

# Green Financing Framework

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# 1. Introduction

## 1.1 About Preem

Preem Holding AB, the issuer of a Green bond, owns one sole subsidiary – is Preem AB. Preem AB (the “Company” or “Preem”) is Sweden’s largest fuel refining and marketing (R&M) company. We refine and sell fossil and renewable fuels and lubricants to companies and private customers. As an independent R&M company, we are free to buy crude oil and renewable raw materials from all over the world, which are then transported to Preem’s refineries via best-in-class vessels. We will create long-term value for customers, society and shareholders by meeting the demand for sustainable products with a focus on superior performance in refining, distribution and sales. Renewable fuels form a key part of Preem’s strategy and transition toward net-zero climate impact in 2035.

Preem operates two refineries in Gothenburg and Lysekil, which are among the most energy efficient and modern in Europe. They are in operation 24 hours a day, every day of the year and together account for about 80 percent of the Swedish refinery capacity and about 40 percent of that of the Nordics. Offering more environmentally friendly fuels has been crucial for growing our business and market share – for example in just a few years, we have established ourselves as one of the largest companies in the Norwegian fuels market, where we supply around a quarter of all fuels sold in Norway.

Sales of products in the Swedish market take place mainly via Preem’s nationwide station network of around 500 fuel stations for private and commercial traffic, as well as through certified resellers. Electric Vehicle (EV) charging stations have been available at our stations since 2009 and their roll out is now being accelerated through a partnership with Recharge. In Norway, sales take place mainly through retailers and through direct bulk sales. A large proportion of Preem’s production is exported to the international market, mainly to northwestern Europe. This makes Preem one of Sweden’s largest export companies.

## 1.2 The renewable fuel market

Globally, the market for both crude oil and renewable fuels is expected to increase until 2030. Renewable fuels are also expected to increase despite a declining Western European fuels market. Demand for fossil-based fuels in the Swedish market is expected to dramatically decrease in both share and absolute volumes. This will largely be driven by consumer behavior, technological development (such as electrification) and most importantly by regulation. In Sweden, the greenhouse gas reduction mandate dictates the CO<sub>2</sub> intensity of the road fuel market. The reduction mandate requires fuel distributors to increasingly reduce the CO<sub>2</sub> intensity for various fuels over a defined path by means of blending in renewable fuels. The required reduction mandate in 2030 amounts to 28 percent for gasoline and 66 percent for diesel compared to a standard fossil fuel. In 2030, more than 60 percent of the Swedish diesel and gasoline usage is expected to be renewable based. Similar, though not quite as aggressive, schemes are also being implemented in nearby markets such as Norway and Germany.

Changes to the fuel market will vary over different segments depending on policy and substitution opportunities. The greatest impact is expected in the road transport market but a reduction mandate will also increasingly have an impact on the Swedish domestic aviation fuel market. Generally, fossil fuels will decrease while the market for renewable fuels will grow and remain attractive for the foreseeable future.

Sustainable renewable fuels in Europe are largely defined by the EU Renewable Energy Directive (RED II) and its implementation into national legislation. RED II establishes that a minimum of 14 percent biofuels or other renewable fuels for transport shall be used in every EU member state by 2030. The Fuel Quality Directive (FQD) is aimed toward fuel suppliers, obliging them to reduce greenhouse gas (GHG) emissions by 6 percent by 2020. Only biofuels meeting the sustainability criteria regarding net GHG savings, biodiversity and land use can be counted toward the targets.

RED II specifies sustainability criteria for renewable fuels that relate to traceability, allowed feedstock, minimum CO<sub>2</sub>-reduction requirements over the life cycle to limit negative sustainability impacts. The indirect land use change (ILUC) is also considered. To be counted as sustainable, RED II states that raw materials for biofuel production cannot be taken from primary forest, nature protection areas, highly biodiverse grassland or land with high carbon stocks such as wetland or peatland. If a raw material for biofuel production is forest biomass, RED II defines different criteria to be fulfilled to minimize the risk of using raw material received from an unsustainable source. RED II promotes so-called advanced biofuels, such as biofuels based on waste, sewage sludge, ligno-cellulosic and non-food cellulosic material (defined in Annex IX part A).

There are a number of sustainability labeling schemes connected to RED II, the largest being ISCC. These schemes provide standards, verification processes and the labeling of feedstock and fuels in compliance with RED II. Preem is ISCC-certified and primarily purchases ISCC-certified renewable feedstock. To uphold our ISCC-certificate and also to comply with Swedish regulation, Preem maintains a control system for renewable fuels as part of our management system. In case we purchase non-certified feedstock, the processes and routines of our control system ensures we uphold the sustainability criteria of RED II as well as any additional sustainability criteria formulated by Preem such as in our Code of Conduct. Preem, for example, has always excluded feedstock from the palm oil industry in its renewable fuels production.

### EU Taxonomy and Fit for 55

During 2021, several proposed legislations within the EU work in the same direction as Preem's strategies. The "Fit for 55" package includes new and higher goals for renewable energy in the transport sector, including aviation and maritime. The renewable feedstocks promoted in the legislations are those defined as advanced, mainly waste and residues, which aligns well with Preem's joint ventures and R&D focus.

