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SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Financing Framework

Západoslovenská energetika, a.s. (ZSE)
25 November 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	▪ Green Financing Instruments
Relevant standards	▪ Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1) ▪ Green Loan Principles, as administered by the LMA (as of February 2021) ▪ EU Taxonomy Climate Delegated Act (as of June 2021)
Scope of verification	▪ ZSE Green Financing Framework (as of November 25, 2022) ▪ ZSE Eligibility Criteria (as of November 25, 2022)
Lifecycle	▪ Pre-issuance verification
Validity	▪ As long as there is no material change to the Framework

CONTENTS

SCOPE OF WORK

Západoslovenská energetika, a.s. ("the issuer" or "ZSE") commissioned ISS Corporate Solutions (ICS) to assist with its Green Financing Instruments by assessing four core elements to determine the sustainability quality of the instruments:

1. ZSE's Green Financing Framework (as of November 25, 2022) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (as of June 2021 with June 2022 Appendix 1) and Loan Management Association (LMA) Green Loan Principles (as of February 2021).
2. The Eligibility Criteria – whether the project categories contribute positively to the UN SDGs.
3. The alignment with the EU Taxonomy on a best-efforts basis[1] – whether the nominated project categories are aligned with the EU Taxonomy Technical Screening Criteria (including the Climate Change Mitigation Criteria and Do No Significant Harm Criteria) and Minimum Safeguards requirements as included in the EU Taxonomy Climate Delegated Act (June 2021)[2].
4. Green Financing Instruments link to ZSE's sustainability strategy – drawing on ZSE's overall sustainability profile and issuance-specific Use of Proceeds categories.

ZSE BUSINESS OVERVIEW

ZSE operates as an energy provider company. It is classified in the Gas and Electricity Network Operators industry, as per ISS ESG's sector classification.

It provides power distribution services in the Western Slovakia region. It is also involved in the purchase and supply of electricity and gas to industrial customers, small and medium businesses, and households; operation of two hydroelectric plants; and ancillary activities, including the small scale electricity network construction and maintenance of related projects for third parties. The company was founded in 1922 and is headquartered in Bratislava, Slovakia.

[1] Whilst the Final Delegated Act for Mitigation and Adaptation were published in June 2021, the Technical Screening Criteria allow for discretion on the methodologies in determining alignment in certain cases. Therefore, at this stage the alignment with the EU Taxonomy have been evaluated on a "best efforts basis".
[2] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2139

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION[3]
Part 1: **Alignment with GBP/GLP**	The issuer has defined a formal concept for its Green Financing 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, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1) and Green Loan Principles, as administered by the LMA (as of February 2021).	**Aligned**
Part 2: **Sustainability quality of the Eligibility Criteria**	The Green Financing Instruments will (re-)finance eligible project categories which include: Energy Networks, Renewable Energy, Energy Efficiency, Clean Transportation and Green Buildings. Energy Networks, Renewable Energy and Clean Transportation use of proceeds categories have a significant contribution to SDGs 7 'Affordable and clean energy' and 13 'Climate action'. Energy Efficiency have a limited contribution to SDGs 7 'Affordable and clean energy'. The Green Buildings and Clean Transportation project category improve the company's operational impacts and mitigate potential negative externalities of the issuer's sector on SDGs 7 'Affordable and clean energy' and SDG 13 'Climate action'.	**Positive**
Part 3: Alignment with EU Taxonomy	The alignment of ZSE's project characteristics, due diligence processes and policies have been assessed against the requirements of the EU Taxonomy (Climate Delegated Act of June 2021), on a best-efforts basis[4]. The nominated project categories (Electricity distribution infrastructures and equipment, Solar energy, Hydro energy, Energy transfer, Electric vehicle infrastructure and Existing buildings installation of energy efficiency equipment) are considered to be: ▪ **Aligned** with the Climate Change Mitigation Criteria ▪ **Aligned** with the Do No Significant Harm Criteria ▪ **Aligned** with the Minimum Social Safeguards requirements For Hydrogen, Storage of electricity, Storage of hydrogen, New Green buildings and Installation of renewable energy technologies in existing green buildings UoP eligibility criteria, ZSE does not currently have specific existing projects, and thus information on the extent to which the assets will comply with the DNSH criteria cannot be provided. However, the issuer commits to respecting the EUT criteria when the related projects materialize and will clarify how the projects align with the DNSH criteria in the allocation report.	

Part 4: **Green Financing Instruments link to issuer's sustainability strategy**	The key sustainability objectives and the rationale for issuing Green Financing Instruments are clearly described by the issuer. The project categories financed are in line with the sustainability objectives of the issuer.	**Consistent with issuer's sustainability strategy**

[3] The evaluation is based on the ZSE's Green Financing Framework (as of November 25, 2022) and on the Indicative Corporate Rating and applicable at the SPO delivery date.

[4] Whilst the Final Delegated Act for Mitigation and Adaptation were published in June 2021, the Technical Screening Criteria allow for discretion on the methodologies in determining alignment in certain cases. Therefore, at this stage the alignment with the EU Taxonomy has been evaluated on a "best efforts basis".

