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Examining the Credibility of EPH's Green Bonds

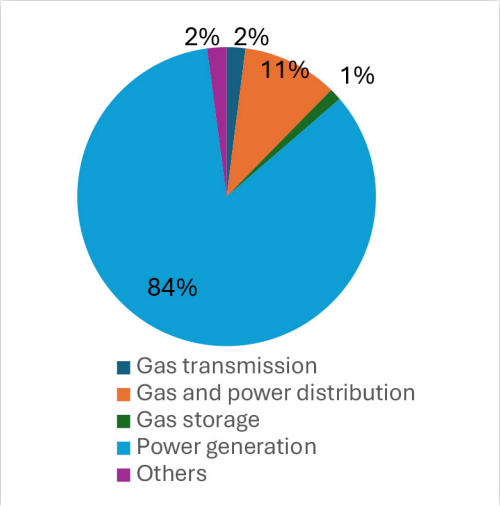
- *EPH's issuance of green bonds in July 2025 is unlikely to significantly advance the company's transition plan, in IEEFA's view, because it does not appear to target decarbonisation of its largest source of emissions: fossil fuel power generation.*
- *EPH's allocation of the green bonds it issued in May 2024 followed this same pattern, using the bonds to refinance non-power generation assets. This lowers investor clarity over project details, lookback periods and environmental returns.*
- *EPH is transferring most of its coal assets to a sister company, but the climate-related risks associated with these assets will remain an EPH credit consideration.*
- *EPH's debt maturity has improved following the bond issuance. However, climate transition factors will play an increasing role as the company faces refinancing needs over the next three years.*

Czech energy group Energeticky a prumyslovy holding, a.s. (EPH) continues to access the green bond market. On 2 July 2025, the company issued seven-year €500 million senior unsecured green bonds.[1] This follows the company's five-and-a-half-year €500 million senior unsecured green bond debut in May 2024[2] and return to international bond financing in November 2023.[3]

More than a year after its inaugural green bonds, EPH has yet to exhibit a credible investment strategy aligned with its net-zero goals, and the latest green bonds will likely barely contribute to the company's overall climate strategy, in IEEFA's view. This highlights the need for investors to closely scrutinise green credentials during asset selection, particularly within the mandate of green bond-labelled funds.

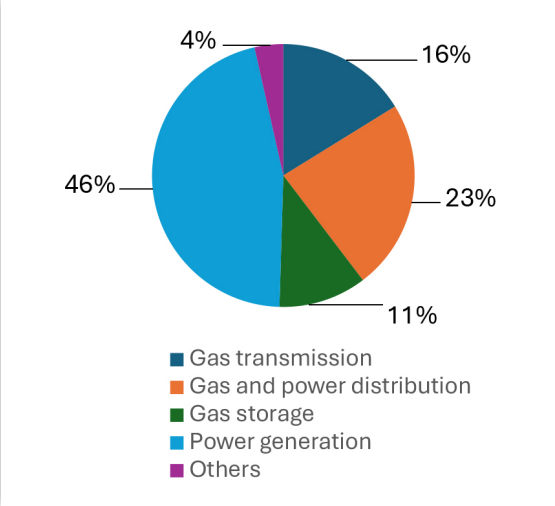
EPH operates power plants across Europe, mostly fuelled by gas and coal. Through its subsidiaries, it operates Slovakia's gas transmission network and is involved in electricity and gas distribution in Slovakia, gas storage and other activities including district heat networks. In 2024, EPH reported €12.4 billion in revenue related to fossil fuels, representing 53% of its total €23.3 billion revenue. EPH is ultimately owned and controlled by CEO Daniel Kretinsky.

Figure 1: EPH 2024 Revenue Breakdown



Source: EPH Annual Report 2024.

