibilities

GasNet has established a clear decision-making process to determine the eligibility of the nominated eligible Green projects, in accordance with the description of the eligibility criteria mentioned in the Use of Proceeds section of the Framework.

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

- Finance department
- ESG & Security department
- Any relevant business lines involved in the selection of Eligible Green Projects when required

The Green Finance Committee is also responsible for:

- Reviewing the content of GasNet 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
- Reviewing and approving of allocation and impact reporting

### Risk management

Following the EU Delegated Acts on EU Taxonomy Regulation, Eligible Green Projects should not only contribute to at least one of the EU Environmental Objectives, however should also not significantly harm (“DNSH”) any other EU Environmental Objectives. In addition, Eligible Green Projects should be complying with Minimum Social Safeguards (“MSS”) that should be in place at company level.

In accordance with the recommendations above, GasNet takes care that the Eligible Green Projects comply with official international, national and local laws and regulations on a best effort basis. It is part of GasNet’s transaction approval process to ensure that all its activities comply with internal environmental and social directives.

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

- Social/Governance Risk Mitigation
  - o Group Code of Conduct: Code of Conduct describes principles regarding human rights, labour standards, data protection, anti-corruption, compliance and stakeholder conduct to which the Company is committed. Anti-corruption and conflicts of interest: No corruption is tolerated, and GasNet takes all necessary and appropriate measures to prevent corruption. Conflicts between employees’ private interests and the interests of the company are to be avoided. GasNet makes sure that no undue influence is exerted on policymakers. Moreover, GasNet subscribes to the notion of corporate citizenship, especially regarding social, environmental, and cultural issues. The company respects the dignity and individuality of all their employees and constantly improves their health and safety conditions.
  - o Health & Safety (H&S) Policy: Central document describing commitments to health and safety as key value of the company. The document describes multiple H&S principles that ensure all employees leave the workplace as healthy as they were upon arrival. Key principles include responsibility of employees for H&S of co-workers and others, fulfilment and assessment of KPI targets, continuous improvement of the H&S management system, improvement of safety culture, compliance with legislation and regulation, appropriate training and equal treatment of all employees and others.
- Environmental Risk Mitigation

OVERARCHING	ENVIRONMENTAL PROTECTION POLICY
<b>Procedures</b>	<ul style="list-style-type: none"> <li>▪ Environmental protection in the company</li> <li>▪ Environmental emergency preparedness</li> <li>▪ Environmental Management System (EMS) manual</li> </ul>
<b>Environmental policies</b>	<ul style="list-style-type: none"> <li>▪ Air pollution</li> <li>▪ Energy</li> <li>▪ Chemical substances and mixtures</li> <li>▪ Waste management</li> <li>▪ Water protection</li> <li>▪ Nature and landscape protection</li> <li>▪ ADR (transport of dangerous goods by road)</li> <li>▪ Remediation of old ecological burdens</li> </ul>

- o The Environmental Protection Policy is a Central central document describing commitments of the company towards improving environmental performance and complying with all legal and regulatory requirements, while improving the awareness of environmental issues among employees. The company specifically commits to reducing greenhouse gas emissions and emissions produced by sources of air pollution. Additionally, the company focuses on resilience to catastrophes, promoting biodiversity, water protection, waste management, proper handling of chemicals and setting environmental criteria in procurement processes.

- Strategic Environmental Assessment:
  - o GasNet currently conducts regular environmental impact risks assessment (vyhodnocení rizik ekologické újmy dle zákona č. 167/2008) from all operational activities as a legislative requirement on a yearly basis.
- Minimisation measures:
  - o Regular risk assessment of environmental themes is being conducted for both GasNet and GasNet Services with evaluation/ranking of risks and proposed mitigation measures as part of company-wide Risk Controlling process. Additionally, environmental risks are closely monitored using Register of Environmental Aspects, which is used for risk assessment and identification of mitigation actions (register is prepared and updated on a regular basis).