SPO ASSESSMENT

PART I: ALIGNMENT WITH THE ICMA'S GREEN BOND PRINCIPLES AND THE LMA'S GREEN LOAN PRINCIPLES

This section describes ISS ESG's assessment of the alignment of the ZSE's Green Financing Framework (as of November 25, 2022) with the ICMA's GBP and the LMA's GLP.

GREEN BOND PRINCIPLES AND GREEN LOAN PRINCIPLES	ALIGNMENT	ISS ESG'S OPINION
1. Use of Proceeds	✓	The Use of Proceeds description provided by ZSE's Green Financing Framework is **aligned** with the GBP and GLP. The issuer's green categories align with the project categories as proposed by the GBP and GLP. Criteria are defined in a clear and transparent manner. The framework indicates the opportunity in which disclosure of distribution of proceeds by project category will be provided and describes environmental benefits.
2. Process for Project Evaluation and Selection	✓	The Process for Project Evaluation and Selection description provided by ZSE's Green Financing Framework is **aligned** with the GBP and GLP. The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the issuer. The issuer involves various stakeholders in this process, in line with best market practice. The issuer identify alignment of their Green Financing Framework and its selection criteria with official or market-wide taxonomies, in line with best marked practice.
3. Management of Proceeds	✓	The Management of Proceeds proposed by ZSE's Green Financing Framework is **aligned** with the GBP and GLP. The net proceeds collected will be equal to the amount allocated to eligible projects. The net proceeds are

		tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple green financing instruments (portfolio approach). Moreover, the issuer discloses the temporary investment instruments for unallocated proceeds.
4. Reporting	✓	The allocation and impact reporting proposed by ZSE's Green Financing Framework is **aligned** with the GBP and GLP. The issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the issuer's website. ZSE explains the level of expected reporting and the type of information that will be reported. Moreover, the issuer commits to report annually, until the bond matures/until the proceeds have been fully allocated. The issuer is transparent on the information reported, frequency, scope, duration and level of impact reporting, in line with best market practice.

PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE GREEN FINANCING INSTRUMENTS TO THE UN SDGs[5]

Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on 5-point scale (see Annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution

Each of the Green Financing Instruments Use of Proceeds categories[6] has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Energy networks *Electricity distribution infrastructures and equipment that meets one of the following criteria:* • *over 67% of newly enabled generation capacity connected to our systems is below the threshold value of 100gCO2e/kWh (measured on a life cycle basis, over a rolling 5-year period)* • *the networks' average emissions factor is less than 100gCO2e/kWh (measured on a life cycle basis, over a rolling 5-year period)* *Excludes infrastructure dedicated to creating or expanding direct connection of power plants that are more CO2 intensive than 100gCO2e/kWh (measured on a life cycle basis)*	**Significant contribution**	

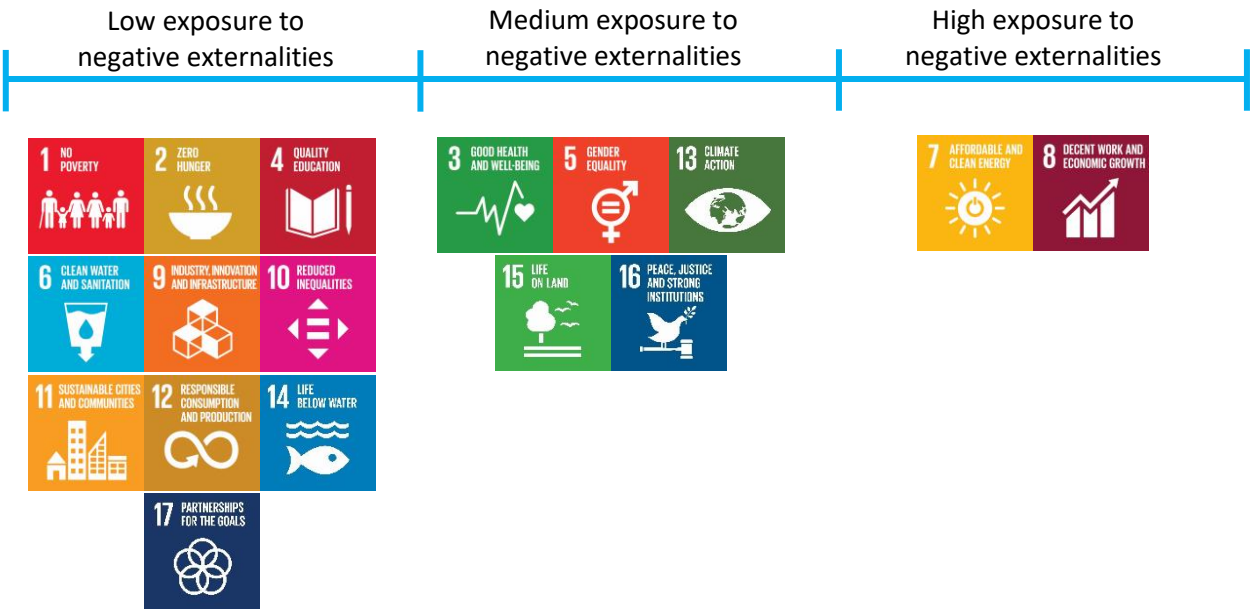
[5] The impact of the UoP categories on UN Social Development Goals is assessed with proprietary ISS ESG methodology and may therefore differ from the issuer's description in the framework.
[6] ISS ESG review is limited to the examples of projects spelled out in the Green Financing Framework.