Figure 2: EPH 2024 Underlying EBITDA Breakdown



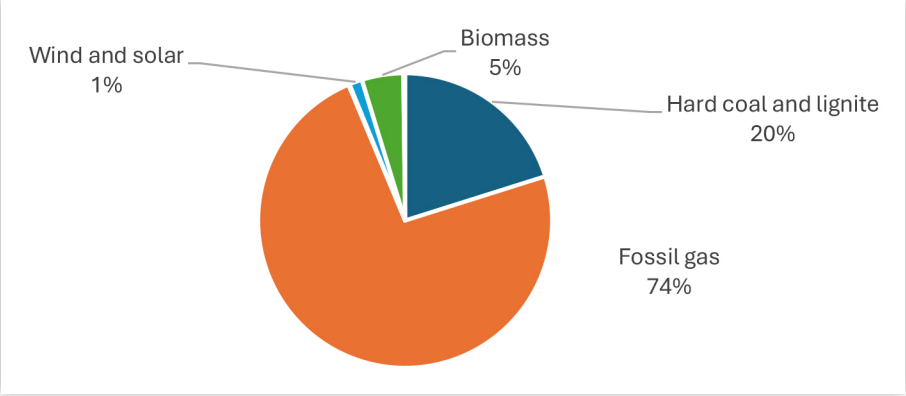
Source: EPH Annual Report 2024.

High-Emitting Activities Remain

EPH's largest business segment is power generation. Transitioning from fossil fuels to renewables forms a key element of its climate transition plan. The company's Scope 1 emissions reached 17.5 million tonnes of carbon dioxide equivalent (CO_2e) in 2024. Almost all were from energy production. This places it among the top-emitting power utilities in Europe with coal capacity.[4] As of 2024, EPH had 14.6 gigawatts (GW) of installed capacity, of which 10.8 GW was gas and 2.9 GW was coal and lignite. In IEEFA's view, the company has yet to demonstrate clear, actionable plans to reach its 2050 net-zero goal.

EPH's climate transition risk may present challenges to the company's fundamentals, with €12.4 billion (43% of its assets as of 2024) exposed to locked-in emissions under an orderly transition scenario. A faster near-term emissions reduction per the EU Green Deal would increase the risk exposure of these assets. EPH stands out among other high-emitting European power companies in that it doesn't have a clear renewables buildout plan, adding to climate transition risk.

Figure 3: EPH Has Predominantly Fossil Fuel-Based Power Generation Capacity



Source: EPH Annual Report 2024.
Note: Data as of 2024. This does not consider the acquisition of SE or the transfer of lignite assets to EP Energy Transition.

EPH's main decarbonisation levers are coal phase-out, nuclear energy, hydrogen-ready gas power plants, reduced full-load hours and gas power plant efficiency improvements.

EPH's coal phase-out is driven by transferring its German lignite assets to its sister company EP Energy Transition (EPETr), which is expected to be completed in 2025.[5] These assets will be excluded from the calculation of EPH's 2033 interim carbon intensity target, but they could operate beyond that year, implying continued decarbonisation challenges for the parent company, EP Group. While these assets' performance will become less transparent under EPETr, the climate-related risks related to them will remain an EPH credit consideration.[6] EPH plans to phase out its other coal operations by 2030.[7]

EPH has nuclear power interests through its majority ownership of Slovak utility Slovenske elektrarne (SE), which operates 2.3 GW of nuclear and 1.6 GW of hydropower, and is expected to increase its nuclear capacity to 2.7 GW in 2026. In May 2025, EPH increased its stake in SE from 33% to 66%.[8]

Considering the transfer of most of its coal plants to EPETr and the acquisition of SE, EPH's 2024 baseline carbon intensity will be restated to 258 grams of CO_2e per kilowatt-hour (gCO_2e/kWh), down from 499 gCO_2e/kWh. This reduction reflects changes in reporting scope rather than an actual decline in emissions. Therefore, by primarily decommissioning the coal operations that will remain at EPH by 2030 and by reducing full-load hours of gas plants, the company could be on track to meet its 2033 carbon intensity target of 118 gCO_2e/kWh.

However, EPH will still need to substantially cut absolute emissions to reach net zero. The company plans to do this by "decarbonising" gas power plants. The company has commissioned two hydrogen-ready gas power plants in the UK and Italy and is committed to "using solely renewable gases in the gas turbines for power generation by 2035".[9] However, this remains unproven and is subject to significant execution risk, given the uncertainties around the commercial viability and scalability of renewable gases.[10] As Europe advances towards a carbon-neutral power system, EPH's remaining fossil gas capacity will face significant demand pressures if it fails to repurpose or replace plants with credible green alternatives.