**Opinion:** ISS ESG considers the Process for Project Evaluation and Selection description provided by GasNet's Green Finance Framework as aligned with the GBPs and the GLPs. The issuer provides relevant information regarding the process to determine if projects fit within defined categories or not. The dedicated Green Finance Committee, that will be responsible of this selection process, is composed of relevant and diversified internal stakeholders (e.g., Finance department, ESG & Security department, others if needed). The eligibility criteria are precisely defined and transparently displayed in the Framework. The Committee will also be in charge of identifying and excluding projects that no longer comply with the Eligibility Criteria on a best effort basis.

### **3. Management of Proceeds**

The net proceeds of the Green Finance Instruments issued under the Framework will be managed by GasNet in a portfolio approach.

GasNet intends to allocate the proceeds from the Green Finance Instruments to a portfolio of Eligible Green Projects that meet the Use of Proceeds eligibility criteria and in accordance with the Evaluation and Selection process presented above. A look-back period of three years applies for eligible green capital and/or operational expenditures.

The Finance department will monitor the allocation of the net proceeds to the Eligible Green Projects in GasNet's internal information systems and database.

GasNet will strive, over time, to achieve a level of allocation to the portfolio of Eligible Green Projects which matches or exceeds the balance of net proceeds from its outstanding Green Finance Instruments. In this regard, GasNet will strive to maintain a constant buffer of Green projects in the portfolio versus the total amount of Green debt issued. Additional projects will be added to the portfolio of Eligible Green Projects to the extent required.

Pending the allocation to Eligible Green Projects, unallocated proceeds will be invested in accordance to GasNet's liquidity guidelines, in cash, deposits or money market instruments and other capital management activities.

**Opinion:** ISS ESG finds that Management of Proceeds proposed by GasNet’s Green Finance Framework is aligned with the GBPs and the GLPs. The proceeds will be appropriately tracked by the company IT system. The issuer clearly indicates the intended types of temporary placement for the balance of unallocated net proceeds. The company does define a look-back and looking forward period for its future expenditures.

#### 4. Reporting

GasNet will make and keep readily available annual reporting on the allocation and impact of the portfolio of Eligible Green Projects after a year from the issuance of the Green Finance Instruments, to be renewed annually until full allocation or in case of material change. This report will be publicly available on GasNet’s website (Investor Relations section<sup>13</sup>).

GasNet intends to report on an aggregated basis for all the GasNet’s Green Finance Instruments outstanding, at the level of the EU Economic activity and GBP/GLP categories. GasNet intends to align its impact reporting with the Handbook for ‘Harmonized Framework for Impact Reporting’, June 2021 version<sup>14</sup>.

#### Allocation Reporting

The allocation report may provide indicators such as:

- The total amount of GasNet Green Finance Instruments outstanding
- The amount of net proceeds allocated to Eligible Green Categories
- The balance of unallocated proceeds
- The amount or the percentage of new financing and refinancing
- The geographical distribution of the projects
- The proportion of projects that are aligned with the EU Taxonomy Climate Delegated Acts

#### Impact Reporting

On a best effort basis and where feasible, GasNet intends to publish an impact report that will provide information on the expected output and environmental benefits of the selected projects. The relevant metrics might include:

GBP/GLP CATEGORY & EU ECONOMIC ACTIVITY (WITH NACE CODE)	POTENTIAL IMPACT INDICATORS
<b>EU Economic activity (NACE Code):</b> Transmission and Distribution networks for renewable and low-carbon gases (D35.22, F42.21, H49.50)	<ul style="list-style-type: none"> <li>- % of network covered by PE pipelines</li> <li>- Reduction in leakage as a result of the project (in GWh/y or GWh/km replaced)</li> <li>- Capacity of hydrogen and/or low carbon gas (biomethane for example) connections/distribution systems</li> </ul>
<b>ICMA GBP/GLP:</b> Renewable Energy	

<sup>13</sup> To be found [here](#)

<sup>14</sup> To be found [here](#)

<b>EU Economic activity (NACE Code):</b> Installation, maintenance and repair of energy efficiency equipment (F42, F43, M71, C16, C17, C22, C23, C25, C27, C28, S95.21, S95.22, C33.12)	<ul style="list-style-type: none"><li>- Energy savings (KWh saved/reduced)</li><li>- Number of new energy efficient windows</li><li>- Number of new energy efficient light sources</li></ul>
<b>ICMA GBP/GLP:</b> Energy Efficiency	

**Opinion:** ISS ESG finds that the reporting proposed by GasNet’s Green Finance Framework is aligned and goes beyond the GBPs and the GLPs. The level, duration, frequency and scope of reporting are clearly defined and in line with industry best practices. For its impact reporting, the company is eager to follow the ICMA’s guidelines for an “Harmonized Framework for Impact Reporting”.