Renewable energy • *Renewable energy generation - solar photovoltaic (PV)* • *Renewable energy generation – Hydropower (<10MW)* • *Renewable energy generation - Hydrogen*	**Significant Contribution**	
Energy Efficiency • *smart grid, smart meters* • *Power control devices and equipment to increase the controllability and observability of the electricity system*	**Significant Contribution** **Limited Contribution**	 
Clean Transportation • *Electric vehicle (EV) charging stations, supporting electric infrastructure* • *Electricity grid connection upgrades for the electrification of transport*	**Significant Contribution**	

2. Improvements of operational performance (processes)

The below assessment aims at qualifying the direction of change (or "operational impact improvement") resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the business model and the sector of the issuer.

According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities[7] in the Gas and Electricity Network Operators (to which ZSE belongs) are the following:



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The column 'Operational Impact Improvement' presents the operational impact (either positive, neutral or negative) that the relevant use of proceeds categories have in mitigating the negative externalities on the relevant SDGs identified above. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT	SUSTAINABLE DEVELOPMENT GOALS
Green Buildings[8] *1. Construction of new buildings for the company's operations* • *For all buildings: the Primary Energy Demand (PED) is at least 10% lower than the threshold set for the nearly zero-energy building (NZEB)*	✓[9]	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION

[7] Please, note that the impact of the Issuer's products and services resulting from operations and processes is displayed in section 3 of the SPO.
[8] The Green Building projects financed under this framework could improve the energy performance of both operational and/or non-operational sites.
[9] ISS ESG notes that the Issuer has aligned its selection criteria with the technical screening criteria for a substantial contribution to Climate Change Mitigation of the EU Taxonomy Delegated Act (June 2021).

requirements in national measures. The energy performance is certified using an as built Energy Performance Certificate (EPC).

- *For buildings larger than 5000 m2: the building resulting from the construction undergoes testing for air-tightness and thermal integrity upon completion. Any deviation in the levels of performance set at the design stage or defects in the building envelope are disclosed to investors and clients. The life-cycle Global Warming Potential (GWP) of the building resulting from the construction has been calculated for each stage in the life cycle and is disclosed to investors and clients on demand*

2. Installation, maintenance and repair of energy efficient equipment

- *efficient lightning (LED)*
- *energy efficient equipment and projects for buildings (green rooftops, energy efficient boilers)*

3. Installation, maintenance and repair of renewable energy technologies:

- *Solar PV panels*
- *Heat pumps contributing to the targets for renewable energy in heat and cool in accordance with Directive (EU) 2018/2001.*

Clean transportation

Electric vehicle (EV) charging stations – For use of ZSE's internal fleet in ZSE's facilities.

✓[10]

[10] ISS ESG notes that the Issuer has aligned its selection criteria with the technical screening criteria for a substantial contribution to Climate Change Mitigation of the EU Taxonomy Delegated Act (June 2021).

PART III: ALIGNMENT OF THE ELIGIBILITY CRITERIA WITH THE EU TAXONOMY CLIMATE DELEGATED ACTS

The alignment of ZSE's project characteristics, due diligence processes and policies for the nominated Use of Proceeds project categories have been assessed with the relevant Climate Change Mitigation, Do Not Significant Harm Criteria (DNSH) and Minimum Social Safeguards requirements of the EU Taxonomy Climate Delegated Act[11] (June 2021), based on information provided by ZSE. Where ZSE's projects and policies fully meets the EU Taxonomy Criteria requirements, a tick is shown in the tables below.

It's also noted that, as of now, ZSE has not identified specific projects or assets for allocation of proceeds in 7 project categories, described below and, for such project categories, the assessment is only performed with regards to the alignment of the selection criteria and ZSE's processes and policies for project selection with the Technical Screening Criteria for Climate Change Mitigation. In regards to DNSH, considering that formal processes and guidance are still to be developed by the issuer when related projects are financed, ISS ESG is not able to assess beyond acknowledging the commitment, by the time of this SPO. Furthermore, the issuer has committed to follow the relevant criteria when such projects are to happen and will be confirming the actual alignment of its portfolio with the EU Taxonomy criteria requirements as part of its allocation reporting.

The table below shows the alignment of the selection criteria with the relevant EU Taxonomy activity, based on the Technical Screening Criteria of the EU Taxonomy Substantial Contribution to Climate Change Mitigation:

- Where the project selection criteria fully meet the EU Taxonomy Criteria requirements, a tick is shown in the table below.
- Where the project selection criteria have overlapped with the EU Taxonomy activity, but no assets have been yet selected, ZSE has clarified that they will incorporate the relevant Taxonomy Criteria requirements in their project selection criteria. Therefore, "eligible for assessing alignment at later date" is used.