In addition, the EU taxonomy provides a framework for what are deemed to be sustainable activities, and defines which raw materials are sustainable.

## 1.3 Preem is transitioning into a renewable fuel producer & distributor

Preem's renewable transition is absolutely crucial for its long-term competitiveness, serving as a tool for other businesses to achieve their climate goals as well as for Sweden to achieve its national climate goals. By switching Preem's refineries from fossil to renewable feedstocks, we enable viable refinery operations in a sustainable future. Preem is ISCC<sup>1</sup> certified and primarily purchases certified materials (93 percent)<sup>2</sup> according to one of EU's voluntary schemes such as ISCC or Swedish legislation. To uphold our ISCC certificate and to also comply with Swedish regulations, Preem maintains a control system for renewable fuels as part of its management system. In case we purchase non-certified feedstock, the processes and routines of our control system ensure we uphold the sustainability criteria of the EU Renewable Energy Directive (RED II)<sup>3</sup> as well as any additional sustainability criteria formulated by Preem such as in our Code of Conduct<sup>4</sup>. Preem, for example, has always excluded feedstock from the palm oil industry in our renewable fuels production.

To drive Preem's renewable transition, we are constantly looking for new solutions that can provide sustainable raw material feedstocks. One focus is to develop renewable raw materials from residual products from the forestry, wood and pulp industries, such as sawdust, tops and branches – as well as lignin in the future. By investing in renewable fuel production, based on sustainable domestic raw materials, we contribute to the Swedish self-sufficiency of low-carbon fuels. Preem's target is to expand its renewable fuel production capacity to 5 million m<sup>3</sup> by 2030, which will correspond to the predicted total renewable fuel usage in Sweden.

Since 2010, Preem has produced biofuels at its Gothenburg refinery, when it pioneered the market and created a fully renewable supply chain using tall oil feedstock based on pulp mill waste from its co-owned company SunPine in northern Sweden. At the Gothenburg refinery, the tall oil feedstock is used for the production of biofuel that is sold at Preem fuel stations under the Preem Evolution Diesel brand. The Preem Evolution Diesel brand, has a renewable content of up to 50 percent, and in 2014 was labelled as the world's only environmental diesel fuel (Svanen). Further products have since been added to the Evolution family such as Evolution Gasoline and Evolution LPG.

Preem has over the past ten years retrofitted its GHT (Green Hydrotreater) unit in Gothenburg, which was originally built for fossil fuel refining, into a 100 percent renewable fuels processing plant. This has been done in a stepwise manner (via "co-processing"), reusing existing equipment rather than building new equipment. This has saved lots of construction material and steel compared to a greenfield project. Utilizing the knowledge gained, Preem pushed on in 2020 by adapting a unit in Lysekil to a "low feed" of renewable feedstock to annually produce 30,000 m<sup>3</sup> of Hydrogenated Vegetable Oil (HVO) renewable diesel. Continuing to build on the company's knowledge and experience within renewables, Preem is now focusing on converting and rebuilding existing fossil units to produce renewable fuels, which will reduce fossil fuel production at both refineries. Preem's Board has approved the second stage of the Lysekil SynSat unit retrofit, which will annually add another approximately 950,000 m<sup>3</sup> of renewable fuel capacity. When the second retrofit phase at Lysekil Synsat is complete, the project is estimated to reduce annual emissions by up to 1.7 million tonnes of CO<sub>2</sub>, including end product use.



<sup>1</sup> [Solutions for sustainable and deforestation free supply chains > ISCC System \(iscc-system.org\)](#)

<sup>2</sup> Renewable purchases year 2021

<sup>3</sup> [Renewable Energy – Recast to 2030 \(RED II\) | EU Science Hub \(europa.eu\)](#)

<sup>4</sup> [Preem's Code of Conduct 2020 \(PDF\)](#)

### Partnerships for new initiative renewable raw materials

In order to secure access to renewable feedstock, Preem has signed supply agreements and formed joint ventures for the development of renewable raw materials, for example with Swedish companies SunPine and Pyrocell. Pyrocell's facility at Setra Kastet's sawmill, which Preem owns as part of a 50/50 joint venture with the wood industry company Setra Group, has produced non-fossil pyrolysis oil based on saw dust as a raw material for the production of renewable fuels since 2021. At SunPine in Pite, another unit for the production of crude tall oil has been in operation since 2006. Through an investment of SEK 400 million, the production of crude tall oil was increased in 2021 to approximately 150,000 m<sup>3</sup> per year. Crude tall oil is used as a raw material in Preem's fuel Preem Evolution Diesel. Preem owns a 25 percent equity interest in SunPine AB.

