



# PKN ORLEN SA Green Finance Framework

May 2021

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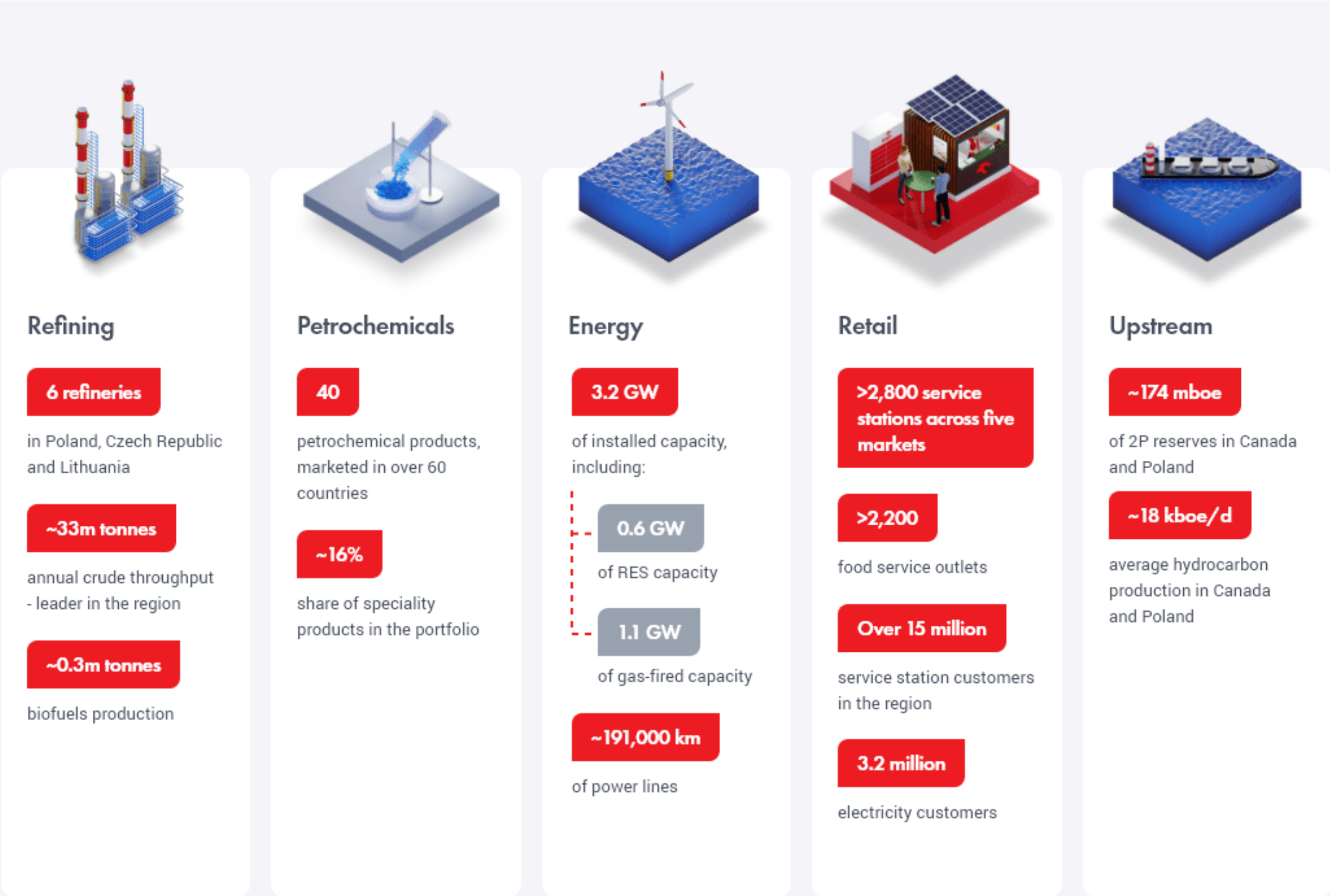


# 01. Sustainability at PKN ORLEN

## About PKN ORLEN

PKN ORLEN SA (hereafter referred to as “PKN ORLEN” or “ORLEN”) is a multi-energy company with operations in six domestic markets: Poland, the Czech Republic, Slovakia, Germany, Lithuania and Canada. ORLEN’s business activities are presented below:

Chart 1. ORLEN’s multi-energy business model provides for long term resilience



ORLEN is one of the largest power producers in Poland, with a capacity of 3.2 GW, 70% of which comes from zero- and low-emissions sources (renewables and modern CCGT). In 2020 ORLEN’s power segment contributed >40% of company’s EBITDA (PLN 3.4 billion).

ORLEN recognises the paramount reshaping of the fuel and energy sector and has set itself the strategic goal of becoming the leader of the sustainable transition in Central and Eastern Europe. In its recently announced Strategy 2030, ORLEN has committed to allocate over PLN 30 billion directly towards this ambition, nearly one third of its overall growth investment expenditure. Delivery of the ORLEN2030 strategy will further diversify the Group’s revenue sources, in line with its long-term objective of net zero carbon emissions by 2050. The Group’s key growth area over the next decade will be power generation, based mainly on renewables and supported by gas-fired sources. By 2030, the Group intends to achieve over 2.5 GW of installed RES capacity, including 1.7 GW in offshore wind farms and an increase of 0.8 GW in onshore (wind power and solar) sources. The Group will also increase the installed capacity of its modern gas-fired power plants from today’s 1.1 GW to 2.0 GW. |→







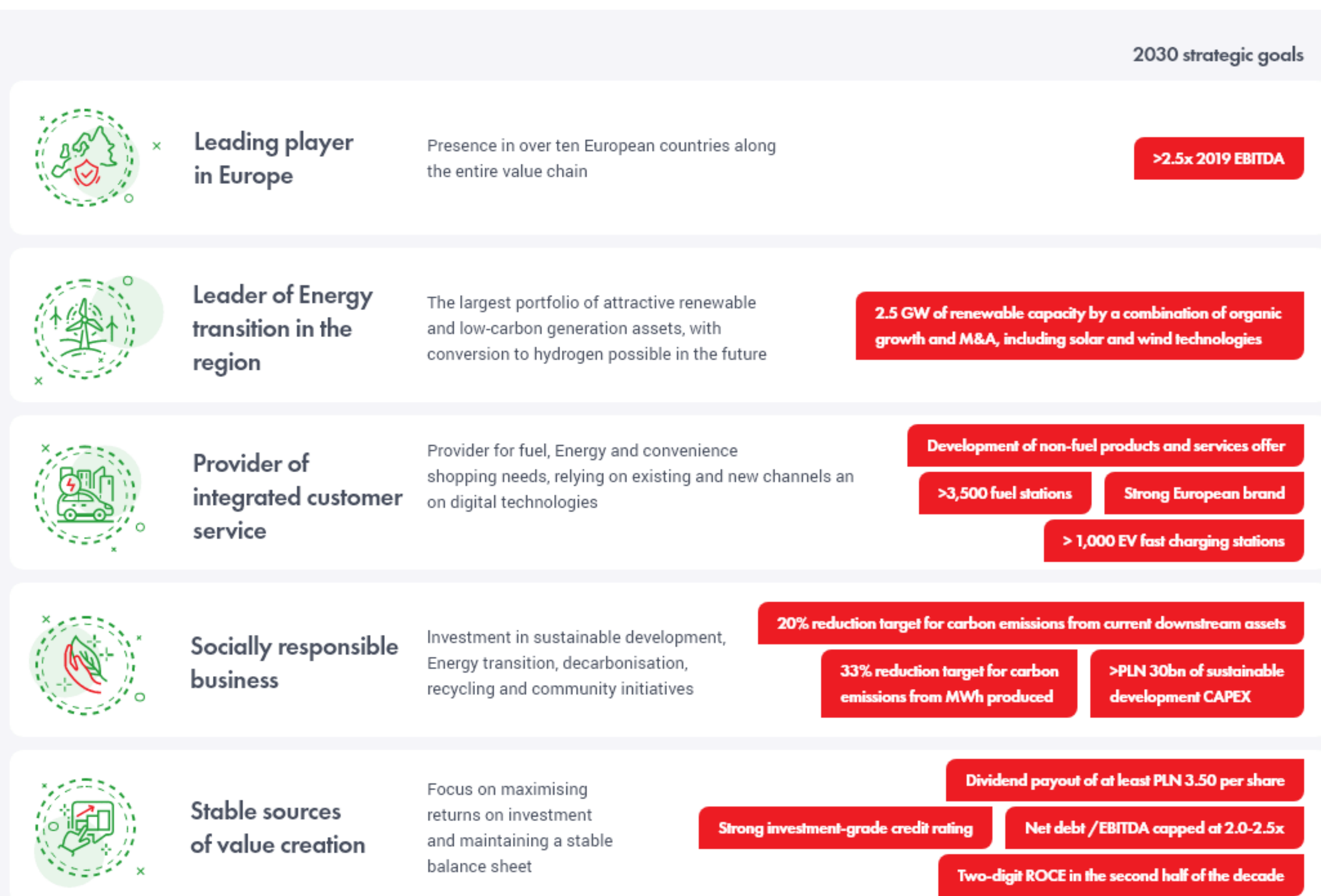
ORLEN has already pivoted its business model to capture the opportunities of the energy transition. In 2020 ORLEN acquired ENERGA, a major power producer and distributor in Poland with a significant portfolio of zero-emission energy assets, gaining access not only to an extensive distribution network, but also to B2B and B2C customer bases and to critical organisational competencies necessary for a large scale entry into renewables. The Group is at an advanced stage of preparations for its largest energy project – the construction of offshore wind farms in the Baltic Sea, with a maximum capacity of 1.2 GW, with additional projects in the pipeline.