### External review

#### **Annual Audit/Limited Assurance on the Allocation Reporting**

GasNet may request on an annual basis, starting one year after issuance and until full allocation, a limited assurance report of the allocation of the Green Finance Instrument proceeds to Eligible Green Projects, provided by an external auditor.



## PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE



### A. CONTRIBUTION OF THE ELIGIBLE CATEGORIES TO THE UN SDGs

Based on the assessment of the sustainability quality of the Eligible Categories and using a proprietary methodology, ISS ESG assessed the contribution of the GasNet’s Green Finance Instruments to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 1 for methodology):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
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Each of the Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION <sup>15</sup>	SUSTAINABLE DEVELOPMENT GOALS
Transmission and distribution networks for renewable and low-carbon gases	Significant contribution	
Installation, maintenance and repair of energy efficiency equipment	Significant contribution	

<sup>15</sup> This SDG assessment slightly differs from ISS ESG SDG Assessment Methodology due to the fact that the issuer has aligned with the technical screening criteria of the EU Taxonomy Delegated Acts (June 2021).

**B. ALIGNMENT OF THE ELIGIBLE GREEN PROJECTS WITH THE EU TAXONOMY**

ISS ESG assessed the alignment of the eligible projects and the due diligence and selection processes in place, with the EU Taxonomy.

**Transmission and distribution networks for renewable and low-carbon gases (4.14)**

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ISS ESG ANALYSIS AGAINST REQUIREMENTS
<b>1. CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA</b>		
<p><b>Delegated Act June 2021 requirement:</b></p> <p>1. The activity consists in one of the following:</p> <p>(a) construction or operation of new transmission and distribution networks dedicated to hydrogen or other low-carbon gases;</p> <p>(b) conversion/repurposing of existing natural gas networks to 100 % hydrogen</p> <p>(c) retrofit of gas transmission and distribution networks, where the main purpose is the</p>	<p>New financed projects (capital and/or operational expenditures) with a three-year look back period and three-year looking forward period) are Taxonomy eligible.</p>	<p style="text-align: center;">✓</p>

<p>integration of hydrogen and other low-carbon gases, including any gas transmission or distribution network activity, which enables the network to increase the blend of hydrogen or other low carbon gasses in the gas system;</p> <p>2. The activity includes leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage.</p>	<p>-</p>	
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**2. CLIMATE CHANGE ADAPATION – DO NO SIGNIFICANT HARM CRITERIA**

<p>Reducing material physical climate risks</p>	<p>GasNet operates within national legislation and also has to respect mandatory European Directives and Regulations in the area of Environmental Protection.</p> <p>GasNet has an Environmental Protection Policy in place, a central document describing commitments of GasNet towards improving environmental performance and complying with all legal and regulatory requirements, while improving the awareness of environmental issues among employees.</p> <p>GasNet has an Environmental Management System (EMS) in place according to ISO 14001 requirements, in which climate risks are assessed. EMS processes are steered by legislation with clear documentation addressing activities in key environmental areas. Responsibilities are divided into:</p> <ul style="list-style-type: none"> <li>• Central steering by Environmental Protection unit</li> <li>• Compliance with procedures/instructions in operations</li> </ul>	<p style="text-align: center;">✓</p>
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	by Responsible persons for ecology (POE)	
Supporting system adaptation	The Green Projects do not increase the risks of adverse climate impact on other stakeholders.	✓
Monitoring adaptation results	<p>Environmental Impact assessment does not apply to construction activities carried out by GasNet.</p> <p>However, regular risk assessment of environmental themes is being conducted for both GasNet and GasNet Services with evaluation/ranking of risks and proposed mitigation measures as part of company-wide Risk Controlling process.</p> <p>Additionally, environmental risks are closely monitored using Register of Environmental Aspects, which is used for risk assessment and identification of mitigation actions (register is prepared and updated on a regular basis).</p>	✓
<b>3. WATER – DO NO SIGNIFICANT HARM CRITERIA</b>		
Environmental degradation risks related to preserving water quality and avoiding water stress are identified and addressed, in accordance with a water use and protection management plan, developed in consultation with relevant stakeholders	The company has developed a water management policy that lays down procedures to fulfil the obligations arising from legal requirements in the field of water protection, defines partial activities and responsibilities in the field of water protection, determines the scope of discussion about issues of water protection, buildings and facilities with state authorities and other organizations.	✓
<b>4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA</b>		
Not applicable		-
<b>5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA</b>		
Fans, compressors, pumps and other equipment used which is covered by Directive 2009/125/EC of the European Parliament and of the Council comply, where relevant, with the top class requirements of the energy label, and with	GasNet doesn't use fans, compressor, etc. However, for the technologies used (e.g., technology for preheating), the company is	✓