Preem continues to build on existing JV relationships - currently around half of the company's renewable feedstock is supplied through joint ventures. Preem will continue to develop and expand partnerships with selected suppliers, such as Ecoson and Crayton, to secure feedstock supply well in advance of new large projects. Feedstock pre-treatment capacity will broaden the range of feedstock that can be sourced for HVO production, with Preem either building its own capacity, which will also reduce feedstock costs, or by contracting a third-party tolling agreement. Preem is currently evaluating the best location for adding pre-treatment capacity, with options to add pre-treatment at either the Lysekil or the Gothenburg refinery.

In addition to the second phase on the SynSat retrofit at Lysekil, Preem is currently implementing a number of smaller retrofit projects to enhance its renewable fuel co-processing capacity. Two more hydro-processing units in Lysekil are currently going through a basic design phase for a renewable feedstock capability enhancement. A fluid catalytic cracker (FCC) retrofit to enable renewable feedstock processing is also ongoing at Lysekil and is due to be completed in early 2022. The target is to secure an additional 150,000 m<sup>3</sup> of annual renewable production capability by 2023 from these smaller conversions.

In the long-term, Preem is evaluating two large scale projects to follow the completion of the SynSat retrofit project. One is a stand-alone green field project in Gothenburg that will add an additional 1,000,000 m<sup>3</sup> per year including a pre treatment plant and also providing another hydrogen source (Project Viking). This would be a pure renewable plant and would produce HVO-100 and Sustainable Aviation Fuel (SAF). The other project is a retrofit of the Isocracker in Lysekil and would be similar to the SynSat retrofit. The initial estimate is that the Isocracker retrofit could annually produce up to 1,200,000 m<sup>3</sup> of renewable capacity (a co-processing option for the ICR would give capacity of 700,000 m<sup>3</sup> per year).

Preem is leading Sweden's largest carbon capture demonstration project for flue gas CO<sub>2</sub> capture at Lysekil. The project was financed by the Swedish Energy Agency and Norwegian CLIMIT, and the project partners are Aker Solutions, Chalmers and Equinor. Preem has signed a Memorandum of Understanding with Equinor with the aim of co-developing a carbon capture value chain, from the Preem refineries to the Norwegian shelf, under the Norwegian North sea. The demonstration phase will serve to inform Preem on how to implement and optimize CO<sub>2</sub> capture.

Preem has also recently announced a partner agreement with Recharge to invest in rapid charging points across Preem's retail footprint. The partnership highlights how Preem can continue to utilize its retail footprint to compensate for reduced fuel volumes in the long term. Preem installed its first charging stations in 2009 and began working with Recharge in 2013 to add charging stations along strategic routes across Sweden, including along major highways and at Preem's manned stations. The ambition is to equip 15-25 stations annually with rapid chargers.

## 1.4 Preem's climate roadmap towards net-zero in 2035

With a proven track record as a sustainability leader within the refining industry, Preem in 2019 launched what was believed to be the world's most ambitious climate targets in the refining industry – net-zero by 2045 covering the full value chain (scope 1-3). Preem fully supports the Paris agreement and the 2045 target was set to align with the Swedish national target. We are a signatory of the governmental initiative “Fossil Free Sweden”, which was formed ahead of the UN climate conference in Paris and brings together actors in the form of companies, municipalities, regions and organizations that give their backing to the declaration that Sweden will be one of the first fossil-free nations in the world. Preem's renewable transition provides fundamental support to many of the 22 sector roadmaps for fossil free competitiveness developed under the initiative.

Preem has also been a member of the Haga Initiative since 2017, which is a business network that strives to reduce the business sector's climate impact. The members of the Haga Initiative strive toward a profitable business sector without climate impact. The Haga Initiative sets climate targets in line with the 1.5 degree target. Members act as climate action role models within their respective business sectors and act together to create the business conditions needed to reach this goal. The initiative is a signatory of the UN Race to Zero campaign.

### 2035 net-zero target

In 2021, Preem revised its climate target. Given the need for climate action, societal development toward carbon efficient mobility and the urgency for our industry to transform, Preem decided to cut ten years off its commitment target and steer toward net-zero by 2035 along its entire value chain. Our strategy and climate target are expected to harmonize with the Paris agreement and market developments in the Nordics and northwestern Europe. The overarching emissions target to achieve net zero for Scope 1, 2 and 3 emissions by 2035 entails a 90% reduction in absolute emissions, and Preem intends to allocate 70% of its capital expenditures in 2022 and 68% in 2023 to transitional projects. The target is backed up with a concrete transition plan with quantified abatement measures in four main categories.

Preem's current transition plan is based on four main focus areas, to achieve its net-zero target by 2035. First, we must transform our refineries for the large scale use of renewable feedstock. Secondly, we will replace natural gas derived hydrogen used in our production processes with hydrogen based on biogas and renewable electricity. Thirdly, we want to capture carbon dioxide at our refineries through Carbon Capture and Storage (CCS). Finally, we want to broaden the business toward the production and sale of other sustainable and renewable products and offerings across the value chain.