To drive the transition, PKN ORLEN draws strength from its state-of-the-art integrated fuel and chemical production assets that have an annual processing capacity of over 35 million tonnes. These products are marketed through the region's largest network of over 2,800 modern service stations. ORLEN's offering includes over 50 top-quality petrochemical and refining products, which are sold in more than 110 countries across 6 continents. The fuel station network is very dynamic owing to non-fuel retail which contributes a growing portion of revenues. In 2020 the Group acquired RUCH, which operates over 1,200 small convenience kiosks in Poland. For a number of years ORLEN has been recognised as the most valuable Polish brand, worth PLN 4.7bn.

The Group retains a modest exposure in upstream assets including 2P oil and gas reserves estimated at 174 m boe at the end of 2020. Increasingly, the Group relies on know-how to produce business results.

ORLEN has embedded sustainability into its 2030 Strategy, integrating business priorities and social responsibility explicitly at the highest level of the organization.

## Chart 2. ORLEN will become a leader of the sustainable transition in Central and Eastern Europe



PKN ORLEN is also the region's only company to be listed for the eight consecutive time among The Most Ethical Companies by the



US-based Ethisphere Institute.



# Sustainable Development Strategy and contribution to UN SDGs

Our credo: Fuelling the Future. Sustainably.

Chart 3. ORLEN assumes extended responsibility for the energy transition in CEE

## ORLEN assumes leadership in CEE Energy Transition

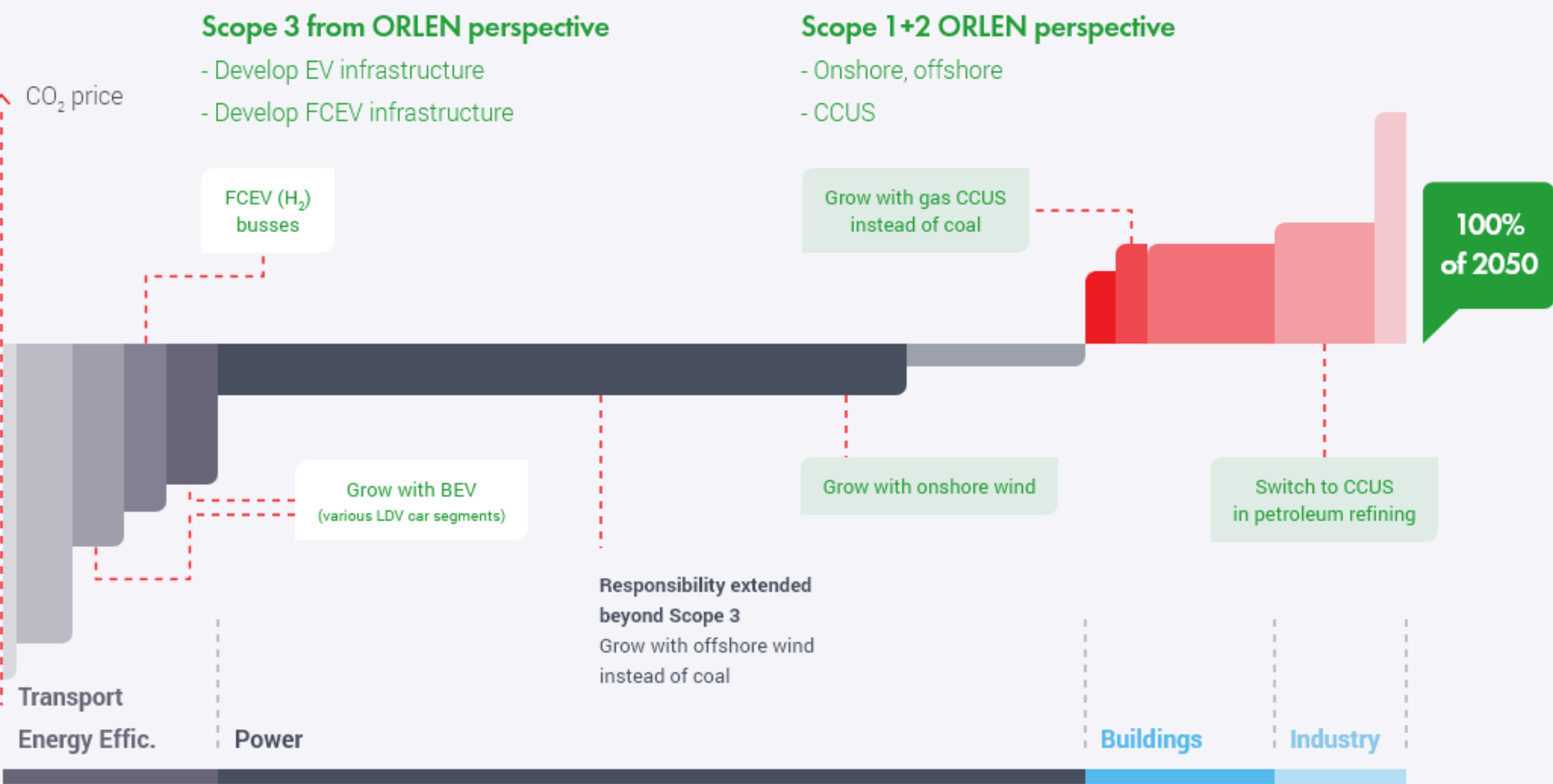
PKN ORLEN goes beyond its own Scope 1+2+3 carbon footprint to drive energy transition in the region

PKN ORLEN belongs to a handful of entities with enough strenght to propel the transition and effectively shape power ecosystems in CEE

ORLEN's own assets will nonetheless be progressively decarbonised in line with responsible climate management

Poland`s 2050 carbon abatement curve, taken from a respectable emissions reduction scenario, prioritizes transport and power sector as the prime areas for change\*

Simplifield for presentation purposes\*\*



## Strong offshore onshore agenda is the best ORLEN can do to abate CO<sub>2</sub> in Poland

By 2030, biggest CO<sub>2</sub> abatement in Poland is from RES interventions in power generation, largely due to legacy coal-based electricity mix with 800 kg / CO<sub>2</sub>/MWh

Legacy coal assets, plus wear and tear exacerbate usage of coal as fossil sources of energy

CCS and H<sub>2</sub> piloting also highly desirable for large scale positive externalities in 10y horizon

Attractive business for the capable and also preparation for EVs growth already with RES electricity

\* Note: 650 MtCO<sub>2</sub>e includes baseline GDP growth with progressively improving technology (from 414 MtCO<sub>2</sub> presently)

\*\* Full version of McKinsey's "Carbon Neutral Poland 2050" report available publically at [www.mckinsey.com](http://www.mckinsey.com)







Sustainable development is the priority of PKN ORLEN, which we understand as conducting business activities in a way that ensures consistency between business goals and social and environmental goals, taking into account the long-term needs of our stakeholders. ORLEN therefore takes responsibility for shaping the ecosystems in which it operates, and sees the energy system transition in CEE as its key obligation when facing the climate challenge. This extended responsibility to society means the readiness to initiate the transformation even beyond our regular Scope 1+2+3 GHG duties. We are one of the very few entities which can deploy the financial and operational capacities necessary to transform coal-based power generation in CEE into one based on RES and low-emission assets – and we accept the associated responsibility.

For us, social and environmental objectives are as important as business ones.

