

## SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Transition Finance Framework

Bapco Energies

21 December 2023

### VERIFICATION PARAMETERS

#### Type(s) of instruments contemplated

- Transition Financing Instruments

#### Relevant standards

- Green Bond Principles, as administered by the International Capital Market Association (ICMA) (as of June 2021 with June 2022 Appendix 1)
- Green Loan Principles, as administered by the Loan Market Association (LMA) (as of February 2023)
- ICMA Climate Transition Finance Handbook (CTFH) (as of June 2023)

#### Scope of verification

- Bapco Energies Transition Finance Framework (as of December 18, 2023)
- Bapco Energies Eligibility Criteria (as of December 18, 2023)

#### Lifecycle

- Pre-issuance verification

#### Validity

- Valid as long as the cited Framework remains unchanged

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## SCOPE OF WORK


The Oil and Gas Holding Company (“the Issuer”, “the Company”, or “Bapco Energies”) commissioned ISS Corporate Solutions (ISS-Corporate) to assist with its Transition Financing Instruments by assessing four core elements to determine the sustainability quality of the instrument:

1. Bapco Energies’ Transition Finance Framework (as of December 18, 2023) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBP) and Loan Market Association’s (LMA) Green Loan Principles.
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Implementation of the ICMA Climate Transition Finance Handbook’s (CTFH) recommendations based on the publicly available information.
4. Linking the transaction(s) to Bapco Energies’ overall Environmental, Social, and Governance (ESG) profile – drawing on the issuance-specific Use of Proceeds (UoP) categories.

## BAPCO ENERGIES BUSINESS OVERVIEW

Bapco Energies is the energy investment and development company of the Kingdom of Bahrain. The company has holdings in assets that are involved in the production of crude oil, regasification of liquid natural gas (LNG), production of petrochemicals and aviation refueling. The major business operations of Bapco Energies correspond to gas processing (Bapco Energies Gas), crude oil production (Bapco Energies Upstream) and refining, marketing and distribution of petroleum products (Bapco Energies Refining).

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>1</sup>
<p><b>Part 1:</b></p> <p><b>Alignment with GBP/GLP</b></p>	<p>The Issuer has defined a formal concept for its Transition Financing Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA’s GBP and LMA’s GLP.</p> <p><i>The project categories identified by Bapco Energies are aligned with the GBP, except specific sub-criteria within the categories of No/Low Emissions Fuels, Clean Transportation, Energy Efficiency and Pollution Prevention and Control, which are assessed as providing no clear environmental benefits according to our methodology (cf. Part II of this report).</i></p>	<p><b>Aligned* with exceptions</b></p>
<p><b>Part 2:</b></p> <p><b>Sustainability quality of the Eligibility Criteria</b></p>	<p>The Transition Financing Instruments will (re)finance eligible asset categories which include:</p> <p>Renewable Energy, No/ Low Emissions Fuels, Energy Efficiency, Sustainable Water and Wastewater Management, Environmentally Sustainable Management of Living Natural Resources and Land Use, Carbon Capture and Storage, Pollution Prevention and Control, and Clean Transportation.</p> <p>Product and/or service-related use of proceeds categories<sup>2</sup> individually contribute to one or more of the following SDGs:</p> <div data-bbox="614 1579 965 1697" style="text-align: center;">  </div>	<p><b>Moderate</b></p>

<sup>1</sup> The evaluation is based on the Bapco Energies’ Transition Finance Framework (December 18, 2023, version), on the analyzed Project Categories as received on December 18, 2023, and on the Indicative Corporate Rating and applicable at the SPO delivery date.

<sup>2</sup> Renewable Energy, No/ Low Emissions Fuel, Clean Transportation.

	<p>Process-related use of proceeds categories<sup>3</sup> individually improve (i) the Issuer's/Borrower's operational impacts and (ii) mitigate potential negative externalities of the Issuer's/Borrower's sector on one or more of the following SDGs:</p>  <p>For certain criteria of Energy Efficiency,<sup>4</sup> Clean Transportation,<sup>5</sup> No/Low Emission Fuel,<sup>6</sup> Pollution Prevention and Control,<sup>7</sup> there is no evidence of an environmental contribution or an improvement on the Issuer and/or end users' potential negative externalities.</p> <p>The environmental and social risks associated with those use of proceeds categories are managed.</p>	
<p><b>Part 3: Implementati on with the ICMA Climate Transition Finance Handbook</b></p>	<p><b>Implementation of the recommendations of the ICMA Climate Transition Finance Handbook (2023), except for the provision of an external review on (i) the alignment of both the interim and long-term targets with science-based scenarios in line with the Paris Agreement and (ii) the credibility of the Issuer's strategy to reach these targets.</b></p> <p>Bapco Energies has developed and publicly disclosed its Climate Transition Strategy in its Sustainability-Linked Finance Framework. The strategy supports the decarbonization of Bapco Energies' business model through outlining key priorities in increasing the energy efficiency of the</p>	

<sup>3</sup> Energy Efficiency, Sustainable Water and Wastewater Management, Environmentally Sustainable Management of Living Natural Resources and Land Use, Carbon Capture and Storage, Pollution Prevention and Control.

<sup>4</sup> Industrial and utility improvements involving changes in processes, reduction of heat losses and/or increased waste heat recovery; investments in equipment grades, including heat recovery from flue gases, and the implementation of variable speed motors; operational improvements through the implementation of control strategies or maintenance standards, including efficiencies in heaters and boilers, hydrogen reformers, heat exchanger trains, and incinerators; new process schemes yielding energy efficiency improvements or high-performance internals in fraction columns; network optimization through projects such as stream networks; new units or process scheme modifications, including cogeneration powered by waste streams, such as flue gases, and captured methane from landfills; and blue hydrogen production that meets the criteria listed in the No/ Low Emissions Fuel category.

<sup>5</sup> Sustainable Aviation Fuel and Ultra/ Very Low Sulfur Fuel Oil (U/VLSFO) for maritime vehicles.

<sup>6</sup> Production of Sustainable Aviation Fuel.

<sup>7</sup> Investments in technologies or processes that mitigate methane emissions associated with gas production plants and gas pipelines; investments in technologies or processes that reduce flaring or venting, including vapor recovery units and leak detection and repair.

	<p>Issuer’s operations, and investments in renewable energies and carbon capture technologies. The implementation and oversight of the transition are the responsibility of different teams.<sup>8</sup> Bapco Energies provides disclosure on various elements of its climate strategy, including short, interim, and long-term targets, and has a capital expenditure plan necessary for the implementation of the strategy, which will be supported by its Transition Finance Framework. Bapco Energies’ historic emissions and the baseline year for calculations were publicly disclosed and externally verified by an auditor. The Issuer does not consider potential future scenarios and their implications in its transition strategy, and there is no external review of the credibility of the climate transition strategy and how the interim targets align with the long-term carbon neutrality target. However, Bapco Energies commits to receiving an external review with recognized independent verifiers, such as the Transition Plan Taskforce of its decarbonization strategy and alignment with international climate change scenarios, and BCG was engaged in the development of the decarbonization strategy and emissions reduction targets.</p>	
<p><b>Part 4:</b> <b>Linking the transaction(s) to Bapco Energies’ ESG profile</b></p>	<p>The key sustainability objectives and the rationale for issuing Transition Financing Instruments are clearly described by the Issuer. The majority of the project categories considered are in line with the sustainability objectives of the Issuer.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.</p>	<p><b>Consistent with the Issuer’s sustainability strategy</b></p>

<sup>8</sup> An ESG Policy ensures the transition commitment are met, while the Board oversight the implementation of the Policy. The CEO and the Head of ESG are responsible for the strategic decisions and management of the transition.

