S&P Global Ratings

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Climate Transition Assessment

Primrock

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Location: Sweden **Sector:** Energy services

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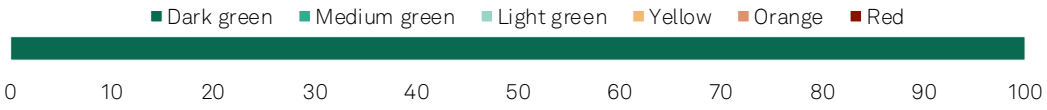
Climate Transition Summary

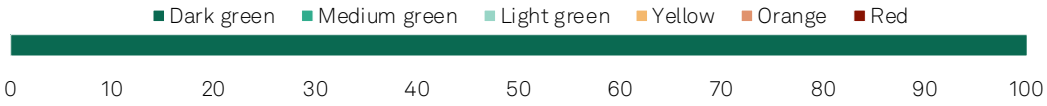
Primrock's business model as a pure-play provider of energy-balancing and capacity services enables the integration of intermittent renewable energy sources into power grids. It designs, assembles, and operates modular battery energy storage units and load banks to support the expansion of renewable power generation and accelerate the electrification of industrial and transport sectors. While most of Sweden's electricity supply comes from low carbon sources--approximately 96% in 2023 according to the International Energy Agency (IEA)--most of the country's greenhouse gas emissions (GHGs) come from the transport and industrial sectors, which remain highly reliant on fossil fuels. Further electrification of these sectors will require a considerable increase in electricity supply, which Primrock's business will support. As a result, we assign a Future Shade of Dark green for the foreseeable future for Primrock.

Though Primrock's value chain decarbonization efforts are nascent, we believe they will further contribute to a low-carbon economy. Primrock's main environmental risks are upstream through the acquisition of emission-intensive materials, such as electrical components and batteries. While it does not have a formal, public supplier code of conduct, it has an internal supplier selection policy. On environmental aspects, this selection policy emphasizes transport, energy, and carbon-emissions accounting. In the long run, Primrock aims to have the size and influence to impose sustainability requirements on its suppliers.

Current activity: Revenue 12 months ended Aug. 31, 2024 (% of total)

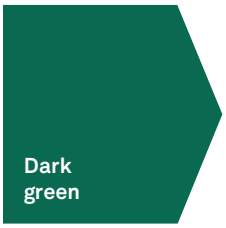


Investments: Capital expenditure (capex) 12 months ended Aug. 31, 2024 (% of total)



Future Shade

For foreseeable future



A Climate Transition Assessment shows the expected alignment of a company's activities with a low carbon climate resilient future once its planned transition changes are realized, considering implementation actions and risks.

Strengths

The business model is focused on providing energy-balancing and capacity services to enable the integration and expansion of intermittent renewable energy sources into power grids.

Operations facilitate increased renewable electricity distribution capacity in Sweden. This enables the electrification of offtakers including the transport and industrial sectors, which are highly emitting and energy intensive. Primrock's operations also benefit renewable energy producers in the country.

Weaknesses

No weaknesses to report.

Areas to watch

As Primrock grows its business, advances in its value chain management will be needed to mitigate its exposure to carbon-intensive raw materials and increasing grid emissions. Such initiatives could include supplier screening policies and the measurement and management of full scope 3 emissions.

Primrock is yet to develop a more robust climate transition strategy that includes targets to reduce the most material sources of scope 3 emissions.

A Climate Transition Assessment (CTA) provides a point-in-time opinion, reflecting the information provided to us at the time the CTA was created and published, and is not surveilled. We assume no obligation to update or supplement the CTA to reflect any facts or circumstances that may come to our attention in the future. A CTA is not a credit rating and does not consider credit quality or factor into our credit ratings. Most accounting systems do typically not provide a breakdown of revenue and investments by environmental impact, and the analysis may therefore not be directly comparable with annual reporting. See our Analytical Approach: Climate Transition Assessment and our Analytical Approach: Shades of Green.

Company Description

Primrock is a privately owned Swedish company providing and developing balance services to the electric grid, and capacity services to local end-users of electricity, such as highly energy dependent industries. It provides balancing services to the grid through decentralized battery energy storage units that are automatically activated when the frequency of the grid falls below normal levels, and through load banks acting as a vent when the frequency of the grid rises above normal levels. Additionally, Primrock is currently developing sites that deliver balancing services to the grid and business customers.