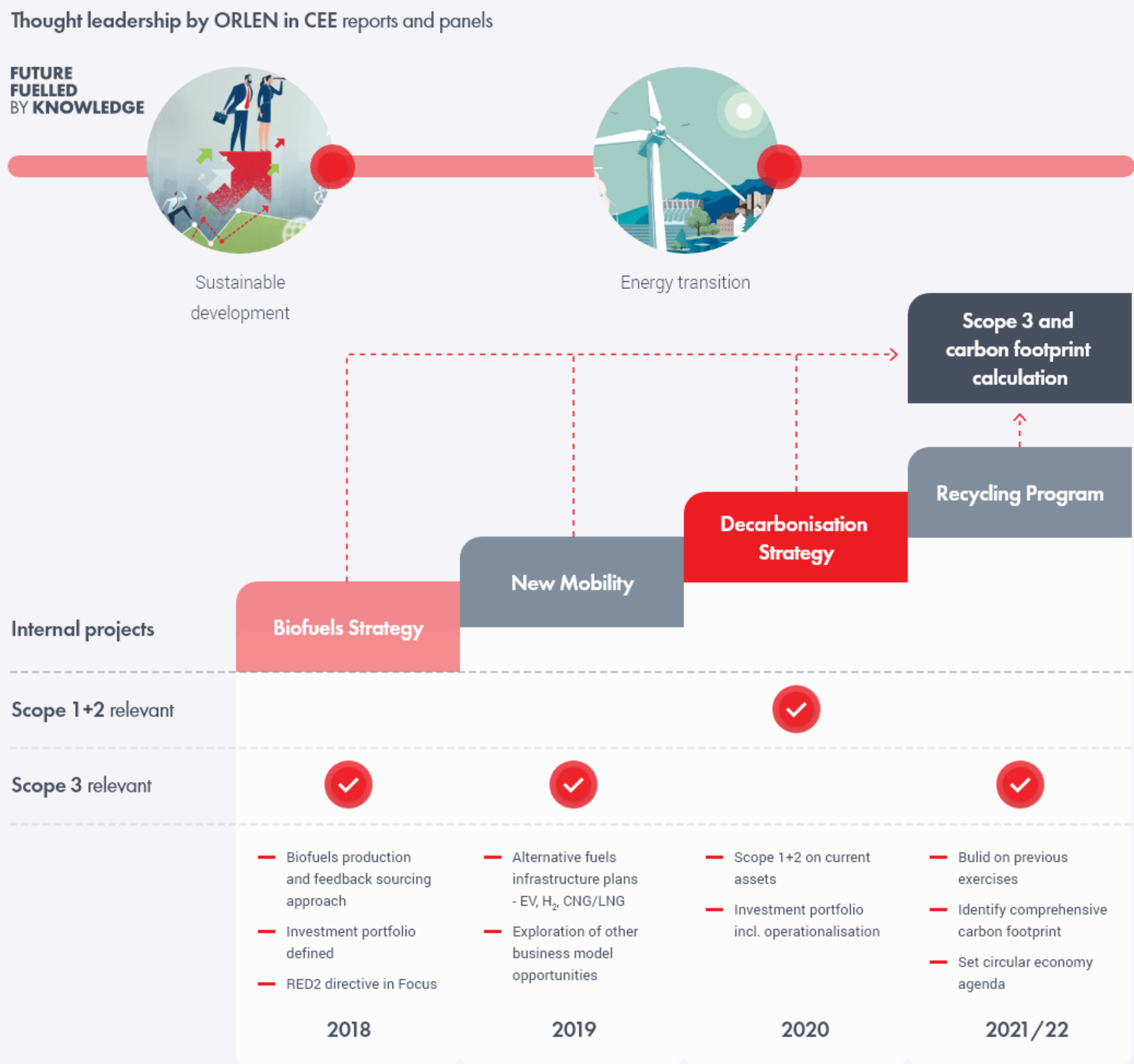
- We respect people and their rights.
- We use natural resources so as not to disturb the environmental balance.
- We deliver: in 2020 we have launched a 31.5 MW onshore wind power plant in a former lignite opencast field in Przykona.
- We go for more: next to this development, a 20 MW PV plant will be developed. Project “PV Gryf”, will entail 40 thousand modern PV panels on the reclaimed grounds of the mine.
- We are pragmatic: in parallel we have carried out an M&A for another >100MW of existing onshore projects in Poland in 1Q2020.
- We feel responsible for members of the community in which we operate. Therefore, we engage in dialogue with them and support them in various fields of activity.
- We take the challenge seriously, and so we understand that rigorous implementation of governance measures for our targets and environmental risk management are necessary to keep us on the right path. So, starting 2021, we have explicitly introduced sustainable development targets to our remuneration policies, cascading from the Management Board level down.

We understand that momentum is needed for the change to take hold in a large business. Therefore we have made a series of significant mid-term commitments to reinforce our strategic direction. These objectives were generated and set through a series of business projects and analyses spanning over several years. Following exercises in biofuels, new mobility solutions and decarbonisation, all of which have contributed to ORLEN2030 Strategy, the next step for us is to add the comprehensive Scope 3 and carbon footprint perspective and to further the recycling program.





Chart 4. ORLEN has a proven ability in developing its sustainability agenda, executing a range of business projects and contributing thought leadership activities in CEE



Overall, our sustainability-oriented activities committed in ORLEN2030 Strategy will focus on:

- Reaching net zero GHG neutrality by 2050
- The most efficient plants: 20% reduction in Scope 1 and 2 CO<sub>2</sub> emissions from existing refining and petrochemical assets by 2030 (from base year 2019)
- Clean energy: leading producer of zero and low emissions electricity in Poland. Reduction in CO<sub>2</sub> emissions per MWh by 33% by 2030 (from base year 2019)
- Low emission fuels: 5 large capex projects relating to biofuel and biogas productions |→







- In order to facilitate the transition of its core markets to new propulsion ORLEN also seeks to build up alternative fuel infrastructure and aims to operate >1,000 fast EV chargers by 2030. The growth of EV charging stations will span Poland and other countries where ORLEN retail has a relevant footprint, also benefiting from the synergies with the recently acquired ENERGA power distribution network
- Alternative fuels beyond EV, LNG/CNG, H<sub>2</sub>. ORLEN will comprehensively build up the capacities and seeks to promote the hydrogen market especially in municipal, long-haul and rail transport
- Pilot projects for selected technologies, with scale-up in mind: green H<sub>2</sub>, CCS, biomethane, biomass to power
- Circular economy: on top of the energy transition commitment, ORLEN will invest to reach up to 300-400 thousand tonnes of capacity in recycling and related circular economy activities
- On the social side, we aim for a further reduction of TRR accident indicators to <1.5
- Thought leadership remains vital. ORLEN is an active player in shaping public perceptions of key business issues in the region. Our latest Future Fuelled by Knowledge report on Energy Transition accompanied the launch of the ORLEN2030 Strategy and presented the rationale for businesses in the region to join in the transformation
- Further activities around local communities, workplace diversity, local producers and talent management are planned

ORLEN seeks to achieve these goals by following the principles of green financing and management. The Group is intent on becoming a regular issuer of green bonds, for which a strong governance framework is a must.



# Powerful governance for green value-added

Business model transformation demands a frame, part of which is defining the right investment projects, an entrepreneurial engagement with stakeholder needs is also necessary, and, finally, deploying cohesive incentives and risk management systems to bolster the transition is critical.

Chart 5. ORLEN Sustainable Development Strategy provides adequate governance for responding to climate challenges and delivering on ORLEN2030 strategic investments



As a result, we have committed to a Sustainable Development Strategy which extends ORLEN’s Strategy 2030 and comprehensively and more specifically addresses ESG and CSR goals, providing robust governance scheme across the sustainability dimension. Building on a history of successful stakeholder dialogue and CSR activities, in the renewed approach we now attach equal significance to environmental needs voiced collectively in multilateral initiatives such as the European Green Deal and the Paris Agreement.

Within the new Sustainability Strategy, ORLEN recognises three ESG pillars, environmental, social and governance. For the Environmental pillar, the attention is focused on climate, climate risk management and effective implementation of circular economy practices. In the Social pillar, a major point of attention is the local communities which are a continuing and invaluable source of inspiration for our CSR efforts. But striving for more, ORLEN will use its significant purchasing power in the region to promote sustainability principles along the value chains in which we are active. The goal is to extend our responsibility for the entire product life cycle – including the raw materials used, product development, production and use and end-of-life recycling. We also aim to promote the development of responsible consumption amongst our clients. Finally, the Governance pillar is focused on developing the solutions to embed ESG in our management systems, appropriate and transparent reporting, ethics, and organisational values.

The most significant and complex activities have been translated into the remuneration policy with MBO goals included both at Management Board and relevant N-1 level.