<p>implementing regulations under that Directive and represent the best available technology.</p>	<p>willing to always choose technologies on high end<sup>16</sup> of the available energy-efficiency range.</p> <p>Moreover, all the company's projects are EU based and should follow European's directives and regulations.</p>	
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**6. ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA**


<p>Environmental Impact Assessment or Strategic Environmental Assessment has been conducted and required mitigation measures implemented</p>	<p>According to the issuer, EIA does not apply to construction activities carried out by GasNet.</p> <p>GasNet currently conducts regular environmental impact risks assessment for all operational activities as a legislative requirement on a yearly basis (law no. 167/2008). The law covers both prevention (risk assessment) and remedying of environmental damage to protected species or natural habitats or water. Assessment of sites is covered by regular audits conducted by national authorities.</p>	<p style="text-align: center;">✓</p>
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**CONTROVERSY ASSESSMENT AND MITIGATION ACTION PLAN**

GasNet has mitigation action plans in place in case of potential controversies that can ultimately lead to the removal of the projects from the Eligible Green Projects Pool on a best effort basis.

<sup>16</sup> The company is willing to buy more expensive technologies if they are proven to have a higher energy efficiency level (e.g., the company uses Jenbacher cogeneration units for pre-heating while similar products are less expensive but are also less energy efficient).

Installation, maintenance and repair of energy efficiency equipment (7.3)

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ISS ESG ANALYSIS AGAINST REQUIREMENTS
<b>1. CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA</b>		
<p><b>Delegated Act June 2021 requirement:</b></p> <p>The activity consists in one of the following individual measures provided that they comply with minimum requirements set for individual components and systems in the applicable national measures implementing Directive 2010/31/EU and, where applicable, are rated in the highest two populated classes of energy efficiency in accordance with Regulation (EU) 2017/1369 and delegated acts adopted under that Regulation:</p> <p>(a) addition of insulation to existing envelope components, such as external walls (including green walls), roofs (including green roofs), lofts, basements and ground floors (including measures to ensure air-tightness, measures to reduce the effects of thermal bridges and scaffolding) and products for the application of the insulation to the building envelope (including mechanical fixings and adhesive);</p> <p>(b) replacement of existing windows with new energy efficient windows;</p>	<p>New financed projects (capital and/or operational expenditures) with a look back period and two-year looking forward period are Taxonomy eligible.</p> <p>According to the Czech Republic Ministry, the Directive 2010/31/EU has been transposed through the Energy Management Act No. 406/2000 Coll.</p> <p>Through a 2013 decree, Energy Performance of Buildings decree n. 78/2013 Coll., Czech Republic provides a model of recommended measures to reduce the energy performance of the building.</p> <p>It is worth noting that in the recent past, the European Commission pointed out existing gaps between the Directive 2010/31/EU and the Energy Management Act (transposition of the EU directive). However, those gaps mainly relate to the non-respect of Article 13 of the Directive<sup>17</sup> (article in which the EU provides guidelines for EPC certificate for buildings over 500m<sup>2</sup>) and not to minimum requirements set for individual components and systems.</p>	

<sup>17</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:62019CN0305&rid=10>

(c) replacement of existing external doors with new energy efficient doors;

(d) installation and replacement of energy efficient light sources;

(e) installation, replacement, maintenance and repair of heating, ventilation and air conditioning (HVAC) and water heating systems, including equipment related to district heating services, with highly efficient technologies;

(f) installation of low water and energy using kitchen and sanitary water fittings which comply with technical specifications set out in Appendix E to this Annex and, in case of shower solutions, mixer showers, shower outlets and taps, have a max water flow of 6 L/min or less attested by an existing label in the Union market.