### 1. Transform refineries to renewable and reduce production

Use of our products amounts to 85 percent of the emissions in our value chain. To reach Preem's net-zero target, we need to drastically reduce the use of crude oil and replace it with sustainable, renewable feedstock such as waste products from the forestry, agriculture and the food sectors. In a first phase, Preem intends to increase renewable production capacity to approximately 1.4 million m<sup>3</sup> by 2024, which will be achieved once the Lysekil Synsat Phase 2 retrofit is complete, and reach 5 million m<sup>3</sup> by 2030. Our renewable production in 2030 will help our customers annually reduce approximately 12.5 million tonnes of CO<sub>2</sub> emissions compared to fossil fuels. In addition, the reduced fossil fuel production will result in further absolute emission reductions. As a comparison, Swedish domestic transport-related emissions amounted to 15 million tonnes in 2020.

Investment in renewable refining capacity through retrofitting and converting existing fossil fuel production to renewables is a key CO<sub>2</sub> abatement lever. Preem has identified a number of follow-on projects to further increase its renewable refining capacity, in addition to the Synsat retrofit at Lysekil, including:

- “Project Viking”, a large greenfield renewable fuel unit at Gothenburg; and the Isocracker (ICR) revamp at Lysekil.
- By retrofitting existing upgrading units, Preem will gradually reduce fossil throughput, which will reduce the CO<sub>2</sub> footprint in all scopes.

## 2. Convert to sustainable resources

The use of fossil-based resources is the primary source of CO<sub>2</sub> emissions along the Preem value chain. The transition to renewable production means direct fossil CO<sub>2</sub> emissions from our refineries will decrease as internal, residual renewable energy streams will increasingly satisfy the energy use for our refineries.

Hydrogen is an important component in renewable fuel production and a large CO<sub>2</sub> emission source at our refineries. Hydrogen is currently produced from natural gas that can be replaced by biogas and/or internal renewable residual streams at the refineries to form important carbon abatement levers. Preem is also exploring the decarbonization of the hydrogen production by means of electrolysis using fossil-free electricity and water.

## 3. Capture and remove carbon dioxide

Our refineries are large point sources of CO<sub>2</sub> emissions, but which also present opportunities for capturing and dramatically reducing direct CO<sub>2</sub> emissions through CCS. Capturing fossil carbon will act as an abatement lever and gradually, as the proportion of biogenic carbon increases, this will become a net-carbon removal activity that reduces CO<sub>2</sub> in the atmosphere, potentially transforming the refineries from large point sources of CO<sub>2</sub> to generating negative emissions.

To reach net-zero, Preem will also evaluate other robust and credible means of carbon reductions and removals, outside of Preem's value chain to compensate for residual emissions.

## 4. Adapted production and offerings

Beyond reducing fossil-based fuels to achieve net-zero, Preem sees opportunities to widen its product offering to meet the demands of a sustainable society. Renewable components are already sought after by other industries providing completely different, potentially cyclic, material pathways and very different product emission factors compared to what we apply for our fuels.

### Summary of Preem's long-term strategic direction, renewable transition and 2035 net-zero target

- Preem is committed to increasing its renewable revenue streams and is looking to remain competitive through highly profitable renewable projects.
- The Company is well equipped for the energy transition, having built up extensive experience with renewable production and has already made related infrastructure investments in its existing refineries.
- Preem will focus on transforming existing assets from fossil refining to renewable refining where possible. This option is open to Preem as a result of a long-term commitment to maintain the good condition of its assets.
- Renewable investments will provide an attractive revenue stream providing a more sustainable source of cash flow going forward.
- Preem is taking a holistic approach to the sustainable transition and in addition to focusing on the refining of renewable fuels, is reducing its cost base, optimizing its retail outlets by adding EV-charging capabilities and optimizing its climate impact from logistics through digitalization.
- The transition to renewable production lays the foundation for very substantial emission reductions throughout the value chain and is accompanied by direct emission reductions at our refineries, for example through CCS and renewable hydrogen production.

Preem sets objectives and performs reporting in accordance with the GHG-protocol and is inspired by the TCFD (Task Force on Climate related Disclosures) reporting standard. In 2021, Preem started an initiative to align target setting in accordance with the Science Based Targets initiative (SBTi). A SBTi standard for the Oil & Gas industry is still under development but with Preem's market-leading net-zero target being based on absolute CO<sub>2</sub>-reduction (absolute contraction) along the value chain, Preem's transition to renewable production forms the basis for a unique position to demonstrate climate leadership in the industry globally.

Preem has sustainability certifications in ISCC, ISCC plus, ISO 9001, ISO 14001 and ISO 45000 for the refineries. Energy management systems implemented within the ISO 14001 certification.



## 1.5 Preem's Sustainable value chains and responsible business

The Preem Code of Conduct sets higher standards for the sustainability performance of renewable products and raw materials. Preem is not satisfied with only using renewable products or raw materials as long as they are classified as sustainable according to the EU directives or comply with national legislation, such as the Swedish legislation on sustainability criteria. We continuously evaluate our sustainability performance and select raw materials with high efficiency and good sustainability properties. Our higher standards have led us to focus on circular raw materials such as waste and residues and not to use products based on palm oil or soy.