Chart 6. ORLEN Sustainable Development Strategy organises 15 projects into 6 pillars focused on social valuecreation and environmental risk management

## ORLEN Sustainable Development Strategy 2021 - 2023

### ENVIRONMENTAL

#### Priority initiatives

#### Climate impact

1. **Developing an approach to GHG Scope 3 emissions** - calculation of the indirect carbon footprint in the supply chain
2. **Extending the list of environmental KPI**, target setting and reporting
3. **Biodiversity policy** - systematize current approaches, develop agenda

#### Responsible use of resources

4. Further optimization of **water management**
5. **Sustainability oriented non-fuel offer** at fuel stations, improving resource efficiency, packaging, product footprint

### SOCIAL

#### Priority initiatives

#### Sustainable supply chains

1. **ESG in procurement policy** - supplier education on sustainability, integration of environmental and social objectives in supply chains
2. Investment policy - **strengthening ESG coverage**

#### Social responsibility

3. Development and involvement of **local communities**
4. **Providing a safe and supportive workplace**
5. **Consumer awareness building** (social, civic, environmental)

### GOVERNANCE

#### Priority initiatives

#### Extended environmental risk management

1. **Developing climate policy**. Identification of physical climate and transition risks in terms of climate change
2. Integration of climate risks with in the **corporate risk management system**
3. **Scenario analysis** of the business model resilience to climate change, incl. Paris Agreement perspective

#### ESG integration in corporate systems

4. **Strengthening management structures for ESG**, incl. MBO goals
5. Improving and developing scope and clarity of **non-financial reporting for ESG**

UN Agenda Sustainable Development Goals



## Contribution towards UN 'Sustainable Development Goals' (SDGs)

Our projects are consistent with the **Sustainable Development Goals** of the United Nations which are adopted by almost 200 countries, including Poland. The presented projects have been initiated or developed and expanded by the Company since 2019, which were assigned to strategic Sustainable Development Goals for the fuel and energy industry in Poland<sup>1</sup>. Of particular importance to ORLEN are the following goals:



ORLEN contributes to these SDGs directly at the business level, by engaging in the sustainable business projects outlined above and by extensive targeted CSR activities ranging from grants and scholarships to healthcare programs aimed at local communities.

## Environment and Climate

Reducing its environmental footprint and climate impact has long been one of the ORLEN Group's top priorities.

### Environmental and Climate Responsibility

Sustainable development plays an important role in building a multi-energy company and PKN ORLEN's business strategy of 2030. In its Sustainability strategy, PKN ORLEN gives priority to achieving the ambitious goals of the Paris Agreement, the UN 2030 Agenda and the European Green Deal. It transforms the challenges of climate change into new opportunities. PKN ORLEN intends to become the leader of the energy transformation in Central and Eastern Europe. The planned activities guarantee the sustainable development of a modern, low-emission and resource-saving Group. Our carbon neutrality strategy is based on business pillars

in which PKN ORLEN already has extensive experience and a strong market position. The company monitors its impact on the climate, and has initiated climate risk assessment activities, in line with Paris Agreement scenarios. Renewable energy sources, electromobility, recycling, biofuels, hydrogen and the declaration of climate neutrality - this is the Company's response to the challenges associated with the global climate crisis.

The risks associated with climate change are viewed by the ORLEN Group as a significant business challenge. At the same time, it is an opportunity for growth, provided that we are able to develop the right business models. The ORLEN Group has sought to address those challenges by creating a comprehensive strategy, i.e. **Strategy 2030** (see further below). The change in the functioning of energy systems as a result of new technologies and climate developments is an integral part of our strategic thinking and business risk assessment. Climate change risks are managed on a systematic basis by complementary and highly empowered units, taking into account market, regulatory, technological and reputational dimensions.

The PKN ORLEN Strategy Office features the Department of Sustainable Business Development within its structure, while the division overseen by the Member of the Management Board for Corporate Affairs includes the Environmental Protection Office, as well as the Regulatory Risk Management Department and the Representative Office in Brussels.

<sup>1</sup>Source: 'SDGs in practice. A guidebook for business' Part 1 and Part 2 published by CSR Consulting. The SDGs of strategic importance to the fuel and energy industry were selected during workshops and research analyses exploring their impact and feasibility.



The **key areas** of the Group's environmental activities are:

- Reducing greenhouse gas emissions (decarbonisation)
  - **Net carbon neutrality 2050 goal announced** in September 2020
  - **Interim goal pledged: -20% CO<sub>2</sub> by 2030** from current production assets, -33% kgCO<sub>2</sub>/MWh from power produced
- Expanding its portfolio to include **Renewable Energy Systems** (RES) power plants, also through M&A activity
- Developing the distribution infrastructure for **alternative fuels, including electricity, biofuels and hydrogen**
- Increasing activity in the area of **circular economy**
  - 0.3-0.4 mln tonnes entry into recycling and biomaterials by 2030 (in capacity equivalent, possibly split between several projects)
- Engaging in research and development activities, e.g. in **the field of biofuels, Carbon Capture and Utilization (CCU), and pyrolysis technology**
- Operating in accordance with the **Integrated Management System**, which includes the Environmental Management System (ISO 14001)
- Monitoring of and **regular reporting on PKN ORLEN's environmental performance**, including the use of natural resources, emission and waste levels
- Striving for **maximum environmental neutrality**, including with regard to water consumption

## Strategy 2030

PKN ORLEN is fully aware of the energy transition reshaping the environment around us. Technological advances, consumer preferences and environmental concerns are the drivers for this transition. In response to these challenges, PKN ORLEN will become a business leader of sustainable transition in Central and Eastern Europe. In 2030, PKN ORLEN strives to become:

### — Leading player in Europe

- Presence in over ten European countries along the entire value chain

**>2.5x 2019 EBITDA**

### — Leader of energy transition in the region

- The largest portfolio of attractive renewable and low-carbon generation assets, with conversion to hydrogen possible in the future

**2.5 GW of renewable capacity by a combination of organic growth and M&A, including solar and wind technologies**

### — Provider of integrated customer services

- Provider for fuel, energy and convenience shopping needs, relying on existing and new channel and on digital technologies

**Development of non-fuel products and services offer**

**> 1,000 EV fast charging stations**

**>3,500 fuel stations**

**Strong European brand**

### — Socially responsible business

- Investment in sustainable development, energy transition, decarbonisation, recycling and community initiatives

**20% reduction target for carbon emissions from current downstream assets**

**33% reduction target for carbon emissions from MWh produced**

**>PLN 30bn of sustainable development CAPEX**

### — Stable source of value creation

- Focus on maximising returns on investment and maintaining a stable balance sheet

**Dividend payout of at least PLN 3.50 per share**

**Strong investment-grade credit rating**

**Net debt / EBITDA capped at 2.0-2.5x**

**Two-digit ROCE in the second half of the decade**



## Major investment in sustainable development

PKN ORLEN intends to invest **over PLN 30bn** in CAPEX for sustainable development in the next 10 years, including over PLN 25bn on projects to reduce CO<sub>2</sub> emissions. The investments will:

- Decarbonize and improve energy efficiency
- Drive development in renewable energy
- Expand biofuel and biomaterial capacities
- Drive development in recycling
- Build footholds in alternative fuels: e-mobility, hydrogen, CNG/LNG