## SPO ASSESSMENT

### PART I: ALIGNMENT WITH ICMA’S GBP AND LMA’S GLP

This section evaluates the alignment of Bapco Energies’ Transition Finance Framework (as of December 18, 2023) with the ICMA’s Green Bond Principles and LMA’s Green Loan Principles.

GBP, GLP	ALIGNMENT	OPINION
<p><b>1. Use of Proceeds</b></p>	<p>✓ * with exceptions</p>	<p>The Use of Proceeds description provided by Bapco Energies’ Transition Finance Framework is <b>aligned*</b> with the ICMA’s GBP and LMA’s GLP.</p> <p>The Issuer’s green categories are aligned* with the project categories as proposed by the ICMA’s GBP and LMA’s GLP. Criteria are defined in a clear and transparent manner. Disclosure of an allocation period and commitment to report by project category has been provided and environmental benefits are described. The Issuer has provided an exclusion list of projects.</p> <p>The Issuer has defined an expected look-back period of 3 years, in line with best market practice.</p> <p><i>The project categories identified by Bapco Energies are aligned with the GBP, except specific sub-criteria within the categories of No/Low Emissions Fuels, Clean Transportation, Energy Efficiency and Pollution Prevention and Control, which are assessed as providing no clear environmental benefits according to our methodology (cf. Part II of this report).</i></p>
<p><b>2. Process for Project Evaluation and Selection</b></p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by Bapco Energies’ Transition Finance Framework is <b>aligned</b> with the ICMA’s GBP and LMA’s GLP.</p> <p>The project selection process is defined. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p>

		<p>The Issuer's is also seeking alignment with the recommendations outlined by the Climate Transition Finance Handbook (CTFH), in line with best market standards.</p>
<p><b>3. Management of Proceeds</b></p>	<p>✓</p>	<p>The Management of Proceeds provided by Bapco Energies' Transition Finance Framework is <b>aligned</b> with the ICMA's GBP and LMA's GLP.</p> <p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple Transition Financing Instruments (portfolio approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>The Issuer has defined an expected allocation period within two years from the date of issuance, in line with best market standards.</p>
<p><b>4. Reporting</b></p>	<p>✓</p>	<p>The allocation and impact reporting provided by Bapco Energies' Transition Finance Framework is <b>aligned</b> with ICMA's GBP and LMA's GLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. Bapco Energies explains that the level of expected reporting will be at project category level and the type of information that will be reported. Moreover, the Issuer commits to report annually, until the proceeds have been fully allocated.</p> <p>The Issuer has also committed to transparently report the impact of the project categories by project level on an annual basis using pre-defined impact metrics, in line with best market standards.</p>



## PART II: SUSTAINABILITY QUALITY OF THE ELIGIBILITY CRITERIA

### A. CONTRIBUTION OF THE TRANSITION FINANCING INSTRUMENTS TO THE UN SDGs<sup>9</sup>

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

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


#### 1. Products and services

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

The assessment of UoP categories for (re)financing specific products and services is displayed on a 3-point scale (see Annex 1 for methodology):



Each of the Transition Financing Instruments' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Renewable Energy</b></p> <p><i>Investments and expenditure in the production, transmission, and storage of energy from renewable sources, including solar (utility-scale solar, floating solar, and rooftop solar), onshore and offshore wind,</i></p>	<p><b>Contribution</b></p>	

<sup>9</sup> The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the Framework.

*tidal power, green hydrogen,<sup>10</sup> and geothermal energy.<sup>11</sup>*

**Renewable Energy**

*Investments and expenditure in the production, transmission, and storage of energy of the following hydroelectric projects:*

- *New hydroelectric facilities that meet one of the following criteria: (i) have lifecycle carbon intensity below 50gCO<sub>2</sub>/kWh; or (ii) run-of-river plants without an artificial reservoir or low storage capacity; or (iii) power density is greater than 10W/m<sup>2</sup>.*
- *Existing hydroelectric facilities that become operational before 2022 that meet one of the following criteria: (i) have lifecycle carbon intensity below 100CO<sub>2</sub>/kWh; (ii) run-of-river plants without an artificial reservoir or low storage.*
- *Renewable energy technologies that support the generation and storage of renewable energy, including wind turbines, solar panels, battery storage, and wind turbine installation vessels.*

*Bapco Energies confirms the exclusion of hydroelectric plants exceeding 1000 MW of capacity from receiving financing under the Framework.*

**No/ Low Emissions Fuels**

*Production of Green Hydrogen.<sup>12</sup>*



<sup>10</sup> The Framework notes that the financing of green hydrogen production will follow one of the following production processes: (i) powered entirely by renewables; or (ii) aligns with the EU Taxonomy’s Sections 3.2., Manufacture of equipment for the production and use of hydrogen, and sections 5.11 and 5.12 for the Safe Transportation and Storage of CO<sub>2</sub>, where the GHG emissions threshold is being used as the qualifying criteria, and meets the life-cycle GHG emissions threshold of 3tCO<sub>2</sub>e/tH<sub>2</sub>.

<sup>11</sup> The Framework notes that electricity generation projects within this activity will have direct emissions threshold below 100gCO<sub>2</sub>e/kWh.

<sup>12</sup> The Framework notes that the financing of green hydrogen production will follow one of the following production processes: (i) powered entirely by renewables; or (ii) aligns with the EU Taxonomy’s Sections 3.2., Manufacture of equipment for the production and use of hydrogen, and sections 5.11 and 5.12 for the Safe Transportation and Storage of CO<sub>2</sub>, where the GHG emissions threshold is being used as the qualifying criteria, and meets the life-cycle GHG emissions threshold of 3tCO<sub>2</sub>e/tH<sub>2</sub>.

**No/ Low Emissions Fuels**

- *Production of Sustainable Aviation Fuel (SAF) from non-waste sources.*<sup>13</sup>

**No/ Low Emission Fuels**

*Consumption of biofuels and biogas generated from waste sources, including forestry and agricultural residues, including RSPO-certified palm kernel shells.*<sup>15</sup>

**No/ Low Emission Fuels**

*Production of biofuels from non-waste sources that meet each of the following criteria:*<sup>16</sup>

- *Achieves life-cycle emissions reduction of at least 65% lower than fossil fuel baseline. The Framework further notes that pre-2021 installations will achieve life-cycle emissions reduction of at least 60% lower than baseline, and pre-2015 installations will achieve life-cycle emissions reduction of at least 50% lower than baseline.*
- *Feedstocks are certified by credible third-party certifications, including Roundtable on Sustainable Biomaterials (RSB), ISCC Plus, Bonsucro, and Roundtable on Responsible Soy Association (RTRS).*<sup>17,18</sup>

**No Net Impact**<sup>14</sup>

**Contribution**

**Contribution**



<sup>13</sup> The production of Sustainable Aviation Fuels follows the criteria for the production of biofuels from non-waste sources as listed in the No/Low Emissions Fuels category.