The renewable supply chain is more tightly regulated than the fossil fuel supply chain, with high requirements for traceability and the fulfillment of sustainability criteria for renewable fuels. Preem manages the work with the renewable supply chain with its Code of Conduct and its control system for renewable fuels. Our management system guides our processes for renewable fuels.

In order for renewable products to be used in accordance with the greenhouse gas reduction mandate, or alternatively receive tax relief as high blends, they must meet the requirements of the Swedish Act on Sustainability Criteria, which is demonstrated by companies receiving a so-called Sustainability Statement from the Swedish Energy Agency. To ensure that the raw materials purchased meet these requirements, and that our operations otherwise meet the requirements for the production and storage of renewable fuels, Preem maintains an internal control system as part of the overall management system. The control system is certified according to the ISCC standard, and is audited annually by both internal and external parties and includes:

- Compliance with the Act on Sustainability Criteria and the Renewables Directive, for example regarding traceability and compliance with sustainability criteria such as CO<sub>2</sub> reduction over the fuel life cycle.
- Sustainable supply of renewable raw materials and fuels.
- Control of our suppliers.

As part of the control system, renewable raw materials are reviewed in accordance with the Preem Code of Conduct by Preem's Sustainability team before being purchased. Also, suppliers of renewable feedstock are reviewed in a risk-based process based on the Preem Code of Conduct. Preem primarily purchases ISCC-certified renewable feedstock. In rare cases of non-certified suppliers, we have routines in place to ensure sustainability criteria, such as external audits.

Preem began co-processing renewables at its refinery in Gothenburg 2010 in the so-called Green Hydro Treater facility (GHT). From the start, the production has been a part of our control system for renewable fuels and a part of our sustainability statement.

## 1.6 Preem's sustainability strategy and policies

Sustainable development is development that meets today's needs without compromising the ability of future generations to meet their own needs.

The future is our most important market and the transition to a sustainable society is our most important issue. We have a double responsibility: society needs our products and we shall ensure that they are produced and used in the most environmentally beneficial way possible and they promote sustainable energy.

### A holistic perspective on the sustainability issues

Sustainable development entails economic, social and ecological sustainability, not just now or next year, but with a view to the future. The sustainability perspective shall be present in everything we do, from how we treat customers and each other in the workplace to how we minimize the burden on the environment

in all stages and contribute to the societies in which we operate. An important goal for Preem is that the renewable fuels that we produce and sell in Sweden do not increase other sustainability risks in the supply chain. Sustainability permeates our strategies and is reflected in our vision: “Preem leads the transformation to a sustainable society”. Preem’s policies and Code of Conduct guide us and our suppliers in this regard.

### We have a major responsibility

Preem is Sweden’s largest producer of fuel. Almost half of all fuel consumed in Sweden is produced by Preem. Being a major fuel producer combined with the fact that the transport sector accounts for one-third of the Swedish greenhouse gas emissions means that we have a major responsibility to work to reduce emissions and minimize environmental impact at every stage of the value chain. Preem’s greatest potential climate contribution is to reduce our customers’ emissions, which we do through the transition from fossil fuels to renewable raw materials. By being innovative and proactive, we take our responsibility for a reduced climate impact, a better environment and a better society.

### Our sustainability framework

Preem’s sustainability framework presents areas that are the most important in our sustainability efforts – our seven focus areas.



Our sustainability framework summarizes the sustainability areas where Preem can have the greatest impact along its value chain and which are most important for our stakeholders and our business. The framework includes the following focus areas: sustainable products, sustainable value chains, environment, climate, people and safety and responsible business. The seventh area, stable economy, creates the conditions for long-term sustainable business. In the framework, we define our ambitions and goals for our current focus areas and their underlying sustainability issues.

### Contributing to the UN SDGs

Through Agenda 2030, the UN formulated the Sustainable Development Goals (SDGs). Preem's operations, and not least our value chain, affect these goals. By integrating sustainability into our strategies and committing to targeted measures, we make a positive contribution to the goals, but we can also have a negative impact, which we try to monitor, measure and mitigate.

#### SDG 7 – Affordable and clean energy

By investing in renewable fuels and sustainable supply chains on a large scale, Preem contributes to the increased production of sustainable energy with a reduced climate impact. To make the investment in renewable fuels possible, Preem conducts research and development itself and together with partners in academia, institutes and development companies. But refining involves significant energy use and Preem is constantly working to optimize energy efficiency and find renewable alternatives.

#### SDG 8 – Decent work and economic growth

Preem contributes to economic growth by being one of Sweden's largest export companies, one of the largest taxpayers and by producing approximately 50 percent of the country's fuel. Preem sets requirements for decent working conditions both in its own operations and its supply chain through its Code of Conduct. This is important since Preem purchases raw materials from different parts of the world where there are challenges in terms of working conditions. Preem is an important employer, especially in Lysekil, and contributes to the creation of new green jobs in the commodity supply chain. Increasing the demand for waste-based oils and fats will create jobs in the collection and rendering of oils from the food and feed industry.