### Alignment with European Green Deal: 2030 and 2050 emission targets

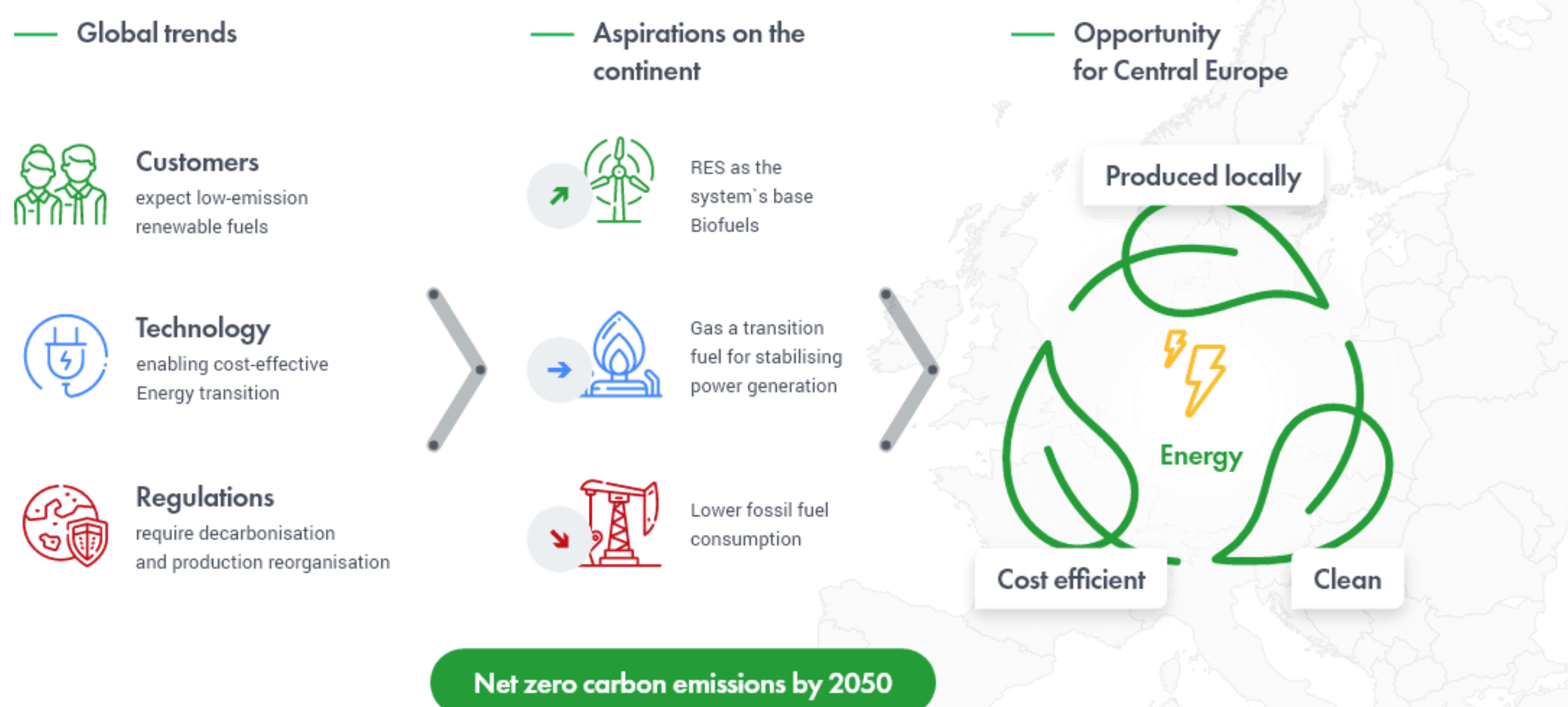
PKN ORLEN regards the European Green Deal as an opportunity for Poland and Central Europe to overhaul the power system and create new business lines.

The Paris Agreement has identified the goal to keep global warming within the 1.5 C limit. The EU climate legislation, along with NBCs of member countries and relevant sectoral legislation (in particular, but not limited to, ETS, RED2, FQD, EED) provide a guideline for the industry on how to reach the Paris Agreement goals. Strengthening of the regulatory framework is expected in view of the new European commitment to -55% GHG reduction by 2030. ORLEN is engaging with these developments and is pursuing ways to conform with the goals and updated standards.

The ongoing strengthening of climate-related regulations by the European Green Deal is monitored closely by ORLEN. Consequences of the transition scenarios proposed by the European Commission meeting these goals are analysed (e.g. MIX, ALLBNK and other scenarios), which lead to a conclusion that both increases in stringency and a reshaping of the regulatory landscape are possible, and both challenges merit preparation.

While addressing its commitment to the energy transition in its 2030 Strategy, ORLEN recognizes that the decision on the final transition path and its pace should create an equal basis for all sectors, involve monitoring of actual GHG performance over the full life cycles, preclude energy poverty whilst in transition and avoid carbon leakage.

### Chart 7. On top of climate agenda, ORLEN efforts on the energy transition has a strong business and technological footing







# A business opportunity opening up for new players

In order to understand the business impact of the increased targets ORLEN also tracks external climate adjustment scenarios that are based on regulatory incentives to the industry, regulatory incentives to end customers, technological progress scenarios that rely on RES efficiency improvement, as well as conservative technological progress scenarios which rely on CCS and fuel feedstock substitution. Reports on detailed carbon neutrality demands for the Polish economy are also tracked and referenced.

ORLEN's GHG reduction strategy incorporates a commitment to the Group's **long-term objective of achieving a net zero carbon footprint by 2050**. The Group's **2030 CO<sub>2</sub> reduction targets will focus on:**

- **The most efficient plants:** 20% reduction in Scope 1 and 2 CO<sub>2</sub> emissions from existing refining and petrochemical assets by 2030 (from base year 2019)
- **Clean energy:** Leading producer of zero and low emissions electricity in Poland. Reduction in CO<sub>2</sub> emissions per MWh by 33% by 2030 (from base year 2019)
- **Low emission fuels:** 5 large CAPEX projects relating to biofuel productions
- **Green financing and management:** ORLEN set to become a regular issuer of green and sustainable development bonds

PKN ORLEN's carbon reduction objectives are derived from an abatement curve which has been prepared for the Polish assets (100% of CO<sub>2</sub> emissions in Poland 2018/2019, Scope 1+2). For foreign subsidiaries and their assets the initial outlook for CO<sub>2</sub> reduction consists of levers which are aligned with ORLEN 2030 target. Work on detailed abatement curves is ongoing, with the goal to have full abatement curves for all assets by end of 2021.





Chart 8. ORLEN carried out high diligence CO<sub>2</sub> reduction exercise to arrive at robust goals

## Scope 1+2 at ORLEN

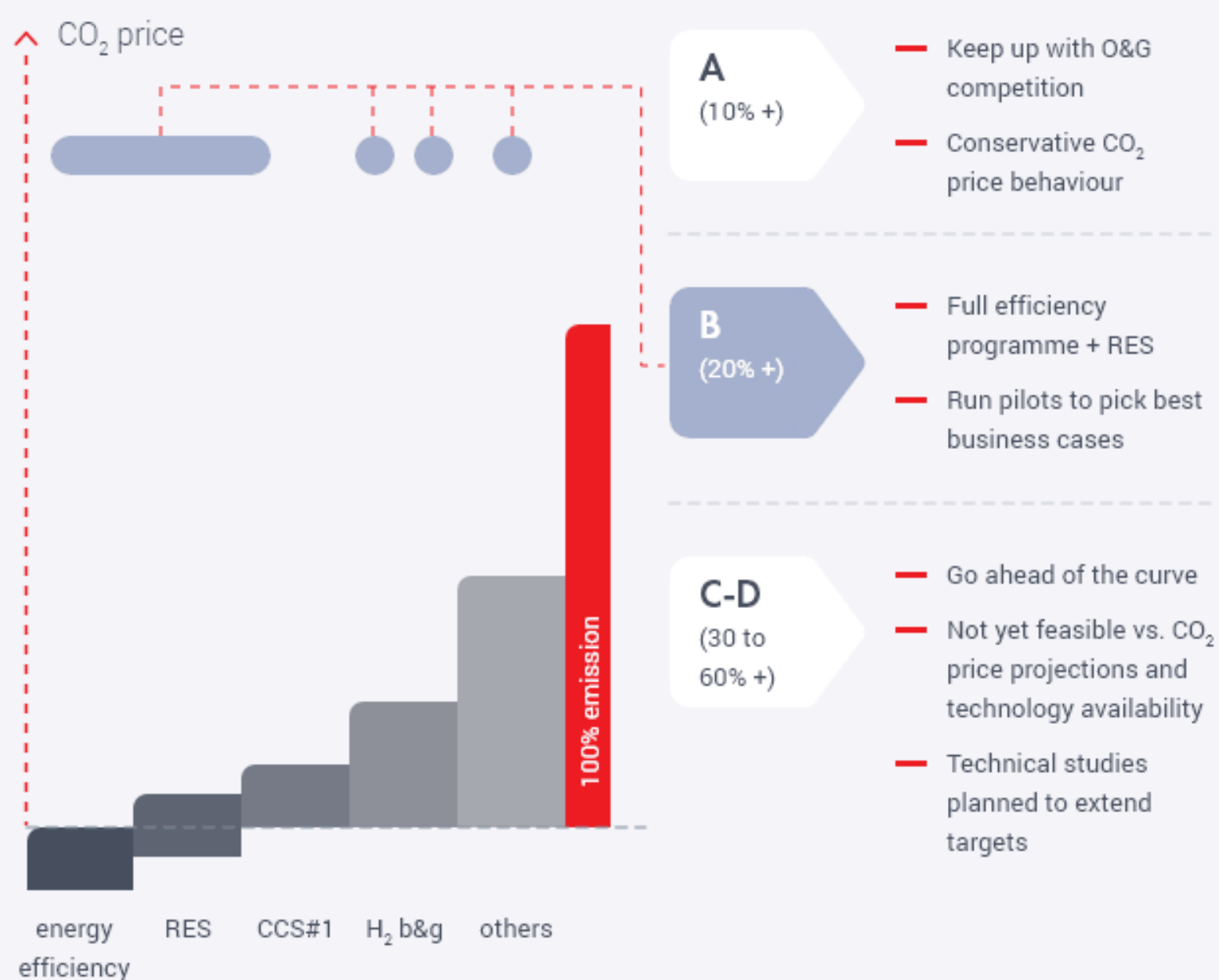
### Business trigger

Paris goals of net neutrality by 2050

Scenarios for Poland to become carbon neutral

Competitive positioning at ETS and within refining sector - how CO<sub>2</sub> affects financial standing?