EPH's 2024 Green Bonds Fail To Advance Transition Plan

Some European utilities have used green bonds to fund renewable power capacity,[11] directly helping to reduce power generation carbon intensity, in line with their net-zero pathways. These efforts are often accompanied by specific targets for carbon intensity and installed renewable capacity, excluding nuclear.

In contrast, EPH did not allocate the proceeds from its 2024 green bond issuance to power generation activities, according to its allocation report.[12] When the bonds were issued, IEEFA highlighted this disconnect between the green bonds and the company's overall climate transition strategy.[13]

The €500 million in 2024 green bonds were earmarked, using a portfolio approach,[14] against a pool of €2.9 billion, including €2.0 billion of hydrogen-ready gas distribution infrastructure, €800 million of electricity distribution infrastructure and €100 million of district heating networks. The company's use of this approach lowers the transparency around project details, making it difficult to clearly attribute environmental impacts to the green bond proceeds. It also limits investors' clarity in assessing their fossil fuel exposure, as they have no concrete breakdown of the green bonds' proceeds between fossil fuel and renewable projects. For example, investing in gas distribution infrastructure has a higher transition risk than electricity distribution infrastructure, in light of electrification and EU energy efficiency measures that reduce gas consumption.[15]

All €2.9 billion in the eligible pool was marked as refinancing. These assets' lookback periods are not clearly outlined, increasing concerns over the additionality of the bonds. For example, while EPH's gas distribution business is operated through its 34%-owned subsidiary SPP-distribucia, a.s. (SPPD), the earmarked €2.0 billion pool of hydrogen-ready infrastructure appears substantial compared with SPPD's recent investments and capital base. SPPD reported net investing cash outflow of €31 million in financial year 2024 as well as €500 million of bonds and a total equity base of €3.3 billion, as of end-July 2024, on a fully consolidated basis.

Will the New Green Bonds Yield More Environmental Returns?

The new green bond issuance follows EPH's update to its green bond framework in May 2025. External reviewer S&P Global upgraded its assessment of EPH's green bonds to "medium green" from "light green", citing the company's addition of eligible project categories: nuclear energy, hydropower and electricity storage.[16] However, in IEEFA's view, the framework upgrade will not necessarily translate into better environmental returns or greater contributions to the transition plan for this specific new bond issue.

Allocations from the new green bond issue have yet to be finalised. The issuance does not specify the intended use of proceeds beyond what is outlined in the framework. In IEEFA's view, the eligible projects are inadequate to address decarbonisation of EPH's largest source of emissions: fossil fuel power generation. EPH's total green-labelled debt has now reached €1.285 billion,[17] still less than the €2.9 billion asset pool previously identified as refinancing. This implies that the use of proceeds of the new bonds could be on par with the 2024 bonds if allocated to the same asset pool, despite being tied to an upgraded framework.

The addition of eligible project categories follows EPH increasing its stake in SE. The asset pool could be enlarged to include SE's existing assets, against which all outstanding bonds would be earmarked. If all assets are allocated as refinancing, this would limit the bonds' contribution to actual decarbonisation progress when measured against the restated carbon intensity baseline.

Meanwhile, EPH intends to align the use of proceeds with the EU taxonomy,[18] with S&P Global noting improved alignment. EPH has said that while the eligibility criteria are not "explicitly linked to the EU taxonomy assessment", it "strives to demonstrate alignment … where feasible".[19] In 2024, €237 million of the company's capex, 38% of the total, was aligned with the EU taxonomy, including €141 million spent on gas and power distribution and storage. Its 2023 EU taxonomy-aligned capex was €146 million. IEEFA believes that directly linking the green bond proceeds with investments in clearly defined EU taxonomy-aligned activities would strengthen the environmental credentials of the green bonds. However, EPH's EU taxonomy-aligned capex over 2023 and 2024 is lower than its €1.285 billion of total outstanding green-labelled debt.

As proceeds are allocated, investors should assess whether the anticipated level of clarity and refinancing of eligible assets meet their expectations for measurable, attributable environmental returns.

In IEEFA's view, allocating the use of proceeds explicitly and exclusively to recent and future taxonomy-aligned capex could make the bonds compatible with the European Green Bond Standard.[20] This represents the best practice in ensuring green bond integrity and credibility while clearly linking the proceeds' contribution to a company's overall transition planning.