It's noted that the DNSH assessment is not performed for the project criteria that overlaps with the EU Taxonomy activity but for which there are still no assets selected. This is due to the absence of the issuer's formal processes and policies in place with regards to certain project categories, by the time of the SPO. Nonetheless, the issuer has committed to follow the criteria.

For all the remaining project categories, a full DNSH assessment is conducted and presented below in the sub-sections B2 to B9.

ZSE's project selection criteria that overlap with the following economic activities in the EU Taxonomy and for which ZSE has already projects in place:

4.5 Electricity generation from hydropower

4.9 Transmission and distribution of electricity

6.15 Infrastructure enabling low-carbon road transport and public transport

7.3 Installation, maintenance and repair of energy efficiency equipment

[11] https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en

7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)

ZSE's project selection criteria that overlap with the following economic activities in the EU Taxonomy and for which ZSE does not have yet projects in place:

3.10 Manufacture of hydrogen

4.1 Electricity generation using solar photovoltaic technology

4.15 District heating/cooling distribution

7.1 Construction of new buildings

7.6 Installation, maintenance and repair of renewable energy technologies

Note: In order to avoid repetition, the evaluation of the alignment of ZSE's eligibility criteria to the Do No Significant Harm Criteria to Climate Change Adaptation is provided in Section B.6. Similarly, the evaluation of the alignment to the DNSH to Water is given in Section B.7., Pollution prevention and Control is given in Section B.8. and Protection and Restoration of Biodiversity and Ecosystems is given in Section B.9. They are applicable to all of the above activities.

Furthermore, this analysis only displays how the EU Taxonomy criteria are fulfilled/not fulfilled. For ease of reading, the original text of the EU Taxonomy criteria is not shown. Readers can recover the original criteria at the following link.

Framework project category	Framework selection and eligibility criteria	EU Taxonomy Activity, based on substantial contribution to Mitigation	Eligible for TSC (Mitigation)
Energy Networks			
Electricity distribution infrastructures and equipment	The activity meets one of the following criteria: • over 67% of newly enabled generation capacity connected to our systems is below the threshold value of 100gCO2e/kWh (measured on a life cycle basis, over a rolling 5-year period) • the networks' average emissions factor is less than 100gCO2e/kWh (measured on a life cycle basis, over a rolling 5-year period) Excludes infrastructure dedicated to creating or expanding direct connection of power plants that are more CO2 intensive than 100gCO2e/kWh (measured on a life cycle basis)	4.9 Transmission and distribution of electricity	✓
Renewable Energy			

Solar energy	Solar photovoltaic energy generation	4.1 Electricity generation using solar photovoltaic technology	✓
Hydro energy	The electricity generation facility is a run-of-river plant and does not have an artificial reservoir; The life cycle GHG emissions from the generation of electricity from hydropower, are lower than 100gCO2e/kWh; Quantified life-cycle GHG emissions are verified by an independent third party	4.5. Electricity generation from hydropower	✓
Hydrogen	The activity complies with the life-cycle GHG emissions savings requirement of 73.4% for hydrogen [resulting in 3tCO2eq/tH2] and 70% for hydrogen-based synthetic fuels relative to a fossil fuel comparator of 94g CO2e/MJ Where the CO2 that would otherwise be emitted from the manufacturing process is captured for the purpose of underground storage, the CO2 is transported and stored underground, in accordance with the technical screening criteria set out in Sections 5.11 and 5.12, respectively, of this technical annex on climate change mitigation of the EU Taxonomy	3.10 Manufacture of hydrogen	✓
Energy Efficiency			

Energy transfer	Transmission, infrastructure or equipment of electricity, including smart grid solutions[12]	4.9. Transmission and distribution of electricity	✓
	Power control devices and equipment to increase the controllability and observability of the electricity system		
District heating/cooling	District heating/cooling distribution	4.15. District heating/cooling distribution	✓
Clean Transportation			
Electric vehicle infrastructure	Electric vehicle (EV) charging stations, supporting electric infrastructure Electricity grid connection upgrades for the electrification of transport	6.15 Infrastructure enabling low-carbon road transport and public transport	✓
		7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)	✓
Green Buildings			
New buildings	Construction of new buildings with an energy performance classification that is at least 10% lower than the primary energy demand resulting from the current national building regulation in accordance with NZEB requirements. The energy performance is certified using an as built Energy Performance Certificate (EPC)	7.1. Construction of new buildings	✓

[12] ZSE confirms and provided additional documentation supporting the compliance with EU Taxonomy TSC for Climate Change Mitigation of activity "Transmission and distribution of electricity" – "more than 67% of newly enabled generation capacity connected to thesystems is below the threshold value of 100 gCO2e/kWh (measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period)"