<sup>14</sup> The International Energy Agency (IEA) recognizes the critical role of SAF in the decarbonization of the aviation sector. The U.S. Department of Energy’s SAF Grand Challenge Roadmap identifies the high costs of SAF due to the low production scale as one of the major barriers to the adoption of SAF. Bapco Energies’ financing of the production of SAF contributes towards increasing the supply of sustainable fuel in the market. However, Bapco Energies has confirmed to ISS-Corporate that it does not have operational control over the potential blending ratios by airports and airlines, which leads to uncertainty around the emissions intensity improvements in comparison to conventional jet fuel. Therefore, according to ISS-Corporate methodology, the financing of this activity is considered as having no net impact on the SDGs.

<sup>15</sup> The Framework notes that the RSPO-certified palm kernel shells as agricultural residues.

<sup>16</sup> The Framework notes that the use of non-waste sources will not be derived from: (i) land with high biodiversity, (ii) land with high amount of carbon that has not been converted for biofuel feedstock production, and (iii) does not compete with food sources.

<sup>17</sup> The Framework notes that feedstock that is certified with Bonsucro and RTRS will be sourced from agricultural waste.

<sup>18</sup> ISS-Corporate’s review and opinion is limited to the certifications listed in the Framework.

**Clean Transportation**

*Development, construction, and installation of the following projects:*

- *Infrastructure: electric charging points, station network including e-mobility infrastructure and charging station operators, and hydrogen fueling stations.<sup>19</sup>*
- *Electric vehicles.*
- *Fuel cell vehicles powered by green hydrogen, such as buses and trucks.*

**Contribution**



**Clean Transportation**

*Production of:*

- *Sustainable Aviation Fuel that meets the criteria noted in the No/ Low Emissions Fuels category.*
- *Ultra/ Very Low Sulfur Fuel Oil (U/VLSFO) for maritime vehicles.*

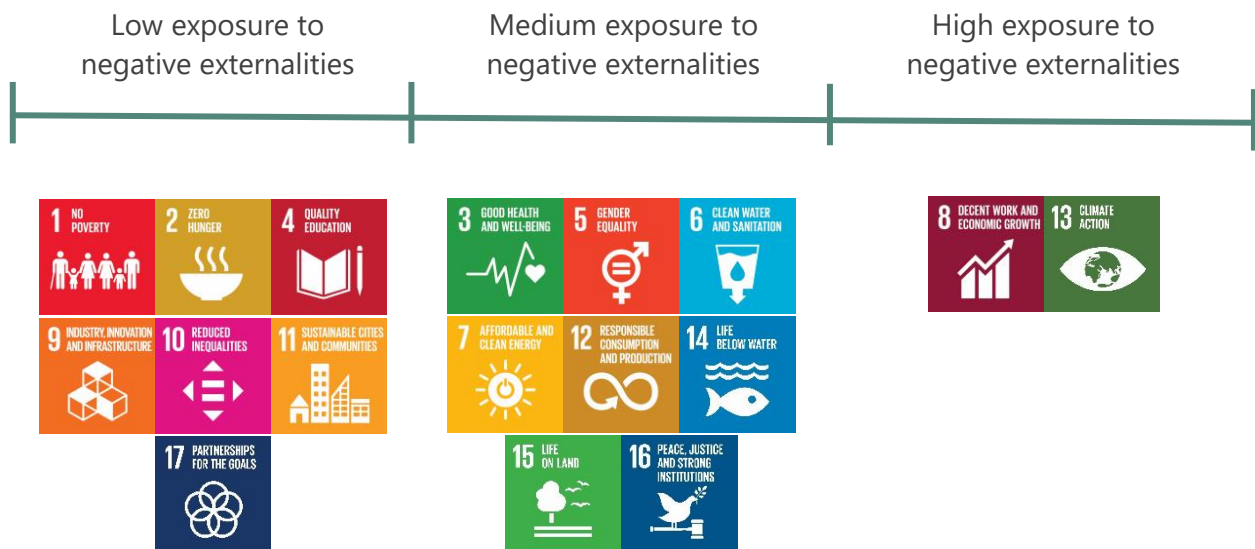
**No Net Impact**

<sup>19</sup> Bapco Energies has confirmed the exclusion of parking lots from receiving financing under the Framework.

**2. Improvements of operational performance (processes)**

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

According to ISS ESG SDG Impact Rating methodology, potential impacts on the SDGs related to negative operational externalities<sup>20</sup> in the Integrated Oil and Gas Industry (to which Bapco Energies belongs) are the following:



The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

<sup>20</sup> Please, note that the impact of the Issuer’s products and services resulting from operations and processes is displayed in section 3 of the SPO.

USE OF PROCEEDS (PROCESSES)	OPERATIONAL IMPACT IMPROVEMENT <sup>21</sup>	SUSTAINABLE DEVELOPMENT GOALS
<p><b>Energy Efficiency<sup>22</sup></b></p> <p><i>Financing of technologies and operational improvements that result in energy efficiency improvements of 30%. Intended technologies and improvements include residual heat recovery, steam consumption optimization, furnace modifications and process optimization through the financing of the following projects:<sup>23</sup></i></p> <ul style="list-style-type: none"> <li>▪ <i>Industrial and utility improvements involving changes in processes,<sup>24</sup> reduction of heat losses and/or increased waste heat recovery.<sup>25</sup></i></li> <li>▪ <i>Investments in equipment grades, including heat recovery from flue gases, and the implementation of variable speed motors.</i></li> <li>▪ <i>Operational improvements through the implementation of control strategies or maintenance standards, including efficiencies in heaters and boilers, hydrogen reformers, heat exchanger trains, and incinerators.<sup>26</sup></i></li> <li>▪ <i>New process schemes yielding energy efficiency improvements or high-performance internals in fractionation columns.<sup>27</sup></i></li> <li>▪ <i>Network optimization through projects such as stream networks.</i></li> </ul>	<p style="text-align: center;">_28</p>	

<sup>21</sup> Limited information is available on the scale of the improvement as no threshold is provided. Only the direction of change is displayed.

<sup>22</sup> Bapco Energies has confirmed to ISS-Corporate that expenditures within the Energy Efficiency category will solely be directed towards existing facilities.

<sup>23</sup> Bapco Energies has confirmed to ISS-Corporate that Bapco Energies will use environmental and social due diligence reports to verify energy efficiency improvements.

<sup>24</sup> Process improvements include energy management systems, inter-anodes, flat heat pipes, condensing economizers, and trilateral flush cycle.

<sup>25</sup> Bapco Energies has confirmed to ISS-Corporate that sources of waste heat include flue gas, heat exchangers, steam boilers and incinerators.

<sup>26</sup> Bapco Energies has communicated to ISS-Corporate that other improvement projects within this category include initiatives and programs listed under Bapco Energies’ Modernization Program and Refining Environmental Initiatives.

<sup>27</sup> Ibid.

<sup>28</sup> Bapco Energies’ financing of energy efficiency improvements are intended to facilitate the climate transition of the Company’s refinery operations. However, according to ISS-Corporate, expenditures within this category are assessed as having no net impact on the SDGs as operational improvements for Oil and Gas infrastructure are regarded as Business-As-Usual expenditures and may further perpetuate the use of Oil and Gas and delay the transition to low-carbon, and renewable energy fuels.