Refinancing Needs Arise in the Next Three Years

EPH's new notes due in 2032 have lengthened the company's debt maturity profile and signal a continued ability to tap the bond market at the EPH group level, despite being exposed to elevated climate transition risk. EPH's non-power generation subsidiaries, EPIF and its subsidiaries, have not accessed capital markets since 2021.

In February 2025, EPH raised a Samurai loan[21] of JPY80 billion (€510 million) due in 2030, despite having no clear yen-denominated revenue streams. This issuance helps extend the company's debt maturity, following the repayment of €500 million worth of term loan due in 2028.

2028 remains a key refinancing year for EPH, as its major term and revolving facility (available facilities were €3 billion as of 2024), €600 million of senior bonds and EPIF's €500 million of bonds will mature.

Transition planning has become an increasingly important consideration for EPH, influencing its access to funding and cost of capital. Europe's fossil fuel electric utilities tend to have a higher cost of debt than utilities with more renewables.[22] EPH bonds have consistently wider spreads than those of Portuguese electric utility EDP, which is rated one notch higher within the same BBB investment-grade category and operates significantly more renewable capacity.

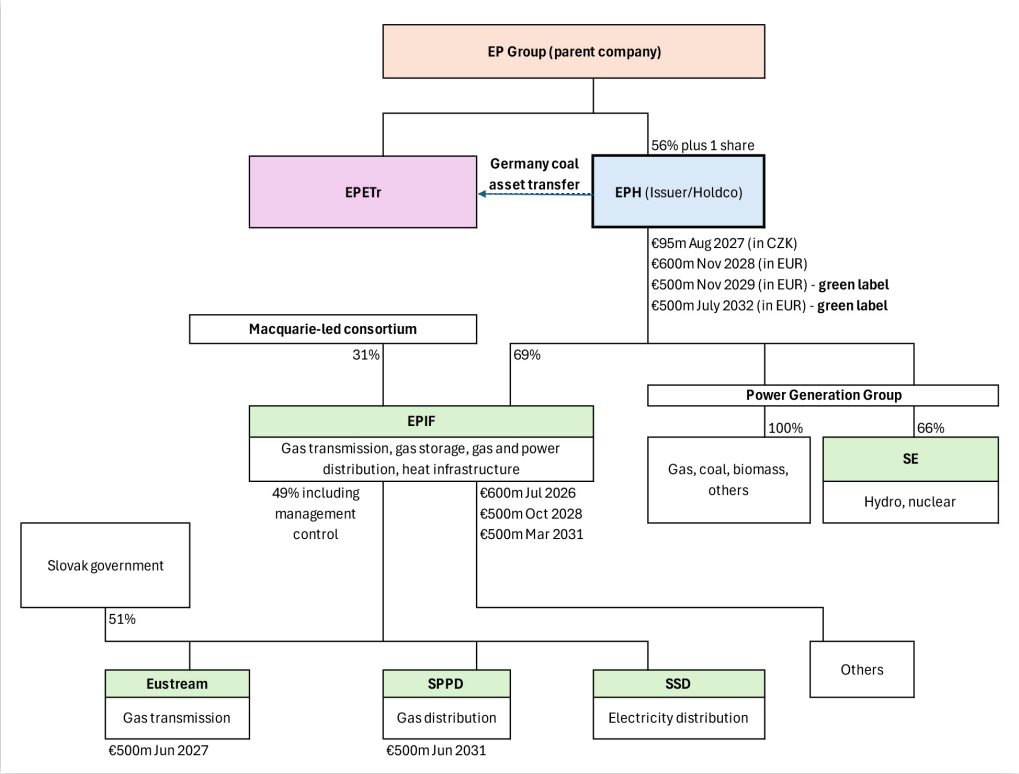
EPH may face tightening funding conditions as European lenders navigate stricter prudential transition risk management requirements[23] and bondholders gradually shift towards more climate-aligned portfolios. The European Central Bank is introducing a climate factor for corporate bond collateral to address potential declines in value resulting from climate transition shocks.[24] Also, while credit ratings typically focus on a relatively short horizon,[25] rating downgrade pressures for EPH may also emerge if transition risks related to fossil fuel assets within the group and its affiliates materialise or intensify beyond expectations.