	For buildings larger than 5000 m2: the building resulting from the construction undergoes testing for air-tightness and thermal integrity upon completion. Any deviation in the levels of performance set at the design stage or defects in the building envelope are disclosed to investors and clients. The life-cycle Global Warming Potential (GWP) of the building resulting from the construction has been calculated for each stage in the life cycle and is disclosed to investors and clients on demand		
Existing buildings	Installation, maintenance and repair of energy efficient equipment • efficient lightning (LED) • energy efficient equipment and projects for buildings (green rooftops, energy efficient boilers)	7.3 Installation, maintenance and repair of energy efficiency equipment	✓
	Installation, maintenance and repair of renewable energy technologies: • Solar PV panels • Heat pumps contributing to the targets for renewable energy in heat and cool in accordance with Directive (EU) 2018/2001	7.6 Installation, maintenance and repair of renewable energy technologies	✓

B1 4.5 - Electricity generation from hydropower

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[13]	ALIGNMENT WITH THE EU TAXONOMY
2. CLIMATE CHANGE ADAPTATION – *DO NO SIGNIFICANT HARM CRITERIA*	
See B6	✓
3. WATER AND MARINE RESOURCES – *DO NO SIGNIFICANT HARM CRITERIA*	

[13] This column is based on input provided by the issuer.

Projects comply with requirements listed in Article 4 of the Directive. ZSE only owns a part of the power plant facilities, namely the energy generation production part using the flow of water, with the river administration and the rest of the impoundment belonging to other parties that are responsible for the compliance with such requirements. ZSE confirms the compliance with Water DNSH criteria.	✓
4. CIRCULAR ECONOMY – *DO NO SIGNIFICANT HARM CRITERIA*	
N/A: there are no EU Taxonomy criteria for the category	
5. POLLUTION – *DO NO SIGNIFICANT HARM CRITERIA*	
N/A: there are no EU Taxonomy criteria for the category	
6. BIODIVERSITY AND ECOSYSTEMS – *DO NO SIGNIFICANT HARM CRITERIA*	
See B9	✓

B2 4.9 - Transmission and distribution of electricity

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[14]	ALIGNMENT WITH THE EU TAXONOMY
2. CLIMATE CHANGE ADAPTATION – *DO NO SIGNIFICANT HARM CRITERIA*	
See B6	✓
3. WATER AND MARINE RESOURCES – *DO NO SIGNIFICANT HARM CRITERIA*	
N/A: there are no EU Taxonomy criteria for the category	
4. CIRCULAR ECONOMY – *DO NO SIGNIFICANT HARM CRITERIA*	
There are internal guidelines on waste management. Waste is disposed in accordance with local regulations, the volume of produced waste is registered and reported. Service providers are managed in the field of waste management. For construction waste, recycling is a priority when conducting procurement for disposal activities.	✓
5. POLLUTION – *DO NO SIGNIFICANT HARM CRITERIA*	
N/A: there are no EU Taxonomy criteria for the category	
6. BIODIVERSITY AND ECOSYSTEMS – *DO NO SIGNIFICANT HARM CRITERIA*	
See B9	✓

[14] Ibid.

B3 6.15 - Infrastructure enabling low-carbon road transport and public transport

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[15]	ALIGNMENT WITH THE EU TAXONOMY
2. CLIMATE CHANGE ADAPTATION – *DO NO SIGNIFICANT HARM CRITERIA*	
See B6	✓
3. WATER AND MARINE RESOURCES – *DO NO SIGNIFICANT HARM CRITERIA*	
ZSE confirms that assets comply with the EU Water Framework Directive, having established water use and protection management plans and Environment Impact Assessments are conducted when required.	✓
4. CIRCULAR ECONOMY – *DO NO SIGNIFICANT HARM CRITERIA*	
ZSE confirms that assets comply with EU Waste Framework Directive and the EU Construction and Demolition Waste Management Protocol, using the best available techniques and selective demolition methods. ZSE confirms compliance with at least 70 % (by weight) of the non-hazardous construction and demolition waste (excluding naturally occurring material defined in category 17 05 04 in the European List of Waste established by Decision 2000/532/EC) generated on the construction site is prepared for reuse, recycling and other material recovery, including backfilling operations using waste to substitute other materials.	✓
5. POLLUTION – *DO NO SIGNIFICANT HARM CRITERIA*	
ZSE applies policies and measures to mitigate noise and vibrations from use of infrastructure, i.e. preventive maintenance orders and ensuring operable condition and removing deficiencies on HV and LV equipment. In 2018 there was an internal audit to the Maintenance and Repair of Distribution Network processes. The issuer complies with Directive 2002/49/EC. Issuer has an Air Protection policy addressing dust and pollutant emissions management.	✓
6. BIODIVERSITY AND ECOSYSTEMS – *DO NO SIGNIFICANT HARM CRITERIA*	
See B9	✓

B4 7.3 – Installation, maintenance and repair of energy efficiency equipment

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[16]	ALIGNMENT WITH THE EU TAXONOMY
2. CLIMATE CHANGE ADAPTATION – *DO NO SIGNIFICANT HARM CRITERIA*	
See B6	✓

[15] Ibid.
[16] Ibid.