**Energy Efficiency**

Financing of technologies and operational improvements that result in energy efficiency improvements of 30%. Intended technologies and improvements include residual heat recovery, steam consumption optimization, furnace modifications and process optimization through the financing of following projects:



- Installation of renewable-energy powered cogeneration plants. The Framework notes that the cogeneration plants will be either powered by CSP solar or biomass waste, or geothermal energy or bioenergy with an emissions threshold of 100gCO<sub>2</sub>/kWh(e).

**Energy Efficiency**

Financing of technologies and operational improvements that result in energy efficiency improvements of 30%. Intended technologies and improvements include residual heat recovery, steam consumption optimization, furnace modifications and process optimization through the financing of the following projects:



- New units or process scheme modifications, including cogeneration powered by renewables and captured methane from landfills, and green hydrogen production that meets the criteria listed in the No/Low Emissions Fuel Category.

**Pollution Prevention and Control**<sup>29</sup>

The Framework notes the financing of the following projects:



- Investments in waste prevention, reduction, recycling and sorting projects.<sup>30</sup>

**Pollution Prevention and Control**

The Framework notes the financing of following projects:



<sup>29</sup> Bapco Energies has confirmed to ISS-Corporate that expenditures within the Pollution Prevention and Control category will solely be directed towards existing facilities.

<sup>30</sup> Bapco Energies has further confirmed that sorting projects include contaminated soil sorting and treatment, reduction and recycling of chemicals, and wastewater treatment projects.



- *Incineration of municipal solid waste as feedstock for waste to energy plants with bottom ash recovery and removal of all recyclables and hazardous materials prior to incineration. The Framework notes that the financing of this activity will align with the Climate Bonds Initiative's (CBI) Waste Management Criteria.*

**Pollution Prevention and Control**

*The Framework notes the financing of following projects:<sup>31</sup>*

- *Investments in technologies or processes that mitigate methane emissions associated with gas pipelines and production plants.*
- *Investments in technologies or processes that reduce flaring or venting, including vapor recovery units and leak detection and repair.*

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**Sustainable Water and Wastewater Management**

*Water improvement activities that yield improvements in water quality including:*

- *Water treatment facilities that treat wastewater from Bapco Energies' own operations.<sup>33</sup>*
- *Upgrades to wastewater treatment plants to remove nutrients.*
- *Wastewater discharge infrastructure.*



*Water-use efficiency projects, such as:*

- *Water recycling and reuse*
- *Water saving systems, technologies, and water metering.*

<sup>31</sup> Bapco Energies has communicated to ISS-Corporate that other improvement projects within this category include initiatives and programs listed under Bapco Energies' Modernization Program and Refining Environmental Initiatives.

<sup>32</sup> Bapco Energies' financing of pollution prevention and control activities are intended to facilitate the climate transition of the Company's refinery operations. However, according to ISS-Corporate, expenditures within this category are assessed as having no net impact on the SDGs as operational improvements for Oil and Gas infrastructure are regarded as Business-As-Usual expenditures, and may further perpetuate the use of Oil and Gas and delay the transition to low-carbon, and renewable energy fuels.

<sup>33</sup> Bapco Energies has communicated to ISS-Corporate that treated water from these facilities can be potentially used for irrigation, recharge of aquifers, or used in other processes.



- *Development of artificial treatment systems that use natural processes from vegetation to improve water quality.*

**Environmentally Sustainable Management of Living Natural Resources and Land Use**

- Afforestation and reforestation activities, mangrove conservation and replanting.

*The Framework notes that afforestation and reforestation activities will use tree species that are well-adapted to site conditions and have an FSC/ PEFC certified sustainable management plans in place.*



**Carbon Capture and Storage**

*The Framework notes the financing of the development, construction, installation, and maintenance of projects that capture and store CO<sub>2</sub> and direct air capture and storage projects (DACCS).*

*Carbon capture utilization where carbon is intended for enhanced oil recovery will be excluded from financing under this Framework.*



**B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA**

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. All of the assets are/will be primarily located in Bahrain.

<b>ASSESSMENT AGAINST KPIs</b>	
<b>All Categories</b>	
<b>Labor, Health, and Safety</b>	
✓	Bapco Energies has measures ensuring high labor, health, and safety standards are in place for the financed assets in the Framework for own employees and volunteers, as the companies in Bapco Energies’ portfolio are ISO 45001 certified and have internal Health and Safety Policies. In addition, they apply International Finance Corporation (IFC) performance standards in all new projects, and two companies have adopted the UN Global Compact.
<b>Environmental aspects of construction (or production) and operation</b>	
✓	Bapco Energies has measures ensuring assets financed under this Framework provide for a comprehensive environmental management system as the companies in Bapco Energies’ portfolio are ISO 14001 certified.
<b>Community Dialogue</b>	
✓	Bapco Energies commits to implementing IFC Performance Standards 4 (Community Health, Safety and Security) and Equator Principles for each project within the Transition Framework. IFC Performance Standard 4 requires signatories to evaluate health and safety risks and impacts on the affected communities during the project lifecycle and propose mitigation measures to minimize these impacts. <sup>34</sup>
<b>Biodiversity</b>	
✓	Bapco Energies commits to undergo Environmental Impact Assessments (“EIA”) for all projects according to the IFC standard in this Framework, which, depending on the outcomes of the study, will be supplemented by a Biodiversity Action Plan, Critical Habitat Assessment, and/or Ornithological Survey. The plans will include a Construction Environmental and Social Management Plan as well as an Operational Plan. Bapco Energies also states that it will follow the standard of “Regional Red List Assessment of Selected

<sup>34</sup> International Finance Corporation, “Performance Standards on Environmental and Social Sustainability”, (2012), at <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-en.pdf>

Species in the Kingdom of Bahrain” and the IUCN Red List of Threatened Species.

In addition, Bapco Energies has confirmed that it will assess all assets against the IFC Performance Standards 6, “Biodiversity Conservation and Sustainable Management of Living Natural Resources”, and the Equator Principles. The IFC Performance Standards 6 require the identification of direct and indirect impacts on biodiversity and ecosystem services, and a management plan designed to mitigate and manage biodiversity impacts. The management of impacts on biodiversity and ecosystem services details the protection of natural and critical habitats, and the sustainable management of resources.<sup>35</sup>

**Renewable Energy Components, Energy Efficiency, Solar Power, Hydrogen Production**

**Environmental aspects of construction (or production) and operation**



Bapco Energies does not have policies in place to ensure that future assets financed under this Framework will provide for take-back measures at the end of life. However, the Issuer states that it adopts a hierarchy of waste management plans with the highest priority in source, reduction, recycling, and treatment.

**Renewable Energy, Energy Efficiency, Waste Management, Biomass, Geothermal, Hydropower, Waste Management, Wind Power**

**Environmental aspects of construction (or production) and operation**



Bapco Energies commits to undergo EIAs to ensure future assets financed will meet environmental standards and requirements according to the IFC standard to mitigate the noise and environmental impact of the assets during the construction phase.

**Geothermal**

**Environmental aspects of construction (or production) and operation**



Bapco Energies does not have policies in place to ensure assets financed will have measures to avoid contamination of soil and groundwater. However, the Issuer states that soil and groundwater contamination mitigation measures are covered in general EIAs according to the IFC performance standard and will be applied to all future projects.