### Selection of business-case driven carbon reduction scenarios from abatement curve



### Commitment to CO<sub>2</sub> neutrality

Net carbon neutrality 2050 commitment based on the abatement curve

Operational target to 2030 of -20% CO<sub>2</sub> on current downstream assets

Power generation target to 2030 of -20% CO<sub>2</sub>/MWh

Technology & business case workshops - option selection

Operationalisation detailing, removal of conflicting items

### Further steps

Review of European targets resulting from 55% GHG reduction goal by 2030 EED, IED, RED2, ETS

Understanding change of pace in biofuels, energy efficiency, CO<sub>2</sub> portfolio etc.

Periodic renewal especially pipeline of energy efficiency projects

Scope 3 calculation

Note: for PL assets full abatement curve has been prepared for intentional assets work is carried out, while initial levers have been confirmed for 20+% reduction

The measures in the abatement curve include improvement of energy efficiency, RES, CCS (with varying cost levels depending on facility), green H<sub>2</sub>, biofeedstocks (varying cost levels). The abatement curve is driven by CO<sub>2</sub> prices in the EU ETS, and enables the company to pursue various scenarios of carbon transition depending on CO<sub>2</sub> price growth and changes to incentives.



Chart 9. Emission reductions on current asset base by 2030 are matched with ORLEN carbon neutrality aspiration for 2050

PKN ORLEN has set up ambitious aspirations:

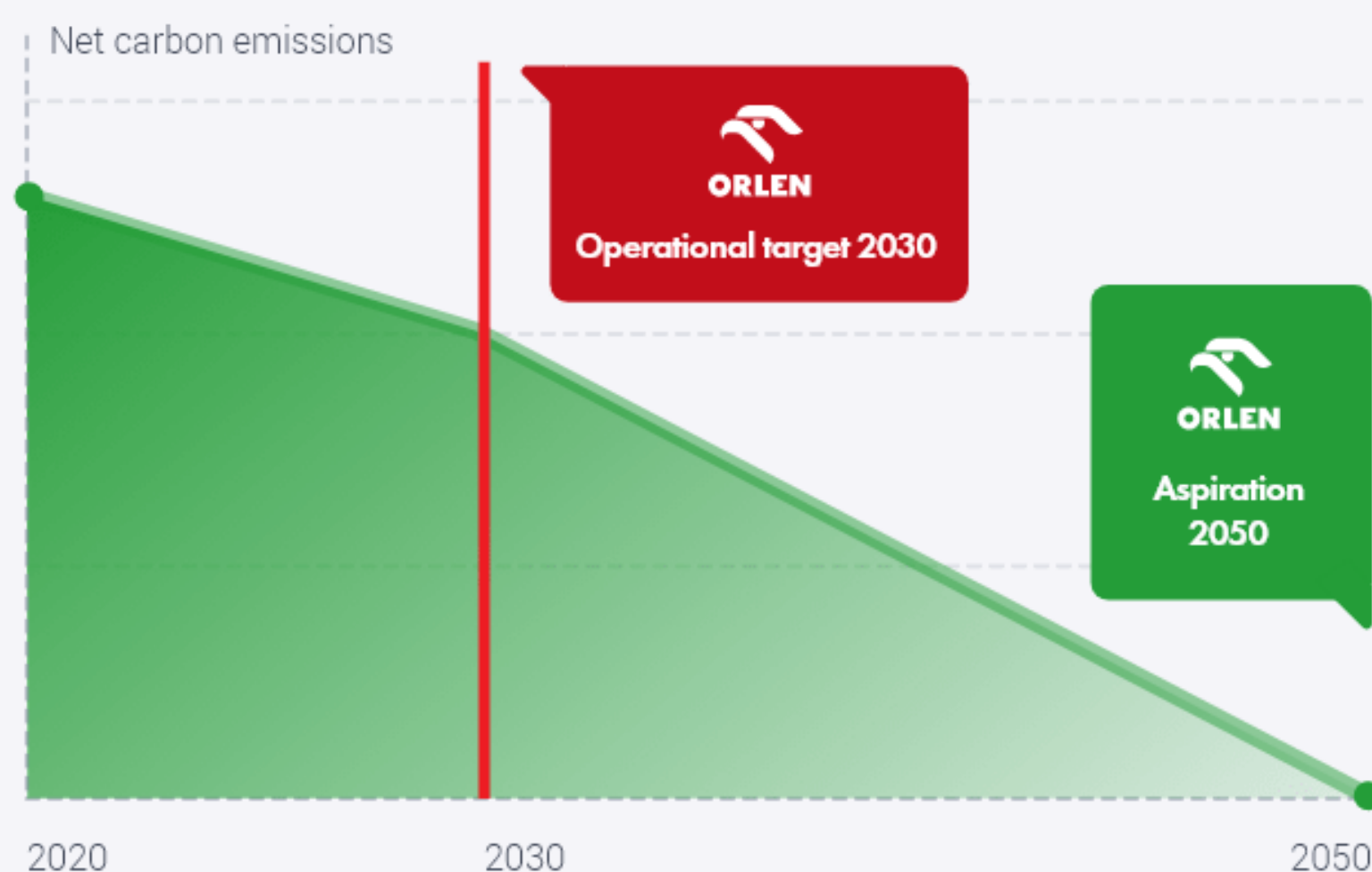
— Target 2030

**20% reduction in CO<sub>2</sub> emissions from existing petrochemical and refining operations and 33% reduction in CO<sub>2</sub> per MWh MWh in energy segment**

— Target 2050


**Net zero emissions**

— Business model reorientation



ORLEN identifies the EU climate agenda as currently the most mature path to align with Paris Agreement goals and ORLEN intends to align its carbon mitigation activities with the direction set by the EU as a proximate path for its decarbonisation strategy. In ORLEN's view, the EU climate agenda provides an adequate framework for agreeing and balancing the pace and scope of carbon mitigation between segments in a diverse European economy in respective time horizons. The EU policy agenda also implies, e.g. by means of CO<sub>2</sub> pricing, the pace and transition path to net carbon neutrality 2050 for various sectors, in which specific parts of the value chain are affected faster than others, while it also provides scope for offsetting emissions.

ORLEN's ambition is to decrease its carbon footprint over the Scope 1+2+3 in a way that captures the diversity of the business of the Group, including offsetting. To date ORLEN has developed an approach for its' production emissions (Scope 1+2) outlined in the decarbonisation strategy. A net-zero ambition was declared in September 2020, with proximate -20% target for the current production assets in the Group and -33% carbon intensity in electric energy produced. The ambition was developed as a result of internal reflection, followed by a project with a top external advisor. Over the course of the project a comprehensive carbon abatement curve has been developed for the assets in Poland, drilled down to specific measures ranked by cost of abatement in CO<sub>2</sub> prices. For foreign subsidiaries and their assets the proximate goals until 2030 have been discussed and set, broadly in line with Group targets, as well as an initial set of levers that provide sufficient alignment with the long-term path. The abatement curve will be used to inform further decision making. Several projects have been picked from the middle of the abatement curve and started as pilots, in order to ensure that the strategy is resilient to changes in the economic environment.

ORLEN is also committed to working on reducing its carbon impact in the value chain, recognizing also the significance of indirect emissions, namely Scope 3. In order to track reduction initiatives that focus on Scope 3 carbon intensity, ORLEN plans to develop a metric for this measure, which will allow future inclusion of effects such as offsetting, CCS/CCU, alternative fuel feedstocks and fuel infrastructure. The methodology will be transparent and based on external standards, while assumptions for the calculations will be provided. The goals will be set for carbon impact in the value chain. 



ORLEN has already taken measures that reduce Scope 3 emission intensity over the life cycle of the products, improving the end-of-life use of petrochemical products, and improving net emissions of fuel combustion in the cycle. Especially important, when approaching emissions beyond Scope 1 and 2, are the current projects in biofuels and the development of alternative fuel infrastructure for EV, H<sub>2</sub> and CNG/LNG. Further plans target recycling. The plans have been indicated in the Strategy 2030 and are actively pursued internally.