3. WATER AND MARINE RESOURCES – *DO NO SIGNIFICANT HARM CRITERIA*
N/A: there are no EU Taxonomy criteria for the category
4. CIRCULAR ECONOMY – *DO NO SIGNIFICANT HARM CRITERIA*
N/A: there are no EU Taxonomy criteria for the category
5. POLLUTION – *DO NO SIGNIFICANT HARM CRITERIA*
N/A: there are no EU Taxonomy criteria for the category
6. BIODIVERSITY AND ECOSYSTEMS – *DO NO SIGNIFICANT HARM CRITERIA*
N/A: there are no EU Taxonomy criteria for the category

B5 7.4 – Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[17]	ALIGNMENT WITH THE EU TAXONOMY
2. CLIMATE CHANGE ADAPTATION – *DO NO SIGNIFICANT HARM CRITERIA*	
See B6	✓
3. WATER AND MARINE RESOURCES – *DO NO SIGNIFICANT HARM CRITERIA*	
N/A: there are no EU Taxonomy criteria for the category	
4. CIRCULAR ECONOMY – *DO NO SIGNIFICANT HARM CRITERIA*	
N/A: there are no EU Taxonomy criteria for the category	
5. POLLUTION – *DO NO SIGNIFICANT HARM CRITERIA*	
N/A: there are no EU Taxonomy criteria for the category	
6. BIODIVERSITY AND ECOSYSTEMS – *DO NO SIGNIFICANT HARM CRITERIA*	
N/A: there are no EU Taxonomy criteria for the category	

B6 Generic Criteria for DNSH to Climate Change Adaptation

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[18]	ALIGNMENT WITH THE EU TAXONOMY
2. CLIMATE CHANGE ADAPTATION – *DO NO SIGNIFICANT HARM CRITERIA*	

[17] Ibid.
[18] Ibid.

ZSE made a sustainability assessment with a view to focus on activities on reducing emissions and the negative impact on the environment. These are currently implemented through the environmental management system according to ISO 14001. Chronic physical climate risks were identified related with temperature (change of temperature, water stress and temperature variability), wind (change of wind patterns), water (change of precipitation patterns and types, precipitation or hydrological variability and water stress) and solid mass (soil erosion and degradation). When physical climate risks are identified, a climate risk and vulnerability assessment to address the materiality of the physical climate risks on the economic activity is part of the climate risk assessment within the ESG implementation strategy. Depending on the physical climate risk, different solutions have been identified and/or implemented (i.e. ACON, InGrid projects for wind climate risk, modernization plan of Small Hydropower plants for water climate risk and ECM for soil erosion. Assessments take into account the lifespan of the assets that will be a result of the underlying projects, which may go up to 30 years ad consider the 10 to 30-year climate projections scenarios. When lifespan is more than 10 years, latest Intergovernmental Panel on Climate Change (IPCC) scenarios are taken into account, following a model based on the E.ON strategy where ZSE is aligned with the climate neutrality targets. This strategy was confirmed by Science Based Target initiative as in line with 1.5°C scenario target of the Paris Climate Change Agreement. For existing activities and new existing physical assets, ZSE implements physical and non-physical solutions following internal guidelines and procedures for managing the LV and HV network. The asset management prepares the network development strategies with the goal to minimize relevant climate hazards (i.e. in urban areas, underground networks are constructed). Each electrical device have an Impact assessment protocol to evaluate the effect of temperature and water. All these policies and practices are applicable to all ZSE's project categories.	✓

B7 Generic Criteria for DNSH to Water

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[19]	ALIGNMENT WITH THE EU TAXONOMY
3. WATER – *DO NO SIGNIFICANT HARM CRITERIA*	
All network activities are handled in compliance with the EU Water Framework Directive and EIA are conducted in accordance with Directive 2011/92/EU with water protection being a part of all project assessments. Special attention is paid to areas with a frequent risk of water endangerment – protected water management areas and zones of hygienic protection of water sources. Internal management documentation	✓

[19] Ibid.

for water protections includes also the implementation of local regulations related to water protection.	

B8 Generic Criteria for DNSH to Pollution and prevention control

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[20]	ALIGNMENT WITH THE EU TAXONOMY
5. POLLUTION AND PREVENTION CONTROL – *DO NO SIGNIFICANT HARM CRITERIA*	
ZSE confirms that all projects do not contain substances referred in the generic criteria for DNSH to Pollution and prevention control. Regular inspections of equipment containing pollutions as well as hazardous waste, keeping records, reporting and following local regulations and requirements for use and storage of such substances. Leakage protocols are in place and training is provided to all relevant employees. Printed Circuit Boards (PCB) are in electrical devices, being gradually withdrawn from operations and disposed in accordance to local regulations. These devices have a volume of up to 0,05 dm^3. When Sulfur Hexafluoride (SF6) is found in electrical equipments, changes are monitored to limit its use as per local legislations. SF6 gas handling process is also managed. Slovak legislation, in line with EU requirements, is followed and the issuer complies with REACH regulation as a user. Internal management documentation is issued for waste, air and water protection.	✓

B9 Generic Criteria for DNSH to Protection and Restoration of Biodiversity and Ecosystems

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[21]	ALIGNMENT WITH EU TAXONOMY
6. BIODIVERSITY AND ECOSYSTEMS – *DO NO SIGNIFICANT HARM CRITERIA*	
ZSE confirms that EIAs are conducted to all project categories with compensations measures being applied. Each project is assed on environmental protection, with priority on nature and water protection. Ecological corridor management project is currently underway, addressing the support and preservation of biodiversity in protective zones under electricity lines. Special management approaches are used in protected areas. ZSE only owns a part of the power plant facilities, namely the energy generation production part using the flow of water, with the river administration and the rest of the impoundment belonging to other parties that are responsible for the compliance with such requirements. Hydropower plants are not located in Natura 2000 areas. The issuer complies with the Directive 2011/92/EU (Environmental Impact Assessment Directive).	✓

[20] Ibid.
[21] Ibid.