<sup>35</sup> International Finance Corporation, “Performance Standards on Environmental and Social Sustainability”, (2012), at: <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-en.pdf>

**Clean Transportation (hydrogen production plant)**

**Environmental aspects of construction (or production) and operation**

- Bapco Energies does not have policies in place to ensure that assets financed will have water use reduction measures in place. However, the Issuer states that future assets will achieve certified ISO 14001 Environmental Management System within 3 years, including measures to ensure water efficiency and reduction.
- ✓ Bapco Energies commits to undergo EIAs according to IFC standards for assets financed in the Framework. All waste-related aspects are considered in the EIAs in the form of the Waste Management Plan, which includes recommendations to mitigate impacts during the construction and operation phase.

**Charging Stations and Networks, Electric and Alternative Drive Vehicles, Renewable Energy Components**

**Environment**

- There is currently limited information to ensure projects financed under this category will conduct life-cycle assessment to understand the impacts of these products.

**Wind, Hydropower**

**Conservation and biodiversity management**

- ✓ Bapco Energies commits to undergo EIAs for projects financed according to IFC standards in the Framework, which includes Critical Habitat Assessments and Ornithological Surveys. In addition, Bapco Energies' Biodiversity Action Plan will consider the construction and operational phases of the project to protect habitat and wildlife during operation of the power plants.

**Hydrogen Production**

**Energy efficiency**

- Bapco Energies does not have policies in place to ensure the projects financed under this category will achieve high conversion efficiency.

**Waste Management, Biomass**

**Environmental aspects of construction (or production) and operation**

- Bapco Energies does not have policies in place to ensure the projects financed under this category will apply cogeneration technology.

**Wastewater, Water supply**

**Environmental aspects of construction (or production) and operation**

- Bapco Energies does not have policies in place to ensure the projects financed under this category will provide measures such as leak detection methods or repair systems.

**Wastewater**

**Environmental aspects of construction (or production) and operation**

- ✓ Bapco Energies commits to undergo EIAs according to IFC standards for assets financed in this Framework. The assessment will include all the possible waste streams generated by a project during both the construction and operations phases and also examine mitigation measures and additional measures to reduce the environmental impacts of sewage sludge disposal.

**Solar, Energy efficiency, Hydrogen Production**

**Environmental aspects of construction (or production) and operation**

- Bapco Energies does not have policies in place to ensure projects financed will fulfill the threshold defined by the European Directive on the restriction of the use of certain hazardous substances in electrolysis.

**Energy Efficiency, Solar Power**

**Environmental aspects of construction (or production) and operation**

- Bapco Energies does not have policies in place to ensure that a strong environmental management system of suppliers is in place for the assets financed in this category. However, the Issuer states that suppliers with a certified ISO 14001 Environmental Management System will receive higher merit in the selection processes.

**Biomass, Waste Management**

**Environmental aspects of construction (or production) and operation**

- ✓ Bapco Energies commits to undergo EIAs according to the IFC standards for assets financed in this Framework, which include waste management plans of

plants, mitigation measures for air emissions, and disposal of waste residue in the construction and operation phases.

**Water Supply**

**Environmental aspects of construction (or production) and operation**



Bapco Energies does not have policies in place to ensure that assets financed under this Framework will provide for measures regarding sustainable water withdrawal (such as risk assessments, monitoring, and pollution prevention).

**Wastewater, Water supply**

**Environmental aspects of construction (or production) and operation**



Bapco Energies does not have policies in place to ensure assets financed under this Framework will provide for high standards regarding water quality. However, the Issuer states that the wastewater discharged will be treated according to sea quality standards in local jurisdiction, Resolution No. 3 for 2021, and the monitoring results will be inspected by the Supreme Council for Environment in Bahrain.

**Geothermal**

**Environmental aspects of construction (or production) and operation**



Bapco Energies commits to undergo EIAs following the IFC performance standards for assets financed in the Framework, which will analyze all aspects of the project's life cycle, including construction and operation, and identify all the possible impacts and mitigation measures.

**Renewable Energy Components**

**Environmental aspects of construction (or production) and operation**



Bapco Energies has measures in place to ensure assets financed under this Framework provide for monitoring technologies ensuring high operational standards. Bapco Energies' existing solar plants (total capacity of 10 MW) are continuously monitored to ensure the highest performance using Supervisory Control and Data Acquisition (SCADA) systems on all components, including but not limited to inverters and panels.

**Hydrogen Production, Geothermal**

**Environmental aspects of construction (or production) and operation**



Bapco Energies commits to undergo EIAs according to the IFC standard for all projects financed in the Framework. The assessment will cover project locations and proximity to major fault lines, and the suitability of locations is part of the evaluation criteria.

**Forestry**

**Fire Management**



Bapco Energies currently does not have a policy in place to ensure fire risk is mitigated systematically for all forestry projects. However, the topography of Bahrain is arid and does not have extensive plant cover, mainly consisting of desert plants and small shrubs that contribute to the ecosystem and carbon sequestration. Bapco Energies has confirmed to ISS-Corporate that all projects will undergo a risk assessment during the planning phase of the project and the risk register will be continuously updated to mitigate all potential risks.

**Water Supply**

**Inclusion**



Bapco Energies currently does not have policies in place to ensure projects financed under this category will be systematically priced or subsidized to promote participation for socially disadvantaged customers.

**Biomass, Energy Efficiency, Hydrogen Production, Renewable energy components, Waste Management, Carbon Capture & Storage**

**On-site safety**



Bapco Energies has measures ensuring high operational safety standards are in place for the financed assets under this Framework as the companies in Bapco Energies' portfolio are ISO 45001 certified. Furthermore, the companies within Bapco Energies' portfolio have internal health and safety policies, and apply IFC performance standards in all new projects

**Waste Management**

**Waste**



Bapco Energies has measures ensuring the recycling of waste components for the financed assets under this Framework as waste management plans are

designed in accordance with ISO 14001, which requires continuous assessment of waste stream generated and possible disposal options including recycling opportunities for all waste streams.

**Hydrogen Production**

**Waste**



Bapco Energies has measures in place ensuring the reduction and correct disposal of waste for the financed assets under this Framework as Waste Management Plans are designed in accordance with ISO 14001, which requires continuous assessment of waste stream generated and possible disposal options including recycling opportunities for all waste streams.

**Energy Efficiency, Solar Power**

**Labor, Health, and Safety in the supply chain**



Bapco Energies states that suppliers will be screened according to Bapco Energies’ Environmental, Health, and Safety Standards. In addition, Bapco Energies states that IFC performance standards will be binding for suppliers, including IFC 2 Labor and Working Conditions. The IFC Performance Standards 2 includes requirements such as ensuring non-migrant workers are employed on equivalent terms to migrant workers, protection against child labor, and measures to ensure occupational health and safety in the workplace.<sup>36</sup>

**Carbon Capture & Storage**

**Environmental aspects of construction (or production) and operation**



Bapco Energies currently does not have policies in place to ensure projects financed will systematically store CO<sub>2</sub> safely, and projects will not take place in water-stressed areas and/or provide for water-saving measures. There is also limited information to ensure the carbon capture process is efficient. However, Bapco Energies has implemented a feasibility study for a CCS project in Bahrain, where potential risks that require mitigation have been identified. Bapco Energies has also identified international CCS standards and partners that will provide guidance and standards in the remaining design phases of the project.