**2. CLIMATE CHANGE ADAPATION – DO NO SIGNIFICANT HARM CRITERIA**

Reducing material physical climate risks

GasNet operates within national legislation and also has to respect Mandatory European Directives and Regulations in the area of Environmental Protection.

GasNet has an Environmental Protection Policy in place, a central document describing commitments of GasNet towards improving environmental performance and complying with all legal and regulatory requirements, while improving the awareness of environmental issues among employees.

GasNet has an Environmental Management System (EMS) in place according to ISO 14001 requirements, in which climate risks are assessed. EMS



	<p>processes are steered by legislation with clear documentation addressing activities in key environmental areas.</p> <p>Responsibilities are divided into:</p> <ul style="list-style-type: none"> <li>• Central steering by Environmental Protection unit</li> </ul> <p>Compliance with procedures/instructions in operations by Responsible persons for ecology (POE)</p>	
Supporting system adaptation	The Green Projects do not increase the risks of adverse climate impact on other stakeholders and align with national and international adaptation efforts.	✓
Monitoring adaptation results	<p>EIA does not apply to construction activities carried out by GasNet.</p> <p>However, regular risk assessment of environmental themes is being conducted for both GasNet and GasNet Services with evaluation/ranking of risks and proposed mitigation measures as part of company-wide Risk Controlling process. Additionally, environmental risks are closely monitored using Register of Environmental Aspects, which is used for risk assessment and identification of mitigation actions (register is prepared and updated on a regular basis).</p>	✓
<b>3. WATER – DO NO SIGNIFICANT HARM CRITERIA</b>		
Not applicable		-
<b>4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA</b>		
Not applicable		-
<b>5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA</b>		
<p>Building components and materials comply with the criteria set out in Appendix C to the Draft Delegated Act April 2021 version)</p> <p>In case of addition of thermal insulation to an existing building</p>	GasNet operates within national legislation and also has to respect Mandatory European Directives and Regulations in the area of Environmental Protection.	✓



envelope, a building survey is carried out in accordance with national law by a competent specialist with training in asbestos surveying. Any stripping of lagging that contains or is likely to contain asbestos, breaking or mechanical drilling or screwing or removal of insulation board, tiles and other asbestos containing materials is carried out by appropriately trained personnel, with health monitoring before, during and after the works, in accordance with national law.

**6. ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA**

Not applicable

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**CONTROVERSY ASSESSMENT AND MITIGATION ACTION PLAN**

GasNet has mitigation action plans in place in case of potential controversies that can ultimately lead to the removal of the projects from the Eligible Green Projects pool on a best effort basis.

## DISCLAIMER

1. Validity of the SPO: As long as no new project categories are added to the Green Finance Framework.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluates the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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## ANNEX 1: Methodology

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which GasNet's Green Finance Instruments contributes to related SDGs.

## ANNEX 2: Quality management processes

### SCOPE

GasNet commissioned ISS ESG to compile a Green Finance Framework SPO. The Second Party Opinion process includes verifying whether the Green Finance Framework aligns with the Green Bond Principles and to assess the sustainability credentials of its Green Finance Instruments, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA 2021 Green Bond Principles
- LMA 2021 Green Loan Principles
- EU Taxonomy Climate Delegated Acts (June 2021 version)

### ISSUER'S RESPONSIBILITY

GasNet's responsibility was to provide information and documentation on:

- Framework
- Asset pool / Eligibility criteria
- Documentation of ESG risks management at the asset level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Finance Instruments to be issued by GasNet based on ISS ESG methodology and in line with the ICMA Green Bond Principles, LMA Green Loan Principles and EU Taxonomy Climate Delegated Acts On Climate Change Mitigation and Adaptation (June 2021 version).

The engagement with GasNet took place from April to August 2021.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, contact:

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