B10 Do No Significant Harm Criteria

Regarding ZSE's practices and policies to ensure that their portfolio and projects align with the relevant Do No Significant Harm Criteria for the project categories and activities that are still not part of ZSE's portfolio (Hydrogen, Solar PV, District cooling/heating, New Green buildings and Installation of renewable energy technologies in existing green buildings), the issuer commits to follow the EU Taxonomy criteria when allocating new projects to the eligible assets portfolio and to conduct this assessment before reporting on the alignments of its portfolio in the allocation reporting.

Minimum Social Safeguards

The alignment of the project characteristics and selection processes in place with the EU Taxonomy Minimum Social Safeguards as described in Article 18 of the Taxonomy Regulation[22] have been assessed. The results of this assessment are applicable for every Project Category financed under this framework and are displayed below:

PROJECT CHARACTERISTICS AND SELECTION PROCESSES[23]	ALIGNMENT WITH THE EU TAXONOMY REQUIREMENT
MSS REQUIREMENTS	
ZSE complies with human rights as they are embedded in local legislation that the company follows. The entire the second chapter of the Slovak Constitution is addressing human rights and follows international standards/guidelines like European Convention on Human Rights, International Covenant on Civil and Political Rights, European Social Charter, International Covenant on Economic, Social and Cultural Rights. ZSE is planning to implement a role of Human Rights ombudsman in Q1 2023, being responsible for Human Rights Due Dilligence processes, becoming an official signatory of UN Global Compact with the mission of monitoring, preventing, tracking, mitigating, communicating and managing grievance mechanisms in the whole Group. Currently, grievance mechanism are handled through the whistleblowing policy, determining that a Compliance manager is called on action to handle the matter with the relevant department/team. ZSE's Code of Conduct establishes a complaints mechanism process that details how employees can address such cases. It also outlines transversal rules and expected behaviors in regards to human rights, relationships with stakeholders and information protection. The issuer is also drafting a Human Rights Policy Statement, committing to publish it in November this year in ZSE's website. This document outlines the human rights protection program clauses, defining practices and responsibilities applicable to all employees related with respect for stakeholders, diversity and inclusion, ensuring a	✓

[22] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852
[23] This column is based on input provided by the issuer.

good and safe workplace, freedom of association, no child and forced labor, respect for local communities and data protection as well as the issuer's practices on implementation, grievance mechanism and reporting and control. Human Rights Ombundsman will be responsible for the reporting and control of the policy, reporting on its performance/progress and leading the implementation of the program	

PART IV: GREEN FINANCING INSTRUMENTS LINK TO ZSE'S SUSTAINABILITY STRATEGY

A. ZSE'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company-specific assessment but areas that are of particular relevance for companies within that industry. The issuer is classified in the Gas and Electricity Network Operator industry, as per ISS ESG's sector classification.

ESG KEY ISSUES IN THE INDUSTRY
Worker safety and accident prevention
Protection of human rights and community outreach
Accessibility and reliability of energy supply
Promotion of a sustainable energy system
Environmentally safe operation of plants and infrastructure

ESG strengths and points of attention related to the issuer's disclosures

Leveraging ISS ESG's Research, ISS ESG identified the following strengths and points of attention[24]:

STRENGTHS	POINTS OF ATTENTION
The company has establishing a Health and Safety Management System that is certified to ISO 45001 standard. Further, the company has disclosed three years of employee accident rates to analyze the trend . Additionally, it reports zero fatalities for the last three years. The company has provided its policy on human rights that is in accordance with internationally	The company has not disclosed measures and plans to promote awareness among customers regarding electricity and gas safety. The company has not provided information on mitigation and adaptation measures related to physical, regulatory, and market risks associated with climate change in clear terms.

[24] Please note that ZSE is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Gas and Electricity Network Operator sector. 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.

recognized norms such as the Universal Declaration of Human Rights.	
The company has disclosed its position with respect to biodiversity management related to electricity transmission lines. The company has reported measures and plans regarding integration of renewable energy in electricity grids. The company acknowledges climate change and states its commitment to reducing greenhouse gas emissions. Additionally, it engages with its customers to raise awareness of energy efficiency.	

Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part III.B of the report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the issuer's production process.

Social impact of the product portfolio:

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE[25]	DIRECTION OF IMPACT	UN SDGS
Energy supply to residential customers	25%	CONTRIBUTION	

Environmental impact of the product portfolio

[25] Percentages provided in the table are energy generation capacity and they are not cumulative.