<sup>36</sup> International Finance Corporation, “Performance Standards on Environmental and Social Sustainability”, (2012), at: <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-en.pdf>



## PART III: ALIGNMENT WITH ICMA CLIMATE TRANSITION FINANCE HANDBOOK (CTFH)

### 1. Climate Transition Strategy and Governance

Bapco Energies' transition strategy was announced in 2022 through its Sustainability-Linked Finance Framework, and the Modernization plan (which gathers the key drivers for the decarbonization agenda) was also disclosed publicly. The strategy is aligned with an in-house scenario, the National Energy Strategy (NES) of the Kingdom of Bahrain 2023,<sup>37</sup> and it was developed with the support of Boston Consulting Group (BCG). Bapco Energies' engagement with BCG also included materiality analyses to measure the Company's material environmental impacts. In addition, the in-house scenario aligns with the Nationally Determined Contribution (NDC) of the Kingdom of Bahrain, and it references a scenario where the demand and supply of energy in the Kingdom of Bahrain is identified to determine the energy supply necessary for delivering a diversified energy transition. ISS-Corporate notes that at the time of issuance, Bapco Energies had not received an independent external review of its climate transition strategy and its alignment with international climate change scenarios. Bapco Energies has confirmed to ISS-Corporate that it intends to engage with an external body, such as the Transition Plan Taskforce, to undertake an independent review in the future. Furthermore, as the hydrocarbon and energy investment and business development arm of the Kingdom of Bahrain, Bapco Energies is federally mandated to align its business models to the Paris Agreement and support the achievement of Bahrain's NDC. The NDC aims to limit temperature increases to 1.5 °C above preindustrial levels. However, the Intergovernmental Panel on Climate Change (IPCC)'s Climate Change 2022 Mitigation of Climate Change Summary for Policymakers report mentions that the projected global GHG emissions from NDC announced before COP26 would make it likely that warming will exceed 1.5°C, and would require an acceleration of mitigation efforts after 2030 limit warming to below 2°C.<sup>38</sup> As part of the strategy, Bapco Energies plans to transition from an oil and gas company to an integrated energy company. As a result of Bapco Energies' decarbonization strategy, it aims to achieve a reduction of net GHG emissions intensity, Scope 1, and 2 by 75% in 2050 compared to 2017 baseline levels, and the reduction of net absolute Scope 3 emissions by 30% in 2035 compared to 2017 baseline levels. The main abatement levers of the transition strategy are low-carbon power, fuel switch and electrification, process improvement, equipment upgrade, carbon capture utilization and storage (CCUS), flaring abatement, materials recycling and circularity, and offsetting measures.

The projects financed under the Transition Finance Framework will undergo environmental and social risk assessment, in compliance with IFC performance standards. Additionally, each project's expected CO<sub>2</sub>/CO<sub>2e</sub> abatement will be calculated. Furthermore, short-, interim, and

<sup>37</sup> Financial Post, "Bahrain unveils its National Energy Strategy and steps up commitment to achieve net zero emissions by 2060", (2023), at: <https://financialpost.com/globe-news/bahrain-unveils-its-national-energy-strategy-and-steps-up-commitment-to-achieve-net-zero-emissions-by-2060#:~:text=MANAMA%2C%20Bahrain%2C%20Nov.%202030,net%2Dzero%20emissions%20by%202060>

<sup>38</sup> Intergovernmental Panel on Climate Change (IPCC), 2022. Climate Change 2022 Mitigation of Climate Change Summary for Policymakers [https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC\\_AR6\\_WGIII\\_SPM.pdf](https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SPM.pdf)

long-term targets for greenhouse gas reduction are considered in the strategy,<sup>39</sup> including Scope 1, 2, and 3 (90% of Scope 3 emissions are included). Information regarding the capital expenditure plan for each project category and the impacts of those expenditures was also considered during the development of the strategy and will be shared with the investors on a confidential basis. The responsibilities of implementation and management of the transition strategy are at multiple levels. An ESG Policy is in place to ensure the transition commitments are met with the Board being responsible for providing strategy oversight of the implementation of the Policy. The strategic decisions and the management are the responsibility of the CEO and the Head of ESG. The ESG team is responsible for monitoring and collecting ESG and transition performance data, with ESG working groups leading and coordinating ESG across the Group.

**Opinion:** *ISS-Corporate notes that Bapco Energies' energy transition is clearly elucidated, and publicly disclosed in the Sustainability-Linked Finance Framework and the Transition Finance Framework. The transition financing instruments will be used to support the National Energy Strategy. It includes interim and long-term targets for decarbonization and is in line with the Nationally Determined Contributions (NDC) of Bahrain, however, according to the latest reports from IPCC and NGFS, the NDC may not be fully in line with the Paris Agreement and the 1.5-degree target. The transition includes different levers of decarbonization, however, the Issuer's business model is not focused on transitioning away from fossil fuels but rather on modernizing the refining processes and diversifying the energy mix. In addition, there is no external review of how the interim targets align with the long-term carbon neutrality target, and of the credibility of the Issuer's climate transition strategy (including the governance of the oversight of such strategy). Bapco Energies has confirmed to ISS-Corporate that it intends to receive an independent review of its climate transition strategy and targets in the future. No scenario provided by recognized organizations (Science-Based Targets Initiatives, Intergovernmental Panel on Climate Change, Task Force on Climate-related Financial Disclosures) has been used to develop the transition finance strategy.*

## 2. Business Model Environmental Materiality

The transition strategy has various drivers, including increasing the efficiency of oil and gas products, implementing changes to the energy mix, and investing in renewable energy sources, which will avoid 19 Mn tCO<sub>2</sub>e in new annual emissions by 2035, and 9 Mn tCO<sub>2</sub>e additional reduction from decarbonization options (operational improvement, carbon capture, and storage, fuel switch, and circularity). Bapco Energies performed a materiality analysis to determine the relevant areas to focus on in the transition strategy, with environmental, social, and governance topics that were assessed, classified based on the risk, described, and classified based on its dimension. The strategy targets environmentally material parts of the business model and covers all business units and operations, including 100% of Scope 1 and

<sup>39</sup> By 2025, reducing net Scope 1 and 2 emissions intensity by 15% from 2017 levels; by 2030, reducing net Scope 1 and 2 emissions intensity by 25%; by 2040, reducing net Scope 1 and 2 emissions intensity by 50%; by 2050, reducing net Scope 1 and 2 emissions intensity by 75%; and by 2060, reaching net zero Scope 1 and 2 emissions. By 2035, reducing absolute Scope 3 emissions by 30% from 2017 levels; and by 2060, reaching net zero Scope 3 emissions.

2 emissions, and 90% of Scope 3 emissions (category 11). The Issuer shared the key initiatives followed to reduce the environmental impact of its activity. One of them is Bapco Energies' Modernization Program (BMP), which is part of the decarbonization plan, targeting Bapco Energies Refining and that will result in an energy efficiency improvement of 28%.<sup>40</sup>

BCG was engaged in the development of the decarbonization strategy, including analysis of the material impacts and benchmarking. Additionally, the performance of the Sustainability-Linked KPIs selected in the Sustainability-Linked Finance Framework will be tracked, verified, and shared with the lender group confidentially or publicly, depending upon the instrument being issued. Bapco Energies will continue to monitor its GHG performance and provide public reports in the Bapco Energies Group's sustainability reporting on an annual basis. Furthermore, Bapco Energies intends to report in line with the Task Force on Climate-Related Financial Disclosures (TCFD) for FY2023's ESG reporting.

