EPH's position to article "*The "coal villain" of the European Union? Path dependence, profiteering and the role of the Energetický a průmyslový holding (EPH) company in the energy transition*"

1. Introduction

During the course of integrity due diligence Holland Integrity Group Special Services B.V. ("**HIG**") requested Energetický a průmyslový holding a.s. ("**EPH**" or "**we**") to provide its position on article "*The "coal villain" of the European Union? Path dependence, profiteering and the role of the Eneretický a průmyslový holding (EPH) company in the energy transition*" published by Filip Černoch Jan Osička and Sebastián Mariňák ("**Article**").

We appreciate authors' interest in energy transition and EPH''s role in this process. The Article, however, includes several factual misstatements undermining the credibility of the Article. More importantly, several perspectives presented in the Article are rather emotionally colored and exactly opposite to the actual EPH's role in the energy transition process.

2. Factual Content

The description of our investments based on public resources in the Article is correct only to certain extent. It is indeed the flexibility and non-ideological nature of decision-making on acquisitions that was and is absolutely essential and distinguishes EPH from state or semi-state companies. As regards renewables we indeed focus on predictable and non-intermittent sources such as nuclear, hydro and biomass.

Several key factual statements are, however, incorrect. To list a few:

(a) Daniel Křetínský has never owned 94% of EPH.

(b) EPH does not control any company in e-commerce, media and production of transport vehicles. EPH does not own shares in Czech football club Sparta Praha.

(c) EPH has never owned a hard or black coal mine or a hard or black coal power plant in the Czech Republic and Hungary.

(d) Eggborough has not been transformed into a 2500 MW gas-fired power plant.

Certain key factually oriented statements tend to be judgmental, not verifiable, speculative or even manipulative. To list a few:

(a) The current shareholder's structure has been provided to HIG. The financing of EPH is properly disclosed in EPH's audited financial statements and prosecutes prepared in connection with bond offerings.

EPH's subsidiary EP Infrastructure a.s. ("**EPIF**") has been rated by S&P Global Ratings, Moody's Investors Service and Fitch Ratings. EPH has a close relationship with leading European and global banks, whereby EPH has been subject to numerous KYC and credit risk procedures. EPIF has issued several investment grade rated bonds with current outstanding value of EUR 2.35 billion.

We are subject to scrutiny of the international bond market and the global banking industry.

We find our financing is anything but that *resembling a start-up*.

(b) We are not in the position to assess the impact the of our relationship with Kooperativa on Kooperativa's financial performance. Our relationship with Kooperativa is at arm's length and as far as we know, Kooperativa further reinsures the relevant risk with re-insurers. We can hardly

find evidence for claiming that *Kooperativa would lose its largest client and send much smaller dividends to Austrian shareholders, if Kooperativa ceased to insure EPH*.

(c) We are committed to fulfil our liabilities associated with recultivations of the mining sites, bolstering biodiversity and restoring both forest and agricultural land. EPH reserves the funds for this in special purpose accounts in compliance with the relevant regulations. The financial statements of EPH (as well as LEAG financial statements) are audited by Big4 auditing firms.

Statements made in the Article questioning EPH's ability and willingness to reserve funds for recultivation and restoration and shielding off or socializing some of the financial and non-financial costs associated with owning and operating EPH's assets are simply absurd.

(d) 78% of net power produced in 2021 by EPH was from zero or low carbon-intensive sources (such as natural gas, biomass, hydro and nuclear) and EPH is constantly expanding the share of such energy generation in the portfolio.

The Article, including its title, misleadingly emphasize the EPH's energy production from coal.

(e) Capacity remuneration mechanisms are elements of organizing certain energy markets that certain countries implemented in order to ensure security of supply.

The assumptions made in the Article that these *mechanisms often cement the practice of coal combustion and delay the shift from high to low carbon technologies or create an opportunity for an economically viable afterlife for slowly but surely departing carbon-intensive power plants* is unfounded. There is also no evidence offered for viewing functioning of *capacity remuneration mechanisms as an indication of policy failure* as this is a broadly used practice by the relevant national regulators in e.g. UK, Italy, France and the national policies had been always approved by the EU Commission as compliant with the EU policies.

The Article concentrates on EPH acquisition of coal power plants.

3. Perspectives presented in the Article

The Article offers emotionally colored perspectives that EPH *acts either like a scavenger, buying out "dirty" coal assets from energy incumbents, or a profiteer taking advantage of the recently introduced capacity mechanisms which give an afterlife to such assets, thereby extracting rents from transition policies*. or "*EPH should be viewed as an investment group interested in any kind of profit, including rent extraction*."

Both of these perspectives ignore the mission of EPH – to provide our customers - the individuals, businesses and public bodies – with an access to basic services in the form of affordable, high quality and reliable electricity, gas and heat supply. EPH provides security of supply through a fleet of diversified, controllable and flexible power plants.

EPH is committed to operating its portfolio responsibly to reduce environmental footprint in the fastest possible manner whilst keeping focus on social, health and safety aspects of this strategy. EPH stands ready to meet its liabilities, particularly associated with future decommissioning and recultivations.