The company has products and services that involve the distribution of electricity and natural gas in Slovakia. Moreover, the company's product portfolio is primarily electricity and natural gas supply to private customers and does not seem to have a positive or negative environmental impact. Thus, the impact of the product portfolio of the company on the environment Sustainable Development Goals is considered neutral.

Breaches of international norms and ESG controversies

At issuer level

At the date of publication and leveraging ISS ESG Research, no severe controversy in which the issuer would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Gas and Electricity Network Operators industry are as follows: failure to assess environmental impacts, failure to mitigate climate change impacts and poor stakeholders consultation.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

B. CONSISTENCY OF GREEN FINANCING INSTRUMENTS WITH ZSE'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

In line with "The fit for 55 package"[26] released by the European Commission in 2021, introducing the EU's target of reducing net greenhouse gas emissions by at least 55% by 2030 (compared to 1990), ZSE has embraced the EU's objectives and aims to play a role in propelling progress towards them. To that effect, ZSE developed a sustainability strategy to guide its action across all subsidiaries.

ZSE offers access to renewable energy and energy efficiency services in Slovakia, participates in the development of clean transportation through the installation of charging stations and innovative solutions, renovates buildings to make cities more sustainable and contributes to build a fair society through awareness, education and solidarity programs.

In addition, ZSE has been a member of the Partner For Sustainability initiative under the auspices of the German-Slovak Chamber of Industry and Commerce (AHK Slowakei), since May 2021. ZSE also became an official partner of the Climathon (Bratislava hackaton), a global initiative that involves more than 145 cities from 56 countries. It aims to raise awareness of climate change, provide an active response to combat it and build a sustainable world together under the umbrella of the EIT Climate KIC which supports the implementation of innovative green solutions within the EU.

Being aware of its position and responsibility to reach carbon neutrality within its activities, ZSE aims to reduce its climate impact across all its value chain, both upstream and downstream. To that effect, ZSE has committed to reduce by 75% its CO^2 GHG emissions from Scope 1 and 2 (carbon neutral by 2040) and by 50% its CO^2 GHG emissions from Scope 3 by 2030 (carbon neutral by 2050).

Rationale for issuance

By leveraging on ZSE's sustainability strategy, the issuance of Green Financing instruments will allow, through adequate expenditures, the Issuer to reach its environmental targets.

ZSE being a player on the energy business, notably in Slovakia, its investments in renewable energy, energy efficiency or energy networks projects, will help decarbonizing the sector where the company operates.

In addition, it will also help reinforcing its path towards carbon neutrality. Indeed, clean transportation and green buildings projects will enable ZSE to reduce its Scope 1,2 and 3 GHG emissions, as part of the company's broader commitments.

With climate action as one of the main sustainability objectives of the Issuer, as described in the Green Financing Framework, the selected project categories are thematically in line with ZSE's sustainability strategy.

Opinion: *The key sustainability objectives and the rationale for issuing Green Financing Instruments are clearly described by the issuer. The project categories financed are in line with the sustainability objectives of the issuer.*

[26] Fit for 55 - The EU's plan for a green transition - Consilium (europa.eu)

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ANNEX 1: Methodology

EU Taxonomy

The assessment evaluates whether the details of the nominated projects and assets or project selection eligibility criteria included in the Green Financing Framework meet the criteria listed in relevant Activities in the EU Taxonomy Climate Delegated Act (June 2021).

The evaluation shows if ZSE's project categories are indicatively in line with the requirements listed in the EU Taxonomy Technical Annex.

The evaluation was carried out using information and documents provided on a confidential basis by ZSE (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the project category location, were drawn on to complement the information provided by the issuer.

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, the extent to which ZSE's Green Financing Instruments contributes to related SDGs has been identified.

ANNEX 2: Quality management processes

SCOPE

ZSE commissioned ICS to compile a Green Financing Instruments SPO. The Second Party Opinion process includes verifying whether the Green Financing Framework aligns with the Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1), Green Loan Principles, as administered by the LMA (as of February 2021), EU Taxonomy Climate Delegated Act (as of June 2021) and to assess the sustainability credentials of its Green Financing Instruments, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles (as of June 2021 with June 2022 Appendix 1)
- LMA Green Loan Principles (as of February 2021)
- EU Taxonomy Climate Delegated Act (as of June 2021)

ISSUER'S RESPONSIBILITY

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

- Framework
- Eligibility criteria
- Documentation on the alignment of the project categories with the EU Climate Delegated Act

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.

This independent Second Party Opinion of the Green Financing Instruments to be issued by ZSE has been conducted based on a proprietary methodology and in line with the ICMA Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1), Green Loan Principles, as administered by the LMA (as of February 2021) and EU Taxonomy Climate Delegated Act (as of June 2021)

The engagement with ZSE took place from September to November 2022.

ISS' 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 behavior 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 this 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.

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 more information on SPO services, please contact: SPOsales@isscorporatesolutions.com

For more information on this specific Green Financing Instruments SPO, please contact: SPOOperations@iss-esg.com

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