The Issuer performs an Environmental and Social Impact Assessment ("ESIA") to identify the operational impacts on the environment and society and undertakes measures to mitigate those impacts. Additionally, a Climate Change Risk Assessment is performed for all projects, including the risks associated with the projects and the challenges are included. The measures include social dialogue, training for students in local communities, shoreline clean-up days, and hosting events to raise awareness of the environment, health, and safety.

**Opinion:** *ISS-Corporate finds that the transition strategy and the decarbonization transformation are funding strategic changes that are core to the company's business activities with investments that are core to the company (renewable energy, low and no emissions fuels, clean transportation, pollution prevention and control, carbon capture and storage). It includes a materiality assessment and involves Scope 1, 2, and 3 emissions reduction. Bapco Energies undertakes a full materiality assessment every two years that is reviewed on an annual basis. The transition strategy does not consider potential future scenarios that may change the company's materiality considerations in the future.*

### 3. Climate transition strategy to be "science-based"

Bapco Energies' transition strategy is quantitatively measurable by using GHG emissions (Mn tCO<sub>2</sub>e). It covers 95% of Scope 1 and 2 emissions,<sup>41</sup> which represent 8.2% of Bapco Energies' total reported emissions and 90% of Scope 3 (products sold to unrelated entities within the Kingdom of Bahrain). Historic emissions and the baseline year for the calculation (2017) were publicly disclosed in the Sustainability-Linked Finance Framework and were externally verified by an auditor:

- By 2025, reducing net Scope 1 and 2 emissions intensity by 15% from 2017 levels.
- By 2030, reducing net Scope 1 and 2 emissions intensity by 25% from 2017 levels.
- By 2040, reducing net Scope 1 and 2 emissions intensity by 50% from 2017 levels.
- By 2050, reducing net Scope 1 and 2 emissions intensity by 75% from 2017 levels.

<sup>40</sup> Bapco Energies Refining is a subsidiary that produces the largest amount of emissions out of all the operating company.

<sup>41</sup> Currently the non-major companies within Bapco Energies' portfolio do not issue GHG emission reports. Those companies are excluded from the current coverage, which accounts for an estimated 5% of the group's total emissions.

- By 2060, reaching net zero Scope 1 and 2 emissions.
- By 2035, reducing absolute Scope 3 emissions by 30% from 2017 levels,
- By 2060, reaching net zero Scope 3 emissions.

Bapco Energies uses carbon credits, following the recommendations of the Taskforce on Scaling Voluntary Carbon Markets in its Phase 1 Final Report.<sup>42</sup> The use of carbon credits will be to compensate for unavoidable or unabated emissions and will follow the Core Carbon Principles of the Integrity Council for the Voluntary Carbon Market (ICVCM). There is no information on the quantity of offset credits that will be used to achieve the target. ISS-Corporate notes that while Bapco Energies' climate transition strategy strives to be in line with the Paris Agreement objective of limiting average global increase to 1.5 °C, the Company has not received independent verification of its strategy and therefore cannot be validated to be "science-based". As noted above, the decarbonization strategy was created with the consultancy of BCG, in alignment with the targets set by the Kingdom of Bahrain that cover upstream, midstream, and downstream activities. Furthermore, Bapco Energies intends to receive an external verification of its decarbonization strategy in the future.

**Opinion:** *ISS-Corporate finds that the implementation of the climate transition strategy is tracked by the company's Scope 1, and 2 GHG emissions (carbon dioxide, methane, and nitrous oxide from its own operations, and Scope 3 (from its products sold in Bahrain). The targets selected are absolute emission reduction. The historic emissions and the baseline year for calculation were publicly disclosed in the Issuer's Sustainability-Linked Finance Framework and were externally verified by an auditor. The Issuer measures its GHG emissions following IPCC guidelines and will report its emissions during the annual reporting of the KPIs and SPTs decided in the Sustainability-Linked Framework. This calculation of the GHG emissions is considered consistent with the GHG Protocol.*

*Bapco Energies' climate transition strategy is not noted as "science-based" as the Company has yet to receive an independent verification to validate the strategy and targets.*

#### 4. Implementation Transparency

Bapco Energies will invest USD 2 billion until 2035 to support its transition strategy. The investments are in low-carbon power, fuel switch and electrification, process improvement, equipment upgrade, carbon capture and storage, flaring abatement, materials recycling and circularity, and offsetting measures. The Issuer has a breakdown of the capital expenditures (CapEx) related to the cost of installing and deploying technologies and the associated environmental impacts that those expenditures are expected to bring (i.e., GHG emissions abated), however, those quantitative details will not be reported publicly. Bapco Energies' CapEx plan was developed with an external consultant (BCG) on behalf of Bahrain for the National Energy Strategy and its transition strategy. Bapco Energies states that the planned expenditures are expected to reduce 2.8 Mn tCO<sub>2</sub>e from its operations. The disclosed CapEx did not include R&D expenditures, which account for an additional 5-20% of the total CapEx. The Transition Finance Framework references Bapco Energies' initiatives to mitigate adverse

<sup>42</sup> [Taskforce on Scaling Voluntary Carbon Markets Phase 1 Final Report](#)

impacts on local communities, such as public awareness campaigns regarding carbon and gas leaks, and training and development programs for students from local communities. The Issuer intends to publicly report with qualitative and quantitative details of the climate-related outcomes and impacts derived from the planned expenditures on an annual basis. The Issuer did not provide a phase-out plan for the activities that are incompatible with the climate transition strategy. The Transition Finance Framework does not provide a qualitative or quantitative assessment of potential locked-in GHG emissions from the assets financed.

Bapco Energies confirms that a Transition and Sustainability Governance was set to assess the Group's ESG and transition commitments and, the alignment with the transition strategy. There would be divestments of non-core assets to fund activities that will contribute more to the strategy. Furthermore, the Company conducts ESIA's to analyze potential opportunities and risks associated with all potential projects. In response to risk identification, Bapco Energies also develops procedures for addressing these risks through measures such as community dialogues, and the protection of labor rights.

**Opinion:** *Bapco Energies intends to provide details of the planned expenditures for each project category and the expected environmental impacts, the subsidiaries affected, and the expected GHG emissions reduced, in its internal documents. Furthermore, Bapco Energies commits to publicly reporting on the quantitative and qualitative impacts of all climate-related expenditures financed under the Framework. The Issuer does not provide transparency on the phase-out plan for the activities incompatible with the climate transition strategy, nor about the potential locked-in GHG emissions from the projects financed. Bapco Energies addresses potential negative impacts on communities, engaging initiatives and providing support to mitigate the negative outcomes of the transition strategy.*

## PART IV: LINKING THE TRANSACTION(S) TO BAPCO ENERGIES' ESG PROFILE

### A. CONSISTENCY OF TRANSITION FINANCING INSTRUMENTS WITH BAPCO ENERGIES' SUSTAINABILITY STRATEGY

#### *Key sustainability objectives and priorities defined by the Issuer*

Bapco Energies has committed to achieving net zero by 2060 and is in the process of transitioning from an oil and gas holding company into an integrated energy company. In addition, Bapco Energies is committed to reducing absolute Scope 1 and 2 emissions by 30% from 2017 levels by 2035, with the following timelines:

- By 2025, reducing net Scope 1 and 2 emissions intensity by 15% from 2017 levels;
- By 2030, reducing net Scope 1 and 2 emissions intensity by 25% from 2017 levels;
- By 2040, reducing net Scope 1 and 2 emissions intensity by 50% from 2017 levels;
- By 2050, reducing net Scope 1 and 2 emissions intensity by 75% from 2017 levels;
- By 2060, reaching net zero Scope 1 and 2 emissions

Bapco Energies tracks these targets and reports annually with the progress verified by an independent auditor. The Company intends to report performance against the above interim targets through its annual report. However, there is currently no information publicly available.