ORLEN commits to calculate and publish in 2022 basic Scope 3 emission indicators. The initial assessment of Scope 3 emissions will be calculated with reference to recognised industry standards, such as e.g. IPIECA or GHG Protocol. In order to provide sufficient assurance of the approach adopted, the project will be either carried out with external partner or assurance will be obtained separately. Due to the diversity of business segments and the need make to certain estimates (e.g. end-of-life cycle for chemicals), the Scope 3 data will be compiled using a combination of benchmarks and real world measurements, to the extent that it is feasible within the timeframe and accounting for diversity of ORLEN businesses. Due to the varying relevance of Scope 3 calculations between entities operating in different jurisdictions, ORLEN will adjust the approach to local circumstances, combining benchmarking, coefficient data and physical measurement. ORLEN aims to update the approach over the coming years as it is expected to gain further maturity. Ultimately, by defining and disclosing Scope 3 emissions, ORLEN is putting in place the fundamental processes for scope 3 target setting.





# 02. PKN ORLEN

## Green Finance Framework

### Rationale for Green Financing

The Green Finance Framework aims to support PKN ORLEN's strategy and the transition to a low carbon economy. Through its Green Finance Framework, PKN ORLEN also intends to contribute to the growth of the Green Financing market through different financial instruments and to address investors' willingness to finance green projects.

PKN ORLEN believes that Green Finance instruments are an effective tool to channel investments to projects that have demonstrated environmental benefits and thereby contribute to the achievement of the SDGs. By issuing Green Finance Instruments, PKN ORLEN intends to align its funding strategy with its mission, sustainability strategy and responsible investing objectives.

PKN ORLEN has established this Green Finance Framework as an overarching platform under which the Company intends to issue Green Finance Instruments, which may include bonds (including private placements), commercial paper, loans, promissory notes (Schuldscheindarlehen) and any other Green Finance Instruments in various formats and currencies, to finance and/or refinance green investments with a positive environmental benefit.

### Alignment with ICMA Green Bond and LMA Green Loan Principles

This Green Finance Framework is based on the International Capital Markets Association ("ICMA") Green Bond Principles ("GBP"), 2018 version<sup>2</sup> and Loan Market Association ("LMA") Green Loan Principles ("GLP"), 2021 version<sup>3</sup>. These are sets of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of Green Finance Instruments. Any future changes in the standards mentioned above may be implemented in future versions of this Green Finance Framework.

The PKN ORLEN Green Finance Framework has four core components:

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

The PKN ORLEN Green Finance Framework also follows the recommendations of the Green Bond Principles regarding External Review.

This Framework will apply to any Green Finance Instruments issued by PKN ORLEN and will be in force as long as any Green Finance Instrument is outstanding.

<sup>2</sup> <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

<sup>3</sup> <https://www.lsta.org/content/green-loan-principles/>



# ICMA Climate Transition Finance Handbook

PKN ORLEN will also follow, on a best effort basis, the disclosure guidelines found in the ICMA Climate Transition Finance Handbook, 2020 version<sup>4</sup>.

As such, PKN ORLEN will be transparent with regards to:

1. Its climate transition strategy and governance
2. The business model environmental materiality of climate change
3. Its "science-based" transition approach, including targets and pathways
4. Implementation transparency

Relevant disclosures will be included in PKN ORLEN's annual report, sustainability report, Green Finance Instrument reporting, or investor presentation, or any other publicly accessible document for investors.



<sup>4</sup> <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/climate-transition-finance-handbook/>



# 03. Use of Proceeds

The net proceeds of PKN ORLEN’s Green Finance Instruments will be used to finance and/or refinance, in whole or in part, new or existing projects (“Eligible Green Projects”) from any of the Eligible Green Project Categories as defined below. The categories for PKN ORLEN’s Green Finance Instruments take into account the Green Bond Principles and Green Loan Principles. The criteria for Renewable Energy and Clean Transportation contribute the EU Environmental Objective for a Substantial Contribution to Climate Change Mitigation and are aligned with the associated technical screening criteria of the EU Taxonomy<sup>5</sup>. The criteria for Pollution and Prevention and Control contribute to the EU Environmental Objective for a Substantial Contribution to the Transition to a Circular Economy, for which technical screening criteria have not yet been established.

This Green Finance Framework excludes any projects that are dedicated to fossil fuels and/or locking in of fossil-fuel technology.

GBP/GLP Category	Eligibility Criteria	Contribution to UN SDG	Contribution to EU Environmental Objectives <sup>o</sup>
Renewable Energy	<ul style="list-style-type: none"><li>Financing and/or refinancing of investments and expenditures for the the acquisition, development, manufacturing, construction, operation, distribution and maintenance of renewable energy generation sources from:<ul style="list-style-type: none"><li><b>Solar Energy:</b> onshore and offshore photovoltaics (PV), concentrated solar power (CSP) and solar thermal facilities</li><li><b>Wind Energy:</b> onshore and offshore wind energy generation facilities</li></ul></li></ul>	<div><div>7 AFFORDABLE AND CLEAN ENERGY</div><div>13 CLIMATE ACTION</div></div>	<p><b>Substantial contribution to Climate Change Mitigation (Article 10):</b></p> <p><b>1.a)</b> Generating, transmitting, storing, distributing or using renewable energy in line with Directive (EU) 2018/2001, including through using innovative technology with a potential for significant future savings or through necessary reinforcement or extension of the grid</p>
Clean Transportation	<ul style="list-style-type: none"><li>Financing and/or refinancing of expenditures and/or investments to advance the introduction of low carbon transportation infrastructure, such as (but not limited to):<ul style="list-style-type: none"><li>Infrastructure related to <b>electric transportation</b> of passengers and freight such as (fast) charging stations and <b>hydrogen</b> fuelling stations</li></ul></li></ul>	<div><div>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</div><div>13 CLIMATE ACTION</div></div>	<p><b>Substantial contribution to Climate Change Mitigation (Article 10):</b></p> <p><b>1.c)</b> Increasing clean or climate-neutral mobility</p>
Pollution Prevention and Control	<ul style="list-style-type: none"><li>Financing and/or refinancing of investments and expenditures for the acquisition, development, construction and operation of facilities for:<ul style="list-style-type: none"><li>Sorting mixed recyclables</li><li>Processing recyclable waste fractions into secondary raw materials</li></ul></li></ul>	<div><div>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</div><div>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</div></div>	<p><b>Substantial contribution to the transition to a circular economy (Article 13):</b></p> <p><b>1.f)</b> Increases the use of secondary raw materials and their quality, including by high-quality recycling of waste</p> <p><b>1.i)</b> increase preparing for the re-use and recycling of waste</p>

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<sup>5</sup> Annex 1 to the EU Taxonomy Climate Delegated Act. To be found [here](#)  
<sup>6</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. To be found [here](#)



# 04. Process for Project Evaluation and Selection

## Roles and responsibilities

PKN ORLEN has established a clear decision-making process to determine the eligibility of the nominated Eligible Green Projects, in accordance with the description of the eligibility criteria mentioned in the Use of Proceeds section of this Framework.

Eligible Green Projects will be selected by PKN ORLEN's Investment Committee, comprising Managing Directors responsible for Finance, Controlling, Strategy and Innovations, Development and Technology, IT, M&A, Property Investments, Procurement, Production as well as Strategy Committee, comprising the Strategy Director and all PKN ORLEN Board Members excluding the CEO. These committees will verify the compliance of the selected Eligible Green Projects with the Eligibility Criteria at least on an annual basis.

The Committees are also responsible for excluding projects that no longer comply with the Eligibility Criteria or have been disposed of, and replacing them on a best efforts basis.

Reviewing the content of PKN ORLEN Green Finance Framework and updating it to reflect changes in corporate strategy, technology and market developments on a best effort basis is the responsibility of the Finance team and Strategy team. Any updates to the Framework will be approved by PKN ORLEN's Management Board.

PKN ORLEN ensures that all Eligible Green Projects comply with official national and international environmental and social standards and local laws and regulations on a best effort basis. It is part of PKN ORLEN's transaction approval process to ensure that all its activities comply with internal environmental and social directives. In addition, PKN ORLEN applies internationally recognized environmental requirements, "Do No Significant Harm" as well as minimum safeguards for many of its activities, including those financed with the proceeds of the Green Finance Instruments.