Table 1: EPH's Euro-Denominated Bond Prices Versus Cleaner Peer EDP

Issuer/guarantor	Ratings	ISIN	Maturity date	Years to maturity	Spread (basis point)	Yield (%)
EDP	BBB/BBB/Baa2	XS2459544339	21-Sep-2029	4.2	+81	2.89
EPH	BBB-/BBB-/-	XS2822505439	30-Nov-2029	4.4	+201	4.18
EDP	BBB/BBB/Baa2	XS2699159351	04-Apr-2032	6.8	+96	3.30
EPH	BBB-/BBB-/-	XS3106539938	02-Jul-2032	7.0	+211	4.47

Source: LSEG Workspace.
Note: Accessed on 2 July 2025.

Figure 4: EPH Organisational Structure and Outstanding Bonds



Source: EPH company reports (Annual Report 2024, bond documents), IEEFA.
Note: Outstanding bonds illustrated (excluding private placements) are as of 31 December 2024, but they include the July 2025 issue and exclude the notes repaid in 2025. The company's organisational structure is for illustrative purposes and may not reflect all entities or units. The remaining 44% minus one share of EPH is held by J&T Energy Holding, a.s.

Endnotes

1 EPH. EUR 500,000,000 4.625% notes due 2032 Pricing Supplement. 30 June 2025.

2 IEEFA. EPH's new green bond issuance reveals flaws in transition plan. 3 June 2024.

3 IEEFA. EPH's transition plan faces heightened scrutiny after new bond issuance. 7 December 2023.

4 In comparison, RWE's 2024 reported emissions related to power were about 53 million tonnes of CO2e and Enel's were 19 million tonnes of CO2e; PGE's 2023 reported emissions were 57 million tonnes of CO2e.

5 Both EPH and EPETr belong to EP Group, a.s. (EPG).

6 S&P Global. Energeticky a prumyslovy holding Outlook Revised To Positive On Acquisitions At Parent Level; 'BBB-' Ratings Affirmed. 12 June 2025.

7 EPH expects that after 2025, its coal operations will be limited to the 599 megawatt Fiume Santo hard coal power plant in Italy, operating under a must-run regime, and its cogeneration heating plants in the Czech Republic. Source: EPH Annual Report 2024.

8 EPH. EPH completes the acquisition of Enel's stake in Slovenské elektrárne. 23 May 2025.

9 EPH. Annual Report 2024.

10 IEEFA. Hydrogen: Not a solution for gas-fired turbines. 1 August 2024.

11 IEEFA. Europe's clean power leaders: How green financing is enabling renewable growth. 20 June 2024.

12 EPH. Green Finance Allocation and Impact Report. May 2025.

13 IEEFA. EPH's new green bond issuance reveals flaws in transition plan. 3 June 2024.

14 EPH's use of the portfolio approach means that instead of allocating green bond proceeds to specific eligible green assets, capital expenditures or operating expenditures, the proceeds are allocated to a pool of eligible green assets across the group. This approach may result in lower transparency on the actual allocation of proceeds to individual projects, but it provides greater flexibility in managing a dynamic portfolio of green investments. The portfolio approach is generally more suitable for large financial institutions, development banks or frequent issuers with multiple green bond issuances and a broad, significant pool of eligible green assets.

15 IEEFA. EU gas imports to fall 25% by 2030 as demand reduction target exceeded once again. 4 June 2025.

16 S&P Global. Second Party Opinion: EPH Green Finance Framework. 26 May 2025.

17 Including EP Infrastructure's (EPIF) €285 million green Schuldschein issued in February 2024, EPH's €500 million green bonds issued in May 2024 and EPH's €500 million green bonds issued in July 2025.

18 EPH. EPH Green Finance Framework. May 2025.

19 Ibid.

20 IEEFA. Driving green finance with Europe's new label. 16 December 2024.

21 A Samurai loan is a yen-denominated cross-border loan for non-Japanese borrowers.

22 University of Oxford. Cost of Capital and Investment Tracking: 2024 Chartbook.

23 European Banking Authority. The EBA publishes its final Guidelines on the management of ESG risks. 9 January 2025.

24 European Central Bank. ECB to adapt collateral framework to address climate-related transition risks. 29 July 2025.

25 IEEFA. Climate risks underplayed in recent credit rating actions. 19 March 2025.

About IEEFA

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