As Bapco Energies is in the Oil & Gas sector, there is currently no available Science-based target(s) (SBTI) in this sector. There is no information available on whether Bapco Energies is a signatory to any industry alliances or collective commitments.

Bapco Energies has a Modernization Program to increase refining capacity, enhance product slate to reduce energy intensity of its products, and improve energy efficiency. As a result of the modernization program, Bapco Energies states that the process will combine more efficient units and decommissioning older units to drive an overall energy efficiency improvement. Additional environmental initiatives include the initiation of a solar energy pilot project to install over 20,000 solar panels within Bahrain, and the development of a refinery gas desulphurization project with no current public start date.

Bapco Energies also has a National Energy Strategy on behalf of the government of Bahrain to drive climate transition with changes to the energy mix, such as employing energy efficiency measures and renewable power sources to achieve emission reduction goals. Overall, Bapco Energies expects to allocate over USD 2 billion in capital expenditure for this National Energy Strategy until 2035.

To mitigate the ESG risks associated with the sustainability projects, Bapco Energies follows the IFC Performance Standards and all projects on the Framework will be reviewed against the IFC Performance Standards. In addition, Bapco Energies has designated stakeholders,



including the Board, Group CEO, company's ESG Team, and ESG working group to oversee the respective ESG topics.

Bapco Energies currently does not have any ESG report published, however, it will publish its first ESG report this year aligned with the GRI Standards. In future years, it will also report in accordance with TCFD and IFRS reporting. Bapco Energies published a Sustainability-Linked Finance Framework in July 2023.<sup>43</sup>

### *Rationale for issuance*

Bapco Energies is leveraging this Transition Finance Framework to drive its energy transition commitment and to achieve the emission reduction targets until 2060. The Transition Finance Framework will also support Bapco Energies in carrying out the National Energy Strategy for the government of Bahrain, to ensure national emission reduction goals will be met through adopting financing the projects under the Use of Proceeds categories.

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

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<sup>43</sup> Bapco Energies Sustainability-Linked Finance Framework, <https://www.bapcoenergies.com/assets/Sustainability-Linked-Finance-Framework.pdf>

## B. BAPCO ENERGIES’ BUSINESS EXPOSURE TO ESG RISKS

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

### *ESG risks associated with the Issuer’s industry*

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

ESG KEY ISSUES IN THE INDUSTRY
Climate protection and contribution to the energy transition
Environmental risks and impacts of operations
Worker safety and accident prevention
Business ethics and relations with governments
Protection of human rights and community outreach

### *ESG strengths and points of attention related to the issuer’s disclosures*

Leveraging ISS ESG’s Research, ISS ESG identified the following strengths and points of attention<sup>44</sup>:

STRENGTHS	POINTS OF ATTENTION
The company has a health and safety management system (HSMS) in place for its employees and contractors certified to international standards such as ISO 45001.	The company has not disclosed groupwide data on accident rate and fatalities for its employees and contractors in the recent years.
The company has reported information on process and facility safety management that includes conducting risk assessment, monitoring of safety performance, and inspections and maintenance of its plants.	The company has not disclosed its policies and due diligence procedures regarding the protection of human rights of local communities where it operates. Furthermore, there is no disclosure on the company’s approach to facilitating

<sup>44</sup> Please note that Bapco Energies is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the integrated Oil and Gas sector. No direct communication between the Issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research’s methodology.



<p>The company has its major holding companies' environmental management systems (EMS) certified to ISO 14001. Additionally, the group acknowledges climate change as a risk and its own responsibility towards the same.</p>	<p>community outreach and consultation such as feedback mechanisms for public consultation and grievance options concerning the potential safety, health, and environmental impacts of its projects.</p>
<p>The company's code of conduct covers topics such as corruption, gifts and entertainment, and conflicts of interest in varying degrees of detail. Additionally, in terms of the implementation of compliance procedures, the company conducts compliance training, compliance risk assessments, and audits and provides anonymous and confidential reporting channels to its employees.</p>	<p>Bapco Energies has aligned its carbon neutrality goal with Bahrain's 2060 Net Zero target. However, the company has not disclosed groupwide energy consumption data. Further, the company has disclosed no information on the promotion of alternative fuels.</p> <p>The company has not disclosed groupwide data on nitrogen oxides (NOx), sulphur oxides (SOx), particulate matter (PM) emissions, and hazardous waste. Additionally, there is no disclosure available on freshwater use inventories and reduction targets for the relevant operations of the group.</p>

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








*Sustainability impact of products and services portfolio*

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

*Social impact of the product portfolio:*

Bapco Energies has ownership in companies that are active in the Oil and Gas industry, the products and services of this company have neither positive nor negative contributions to social sustainability objectives. Hence, the impact of the overall product portfolio of the company on the social Sustainable Development Goals is considered to be neutral.

*Environmental impact of the product portfolio*

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE <sup>45</sup>	DIRECTION OF IMPACT	UN SDGS
<b>Natural Gas Liquids from conventional sources</b>	15.23%	OBSTRUCTION	 
<b>Conventional transportation fuels</b>	71.72%	OBSTRUCTION	 
<b>Nitrogen-based fertilizer</b>	5.40 %	OBSTRUCTION	  

*Breaches of international norms and ESG controversies*

At Issuer level

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

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Integrated Oil & Gas industry are as follows: Failure to mitigate climate change impacts, Failure to prevent water pollution, and Failure to prevent oil spill.

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

<sup>45</sup> Percentage presented in this table are not cumulative.

## ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology. For more information, please visit: <https://www.issgovernance.com/file/publications/SPO-Use-of-Proceeds-Bonds-and-Loans.pdf>

## ANNEX 2: QUALITY MANAGEMENT PROCESSES

### SCOPE

Bapco Energies commissioned ISS-Corporate to compile a Transition Financing Instruments SPO. The Second Party Opinion process includes verifying whether the Transition Finance Framework aligns with the ICMA's GBP, LMA's GLP and to assess the sustainability credentials of its Transition Financing Instruments, as well as the Issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion:

- ICMA's Green Bond Principles
- LMA's Green Loan Principles

### ISSUER'S RESPONSIBILITY

Bapco Energies' responsibility was to provide information and documentation on:

- Transition Finance Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

### ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is part, has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Transition Financing Instruments to be issued by Bapco Energies has been conducted based on a proprietary methodology and in line with the ICMA's GBP and LMA's GLP.

The engagement with Bapco Energies took place from November to December 2023.

### ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About this SPO

Companies turn to ISS Corporate Solutions (ISS-Corporate) for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

### Project team

Project lead	Project support	Project support	Project support
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### Project supervision

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