The Eligible Green Projects are aligned with PKN ORLEN's related internal sustainability policies<sup>7</sup>. Below some examples of relevant codes and policies:

- **Core Values and Standards of Conduct:** a code of ethics offering guidance on relations with customers, shareholders, local communities, trading partners, competitors and other external stakeholders
- **ORLEN Group Procurement Policy:** implemented across the ORLEN Group and including standards to follow when selecting suppliers, e.g. considering whether the supplier ensures safety in the workplace
- **The Integrated Management System Policy:** being a declaration to assure quality, minimise environmental impacts, ensure employee safety and information security, it is closely related to the PKN ORLEN Core Values

<sup>7</sup> See Non-Financial Statement of The Orlen Group and PKN ORLEN S.A. For 2019. To be found [here](#)





# Integrated Management System

The ORLEN Group supplies highest-quality products to its customers, while striving to make its operations as neutral to the natural environment as possible, to achieve superior energy efficiency, and to maintain high OHS and information security standards.

To deliver on that promise, the Group has the **Integrated Management System (IMS)** in place. The IMS comprises:

- Quality Management System based on the **PN-EN ISO 9001 and AQAP 2110 standards**
- Environmental Management System based on the **PN-EN ISO 14001 standard**
- Occupational Health and Safety Management System based on the **PN-N-18001 standard**
- Information Security Management System based on the **PNISO/ IEC 27001 standard**
- **International Sustainability & Carbon Certification System** (ISCC EU)
- **Sustainability Certification System for Biomass and Biofuels** (KZRINiG)
- **Factory Production Control System** (ZKP)
- **HACCP System compliant** with Codex Alimentarius standard
- **Quality Management System** based on the PN EN ISO/IEC 17025 standard (in place at all the organisational units which conduct research or tests using methods that require approval by the Office of Technical Inspection (UDT))
- **Risk Based Inspection Management System** (RBI)
- **Energy Management System** (SZE<sub>n</sub>) based on ISO 50001

The scope and rules governing the operation of the Integrated Management System are specified in:

- **Management Systems Book** along with the appendices (IMS, HACCP, ZKP, Quality, RBI, SZE<sub>n</sub>), which define and describe the individual system processes
- **System procedures** approved by the President of the Management Board – Chief Executive Officer/Members of the Management Board
- **Maps, charts and metrics** for the identified processes
- **Operating procedures/manuals** approved by Directors/Managers for their respective processes/areas

PKN ORLEN applies a process-based approach involving identification and mapping, based on an analysis of the context of the entire organisation's operations, of the processes which are necessary to ensure the compliance of its products and services offered to customers with relevant requirements, while maintaining pro-environmental production methods and a pro-environmental approach, and minimising environmental impacts, continuously improving the safety of working conditions, and meeting requirements in all areas relevant to the security of information processed by the Company.

The process sequence has been defined, as well as the relationships between the processes, which constitute a multi-layered mechanism that facilitates recognising and satisfying customer expectations. Individual processes are monitored and the achievement of their objectives is evaluated by checking process metrics and comparing them against adopted benchmarks. This approach allows us to manage and improve processes relying on real, measurable data. In line with the risk-based approach, process owners are responsible for identifying threats (risks) and opportunities that can potentially affect the operation and efficiency of the processes – meeting customers' requirements and taking appropriate and 'adequate' measures.

A process-based system of internal audits is used, which operates in accordance with a dedicated procedure and checks compliance of individual areas with the adopted standards. The improvement measures we take cover internal and external factors and identify opportunities as they open to the organisation.



## 05. Management of Proceeds

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

PKN ORLEN intends to allocate the proceeds from the Green Finance Instruments to a portfolio of Eligible Green Projects that meet the Use of Proceeds eligibility criteria and in accordance with the Evaluation and Selection process presented above. In case PKN ORLEN would select Eligible green capital and/or operational expenditures, they shall qualify for refinancing with a maximum three-year look-back period before the issuance year of the Green Finance Instrument. Eligible green assets shall qualify for refinancing without a specific look-back period, provided that at the time of issuance they follow the relevant Eligibility Criteria.

The Finance department will monitor the allocation of the net proceeds to the portfolio of Eligible Green Project.

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

Pending the allocation to Eligible Green Projects, unallocated proceeds will be invested in accordance to PKN ORLEN's liquidity guidelines, for the repayment of indebtedness, other capital management purposes or for financing of green activities.





# 06. Reporting

PKN ORLEN will make and keep readily available annual reporting on the allocation and impact of the portfolio of Eligible Green Projects after a year from the issuance of the Green Finance Instruments, to be renewed annually until maturity of outstanding Green Finance Instruments. This report will be publicly available on PKN ORLEN’s website (Investor Relations section<sup>8</sup>).

PKN ORLEN intends to report on an aggregated basis for all the PKN ORLEN’s Green Finance Instruments outstanding, at the level of the GBP/GLP categories.

PKN ORLEN intends to align its impact reporting with the Handbook for ‘Harmonized Framework for Impact Reporting’, December 2020 version<sup>9</sup>.


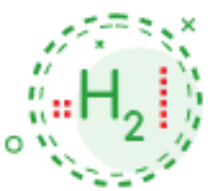

## Allocation Reporting

The allocation report may provide indicators such as:

- The total amount of PKN ORLEN Green Finance Instruments outstanding
- The amount of net proceeds allocated to Eligible Green Categories
- The balance of unallocated proceeds
- The amount or the percentage of new financing and refinancing
- The proportion of co-financing attributable to PKN ORLEN for those Eligible Projects that are co-financed

## Impact Reporting

PKN ORLEN intends to publish an annual impact report that will provide information on the expected output and environmental benefits of the selected projects. The relevant metrics might include:

GBP/GLP Category	Potential impact indicators
 <b>Renewable Energy</b>	<ul style="list-style-type: none"><li>— Installed renewable energy capacity (in MW)</li><li>— Renewable energy produced per year (if applicable)</li><li>— Estimated annual CO<sub>2</sub> emissions avoided (in TCO<sub>2</sub>eq.)</li></ul>
 <b>Clean Transportation</b>	<ul style="list-style-type: none"><li>— Estimated annual CO<sub>2</sub> emissions avoided (in TCO<sub>2</sub>eq.)</li><li>— Number of EV charging stations units installed</li><li>— Amount of charged vehicles/charging hours</li></ul>
 <b>Pollution Prevention and Control</b>	<ul style="list-style-type: none"><li>— Waste that is prevented or recycled in absolute amounts (tonnes)</li></ul>

<sup>8</sup> <https://www.orlen.pl/EN/InvestorRelations/Pages/default.aspx>  
<sup>9</sup> <https://www.icmagroup.org/sustainable-finance/impact-reporting/>







## 07. External Review

### Second party Opinion

**V.E** will review the alignment of PKN ORLEN's Green Finance Framework with ICMA's 2018 Green Bond Principles, 2020 Climate Transition Finance Handbook and LMA's 2020 Green Loan Principles 2021. **V.E** will provide a Second Party Opinion (SPO).

### Annual Audit/Limited Assurance on the Allocation and Impact Reporting

PKN ORLEN will request on an annual basis, starting one year after issuance and until maturity, a limited assurance report of the allocation of the Green Finance instrument proceeds to the portfolio of Eligible Green Projects and the impact of the Eligible Green Projects. The limited assurance report will be provided by an external auditor.

### Climate Bonds Initiative Certification

**V.E**, an approved third-party verifier, has been appointed to confirm at least the first Green Finance Instrument's conformance with the criteria of the Climate Bonds Initiative (CBI) Standard.



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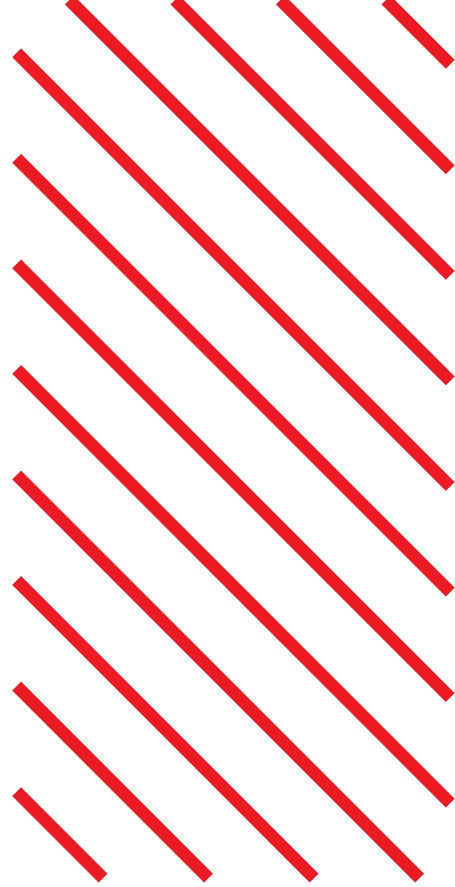
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