#### SDG 9 – Industry, innovation and infrastructure

Preem's focus on renewable fuels contributes to innovative solutions to reduce climate impact. Innovative solutions such as CCS can also lead to reduced climate impact.

#### SDG 13 – Climate action

Preem's focus on renewable fuels offers great opportunities to improve the transport sector's overall climate impact. Preem's investment in capturing and storing carbon is expected to reduce the climate impact of our production. Nevertheless Preem's value chain involves large CO<sub>2</sub> emissions in raw material extraction, production and especially in the use of fossil fuels. In 2020, Preem reduced emissions in scope 3 (upstream emissions) by choosing better alternatives. Transparency on CO<sub>2</sub> emissions improved in the global market in 2021.

### Sustainability recognitions and certifications

- Gold medal Ecovadis sustainability rating 2021.
- Industry leader in the Sustainability Brand Index in both B2B and B2C in 2018 and 2019. The Sustainable Brand Index survey lists Sweden's most sustainable brands in different target groups.
- Third-party rated as the most energy and climate efficient refineries in Europe by Solomon.
- Preem's refineries are certified to ISCC, ISCC plus, ISO 9001, ISO 14001 and ISO 45000. Energy management systems are implemented within the ISO 14001 certification.
- Preem was appointed as the "Greenest brand" in our industry by Differ (survey performed among Swedish people in 12 different industries since 2008).



## 2. Green Financing Framework

**The objective of issuing Green Financing Instruments is to assist in financing Preem’s initiatives to transition into a leading renewable fuel producer and distributor - to play a key role in the energy transition for a low-carbon and sustainable economy. The issuance of these Green Financing Instruments will also enable Preem to engage with investors that are committed to allocating capital to support this effort.**

Green Financing Instruments include Green bonds, Green loans, Green hybrids, Green private placements, Green project finance and any other financial instrument where the proceeds can be exclusively allocated to finance or re-finance - either in part or in full, new and/or existing Eligible Green Projects and Assets and/or Assets as defined in this framework.

### **Alignment with the Green Bond Principles and Green Loan Principles**

This framework is designed to ensure any Green Financing Instruments issued by Preem and/or its subsidiaries are aligned with market best practices outlined by the International Capital Market Association (“ICMA”) 2021 Green Bond Principles<sup>5</sup> and the Loan Market Association (“LMA”) 2021 Green Loan Principles<sup>6</sup>. They are updated occasionally and include the following sections:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

<sup>5</sup> [ICMA Green Bond Principles 2021](#)

<sup>6</sup> [LMA, APLMA, and LSTA Green Loan Principles 2021](#)

The framework also describes the approach to External Review, as recommended by the Green Bond Principles and the Green Loan Principles. The framework will apply to any Green Financing Instrument issued by Preem and/or its subsidiaries and will be applied as long as any such instrument is outstanding.

This framework may be updated occasionally to ensure continued alignment with voluntary market practices, emerging standards and classification systems. Any updated version of this framework will either maintain or improve the current levels of transparency and reporting disclosures, including the corresponding External Review.



## 2.1 Use of Proceeds

An amount equivalent to the net proceeds from Preem's Green Financing Instruments will be used to finance or re-finance, in whole or in part, existing and/or future Eligible Green Projects and Assets that meet the Eligibility Criteria as defined below and are financed by Preem through operating and capital expenditure. Operating expenditure might include filters, catalysts, personnel on these specific units and renewable feedstock.

Project categories in the framework include: 1) Eco-efficient and circular economy adapted products, production, technologies and processes, 2) Renewable energy, and 3) Energy efficiency. Preem's current plan is to allocate an amount of funding equivalent to 100% of the net proceeds of its inaugural green bond transaction to be used within Eco-efficient and circular economy project category. Preem estimates that around 60% of allocated funds will relate to capital expenditures to increase renewable fuels production and the remainder to procurement of renewable feedstock.

Preem intends to allocate an amount equal to the net proceeds raised by the issuance to the Eligible Green Projects, renewable raw materials and Assets (as they are described in 2.1) where financing has taken place within a 36-month period preceding the date of the issuance, or if the invested technology is still state of the art and depreciation of the initial investment is still on-going.

Green Financing Instruments will not be used to (re-)finance investments that utilize fossil-based raw materials or that are associated with environmentally negative resource extraction<sup>7</sup>.



<sup>7</sup> Under the EU LULUCF Regulation including Palm Oil and Soy

## 2.1.1 Eligible Green Projects and Assets

Eligible Green Projects and Assets relevant for use under the framework include:

Green Project / Asset Category	Eligibility Criteria	Alignment with UN SDGs
<p><b>Eco-efficient and circular economy adapted products, production technologies and processes</b></p>	<p>Financing related to the development, operations, maintenance and expansion of renewable and circular solutions, which provide a sustainable alternative to fossil fuels and products, hence reducing greenhouse gas emissions.</p> <p><b>Investments in renewable and circular solutions</b></p> <p>Investments in renewable product refineries – such as the refining of used cooking oil, tall oil fatty acids, pyrolysis oil and waste tallow<sup>8</sup> – for the production of biofuels, renewable fuels including diesel and sustainable aviation fuel.</p> <p><b>Such investments include:</b></p> <ul style="list-style-type: none"> <li>• Expenditure for planning, developing, constructing, equipping, and managing biofuel facilities that are dedicated to producing biofuel from various waste, residues and innovative raw materials, such as pyrolysis oil, tall oil fatty acids.</li> <li>• Expenditure related to co-processing units where the investment is solely aimed at increasing capacity at these facilities for biofuel and replacing fossil capacity. (By using a stepwise manner for the transition through co-processing, reusing existing equipment rather than building new equipment will be possible, thereby being more energy efficient than a green field project.) Investments in co-processing units will only be limited to finance infrastructure dedicated to accommodate the production of renewable fuels.</li> <li>• Use of proceeds criteria for co-processing units:               <ul style="list-style-type: none"> <li>- Minimum threshold for eligibility of investments is set to 25% renewable share of total feed per co-processing unit with operation start no later than 2026. Final renewable share target of co-processing units shall strive towards 100% of total feed with start of operation year no later than 2030.</li> <li>- Allocation of proceeds for maintenance activities at co-processing units will only be allocated proportionally to an amount based on the proportion of renewable fuels produced in the last 12 months of production for each respective unit.</li> </ul> </li> </ul>	  

<sup>8</sup> Preem is ISCC certified and primarily purchase ISCC-certified renewable feedstock. To uphold our ISCC-certificate and also to comply with Swedish regulation, Preem maintains a control system for renewable fuels as part of our management system. In case we purchase non-certified feedstock the processes and routines of our control system ensures we uphold the sustainability criterias of EU Renewable Energy Directive (RED II) as well as any additional sustainability criteria formulated by Preem e.g. in our Code of Conduct. Preem, for example, has always excluded feedstock from the palm oil industry in our renewable fuels production.

Green Project / Asset Category	Eligibility Criteria	Alignment with UN SDGs
	<ul style="list-style-type: none"> <li>• Investments in CCS solutions connected to renewable fuel production.</li> <li>• Expenditures related to the purchase of sustainability rated and approved raw materials such as talloil, other waste bio oils/fats for the production of biofuels.</li> <li>• Expenditures related to all technology and equipment, such as sensors, certifications, and patents related to biofuel production processes, methods and equipment.</li> </ul> <p><b>R&amp;D investments related to renewable and circular solutions</b></p> <p>R&amp;D and investments to further develop our solutions portfolio for more sustainable transport, land and sea, aviation, and chemical sectors.</p>	
<p><b>Renewable energy</b></p>	<p><b>Financing related to the construction, development, acquisition, maintenance, and operation of renewable energy including solar and wind with direct life cycle emissions of less than 100g CO<sub>2</sub>e/kWh, declining to net-0g CO<sub>2</sub>e/kWh by 2050 as stated in the Delegated Act of the EU taxonomy. Examples include:</b></p> <ul style="list-style-type: none"> <li>• On-site (manufacturing and distribution centers) renewable energy projects such as roof-mounted solar panels.</li> <li>• Power Purchase Agreements (“PPAs”), Virtual Power Purchase Agreements (“VPPAs”), and any other investments that provide for the procurement of renewable energy through a long-term contract (at least ten years) aligned with the GHG Protocol.</li> <li>• District heating from excess energy generated from renewable production.</li> <li>• Production of fossil-free hydrogen.</li> </ul>	
<p><b>Energy efficiency</b></p>	<p><b>Financing related to investments in energy and resource efficiency, including:</b></p> <ul style="list-style-type: none"> <li>• Improvement of energy efficiency in equipment in Preem’s refineries and facilities dedicated to the production of renewable fuels</li> <li>• Improvement of energy efficiency in other sectors, such as refurbishments of buildings to include energy-saving retrofit of heating systems, refrigeration systems, lighting equipment etc.</li> </ul>	

## 2.1.2 Managing Environmental and Social Risk

Preem has governance procedures to review a broad spectrum of sustainability criteria. An important goal for Preem is that the renewable fuels we produce and sell do not increase sustainability risks in the supply chain. Traceability and the fulfillment of our sustainability criteria are crucial when choosing a raw material to manage value chain risks. We continuously evaluate sustainability performance and select raw materials with high efficiency and good sustainability properties.

Preem's minimum sustainability criteria and requirements for renewable products or raw materials are set by the Preem Code of Conduct. The Code of Conduct includes the sustainability criteria classification according to the EU directives and with national legislation, such as the Swedish law. The Preem Code of Conduct must be signed by all suppliers to Preem, or they alternatively must have their own Code of Conduct accepted by the Preem Sustainability team.

The governing sustainability criteria we use to reduce the negative impact at the supplier level include (not limited to):

- The renewable fuels must have a positive climate impact and promote energy efficiency.
- The production of renewable fuels must not violate human rights under UN conventions.
- The production of renewable fuels must not deplete water supplies or threaten biodiversity.