Most importantly the Article suggests that *EPH decided to go against the mainstream and speculate on the prolonged transition from fossil fuel sources to low-carbon technologies* that *it appears to be betting on the transition proceeding less smoothly and taking longer than envisaged by policymakers and possibly also many fellow energy companies*. The Articles outlines that *EPH's carbon-intensive assets will remain profitable longer and their eventual decommissioning will be more costly, effectively allowing the company to at least partially avoid the stranded asset risk [47,48]. In addition, the availability of profitable back-up capacity which the company brings to the market may compromise the development of cleaner alternatives and thus also the general goal of decarbonization.*

EPH actively participates in the process of energy transition and converts conventional energy sources to renewables whenever this is feasible. EPH achieved an ESG Risk Rating from Sustainalytics, placing EPH in the medium risk category, ranking 15th of all companies in the Multi-utilities Sector at the time of assessment.

EPH has taken over various power generation assets from multiple European energy companies, but in that process no additional CO2 footprint has been created. EPH has not build any new coal power plants and has not contributed to increased CO2 emissions, in the countries where operate, as compared to status before EPH acquired these companies.

On the contrary, in our decarbonization efforts, we strive to actively seek and pursue real solutions - not merely offloading but truly decommissioning the most carbon-intensive sources while investing and actively converting our plants to low-carbon or fully renewable sources like gas or biomass, depending on the specific conditions of each site.

EPH is committed to operate its portfolio responsibly and gradually reduce environmental footprint. EPH group reduced CO2 emissions by 38% and SO2 emissions by a full 70% in 2021 as compared to 2015. By 2050, EPH will be carbon neutral. By 2030, our CO2 emissions will be reduced by 60% compared to the emissions we produced in 2021. EPH group has already invested or committed to invest more than EUR 2.4 billion in the coming years to build a path to carbon neutrality and energy independence in Europe.

EPH has established a clear plan to undergo transformation process with its lignite and hard coal power plants outside of Germany until 2030 (hard-coal until 2025) and in Germany by 2038 (while 2035 is set as a target year for fully consolidated companies, plants operated by our equity participations (LEAG) are scheduled to operate until 2038), and in line with deadlines dictated by the German Coal Phase-out Act.

In Germany, our future path to responsible transition for lignite and hard coal power plants is a matter of national interest and was closely coordinated with the German Federal Government, the respective States and municipalities, NGOs, large customers and employee representative bodies to ensure that grid stability is not endangered and that social impacts in affected regions are considered (primarily in economically weaker districts of eastern Germany).

In the UK we converted Lynemouth power plant to pure biomass (407 MWe). The conversion helped to significantly reduce SOx and NOx emissions. This conversion saves approximately 2.7 Mt of CO2-eq emissions annually. We decommissioned Eggborough power plant (net installed capacity 1960 MW) in 2018 saving 11.5 Mt of CO2-eq emissions annually (compared to baseload operations in 2013).

Also, investments of significantly above billion Euros have been launched in state-of-the-art combined-cycle gas turbine power plants ready for future hydrogen use in Tavazzano and Ostiglia (both in Italy) and additional units providing capacity and grid stability services in Kilroot (UK) and Leipheim (Germany) to provide energy when it cannot be supplied from renewable sources.

During last few years, EPH decommissioned coal-fired power stations Mehrum, Deuben, Buschhaus, Provence 5, Emile Huchet 6 and two units of the Jänschwalde power station. All was done in responsible fashion with social plans in place for the employees and honoring all decommissioning liabilities. Recently, Mehrum, Emile Huchet 6 and two Jänschwalde units have been put back in operation on requests of the relevant Governments in order to fight against the gas crisis caused by Russian invasion in Ukraine.

Next year, the coal and oil-fired units at the Kilroot power station (net coal installed capacity 350 MW) in Northern Ireland, UK will be replaced by state-of-the-art natural gas combustion technologies (OCGT), primarily to provide capacity and network stability services.

Coal power plant Fiume Santo (net installed capacity 599 MW) in Sardinia, Italy where sustained operations are required by local government is expected to be decommissioned in 2025. As the power plant is a key source of power on the island, an alternative source of power needs to be identified prior to the shutdown. The selected technology depends on discussions with local authorities, biomass is considered optimal by EPH provided that adequate generation subsidy is provided. In addition, we expect to build photovoltaic panels on the site.

In addition to the accelerating transition from coal to natural gas and biomass, we are looking for opportunities in the renewables segment. These efforts are mainly concentrated in the subsidiary EP New Energies, which specializes in the development of large-scale renewable energy projects using mainly former mining sites in Germany. Since its inception in 2019, EP New Energies has built several large-scale and, above all, sustainable projects and has additional wind, ground-mounted, rooftop and floating photovoltaic and hybrid projects of more than 3,000 MW in the pipeline.

EPH has a clear plan to operate advanced battery storages in Germany and the UK. New projects with a low carbon footprint create jobs in the energy sector, thus demonstrating that environmentally responsible, reliable and affordable energy supply must go hand in hand with social justice and job continuity.

Finally, in Slovakia, via its participation in Slovenske elektrarne, EPH is building two new nuclear units (each approx. 438 MWe, first being currently commissioned). This project will significantly improve security of supply in Slovakia and it will also meaningfully decrease carbon footprint of EPH. The project with total budget of EUR 6 billion is the largest private investment in Slovakia.