## 2.2 Process for Evaluation and Selection

Preem has established an internal governance structure to ensure the application of this green financing framework. A Green Financing Committee is established to ensure the selection of Eligible Green Projects and Assets are in compliance with the eligibility criteria defined in 2.1.1, and to ensure monitoring principles for how capital is allocated to these projects and assets.

The Green Financing Committee is chaired by the Head of Finance and consists of the Head of Sustainability Management, Head of Controlling and senior members of the Sustainability and Finance teams. The sustainability representative holds a veto.

Members from different project teams will annually (or as needed) recommend Eligible Green Projects and Assets to the CEO and the Group Investment Committee, which will nominate the projects and assets to the Green Financing Committee for review against this framework.

The Green Finance Committee will screen and assess that the Green Projects and Assets meet the eligibility and exclusion criteria laid out in section 2.1 of this Green Financing Framework, as well as Preem's Sustainability Policies and Procedures. For the screening of eligible procured feedstock, the Green Financing Committee will liaise with the working group for the procurement of renewable feedstock, led by the Group Sustainability team, which has established a governance process<sup>9</sup> to align the selection process to the criteria laid out in section 2.1 in this Green Financing Framework. The Green Financing Committee will annually review the list of Eligible Green Projects and Assets and procured feedstock against the eligibility criteria. If a project no longer meets the eligibility criteria set forth in this framework, the project will be removed from the register and replaced as soon as a substitute has been identified.

The Green Financing Committee is also responsible for reviewing and approving allocation and impact reports, where relevant.

<sup>9</sup>[Detailed on page 34 of Preem's 2020 Sustainability Report](#)



## 2.3 Management of Proceeds

Preem's treasury team will manage the allocation of an amount equivalent to the net proceeds of its Green Financing Instruments to Eligible Green Projects and Assets using an internal register. Preem will strive to allocate all the net proceeds of its outstanding Green Financing Instruments to the Eligible Green Project and Assets within 24 months of issuance of each Green Financing Instrument.

Pending full allocation of an amount equal to the net proceeds of outstanding Green Financing Instruments, the proceeds will be held in accordance with temporary investments such as cash or foreign currency swaps in line with Preem's treasury management policies. Care will be taken that the temporary investments do not support fossil fuel related activities.

If any Eligible Green Projects and Assets are removed from the Eligible Green Project Portfolio, Preem will strive to substitute those projects with replacement Eligible Green Projects and Assets, as soon as possible.

## 2.4 Reporting

Preem will annually publish an allocation and impact report and until full allocation of the proceeds, thereafter in the event of any material change in the allocation until the relevant maturity date. The report will be made available on its website [www.preem.com](http://www.preem.com). The first report will be published within one year of the issuance of the inaugural Green Financing Instrument.

### Allocation Reporting

Preem will provide information on the allocation of the net proceeds of its Green Financing Instruments in its report. The information will contain at least the following details:

- a) Net proceeds of outstanding Green Financial Instruments.
- b) Amount of net proceeds allocated to Eligible Green Project Categories as defined in the Use of Proceeds section of this Framework.
- c) Subject to confidentiality considerations a list of the Eligible Green Projects and Assets financed through Preem's Green Financing Instruments, including a description of the projects, allocated amounts.
- d) The proportional allocation of proceeds between existing projects (refinancing) and new projects.
- e) The remaining balance of unallocated proceeds, if any.

### Impact Reporting

Preem intends to align, on a best effort basis, the impact report with the individual project approach described in ICMA's "Handbook - Harmonized Framework for Impact Reporting" (July 2021)<sup>10</sup> and subsequent amendments thereof. The impact report will, to the extent feasible, also include a section methodology, baselines and assumptions used in impact calculations.

Preem will provide impact reporting at the level of each Eligible Green Project Category and which may include, but are not limited to, the Impact Reporting Metrics below. Where possible, Preem will strive to report actual impact, however where this is not observable, or is unreasonably difficult to source, estimated impact will be reported:

- **Eco-efficient and circular economy adapted products, production technologies and processes**
  - Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent.
  - Amount of fossil-based raw materials avoided/replaced.
- **Energy efficiency**
  - Reduction in energy use (percent).
  - Annual energy savings.

<sup>10</sup> ICMA Handbook - Harmonised Framework for Impact Reporting, June 2021

- **Renewable Energy**

- Annual renewable energy generation in MWh/GWh.
- Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent.

## 2.5 External Reviews

Preem's Green Financing Framework is supported by the following external reviews:

### a) Second Party Opinion ("SPO")

Preem has retained CICERO Shades of Green to provide a Second Party opinion on Preem's Green Financing Framework, to confirm alignment with the ICMA 2021 Green Bond Principles and the LMA 2021 Green Loan Principles. The Second Party Opinion is available at Preem's website.

### b) Post Issuance external verification on reporting

Preem will request on an annual basis, starting one year after issuance and until full allocation, an assurance report on the allocation of the Green Financing Instrument proceeds to Eligible Green Projects and Assets, provided by an external auditor. This assurance will be made available on Preem's website.



## Preem's journey to climate neutrality

2045