Primrock's services help maintain stability in the Nordic synchronous system. Primrock's mission is to support the expansion of renewable power generation by balancing the grid, and to accelerate the electrification of the industry and transport sectors by providing high-quality capacity services. The company designs and assembles modular units, which it owns and operates for its customers. It currently has expanded its operations to 29.8 megawatts (MW) of prequalified capacity from 17.2 MW in 2023 to provide balancing services and has invested in facilities that are expected to deliver a total service capacity of around 123,300 megawatt hours (MWh) by the end of 2024.

There are five companies in the Primrock Group: Primrock Holding AB (the holding company) and its four sub-entities Primrock AB, Primrock EQL AB, Crownridge AB (dormant), and Entour AB (dormant). The company is in expansion mode, scaling up capacity and its service provisions primarily in the Scandinavian market with an immediate focus on Sweden. In the long term, the company plans to expand to other northern countries of the EU.

Primrock reports its sustainability vision as three-fold: Contribute to a future electricity system fully based on renewable energy; contribute to doubling Sweden's electricity production; and use and contribute to a future transport system that is 100% fossil-fuel free.

Current Activity

Fiscal year ended Aug. 31, 2024 activity by shade (% of total)

Shade	Revenue (%)	Opex (%)	Capex (%)
Dark green	100	63	100
Activities: Revenues and expenditures related to the design, assembly, and operation of modular units that provide balancing services to the electric grid and capacity services to end users of electricity.			
Medium green		37	
Activities: Raw material and supply acquisition, including costs accrued from constructing facilities for Primrock AB and for Primrock EQL AB.			
Light green			
Activities: N/A			
Yellow			
Activities: N/A			

Orange	
Activities: N/A	

Red	
Activities: N/A	

Opex--operational expenditure. Capex--Capital expenditure. Source: S&P Global Ratings.

Primrock derives 100% its revenue from the operation of energy-balancing and capacity services, which we view as Dark green. Its services enable the integration of intermittent renewable energy sources into power grids, which we view as key to enable the decarbonization of the energy sector and accelerate the electrification of the industry and transport sectors in Sweden, and other Scandinavian countries. While most of Sweden's electricity comes from low-carbon sources, most of the country's GHGs come from the transport and industrial sectors, which remain highly reliant on fossil fuels. We therefore note the country's need to further electrify these sectors, which will require a considerable increase in electricity supply. The growth of Primrock's business not only has the potential to increase the reliability of the system but facilitates an increase in the system's renewable electricity distribution capacity, which could therefore support the electrification of the transport and the industrial sectors in Sweden.

We assigned a Medium green shade to 37% of Primrock's operating expenditure--the portion that is related to costs of goods sold, including raw materials and components--while the rest is Dark green. Primrock sources various pre-assembled components and critical materials that are energy- and emission-intensive to produce, such as electrical components including switchgear, transformers, and batteries. Primrock's various supply chains and activities make it challenging to fully assess climate and other sustainability risks stemming from its extended value chain. Despite all of its operating expenditure (opex) supporting its Dark green business, we differentiate the shade for opex that goes toward buying environmentally intensive inputs. To mitigate risks, Primrock requests information during the sourcing process and selects suppliers with sustainable production and transportation processes in place. This said, it does not yet fully assess the climate transition and environmental risk of all raw materials suppliers and is still enhancing its supplier screening policies. We note positively that Primrock's goal is to be able to select suppliers based on quantitative criteria in the future.

The production of batteries used in Primrock's projects has environmental risks such as local pollution, biodiversity loss from mining activities, and waste generation. Additionally, it can be emission-intensive depending on the grid in the region of production. Other upstream or downstream sources also include mining and transportation of raw materials, shipping components from the production plants in East Asia to Primrock's assembly plant in Sweden, and potential emissions from subcontractors transporting, installing, or decommissioning Primrock's modular units at project sites. Even though Primrock is still exposed to embodied carbon emissions from the acquisition of raw materials, these only represent a fraction of the energy system's value chain emissions, hence we view the company's overall contribution to decarbonization as significantly positive.

We view positively that Primrock includes sustainability considerations from the design phase to the end of life of assets. It designs its systems to be highly resource efficient (to avoid using excessive materials). Additionally, we note positively that systems are mobile and multi-functional to obtain high utilization and hence avoid assets becoming stranded. Also, systems are prepared to be dismantled and recycled at end of life, reducing the generation of waste, and contributing to a circular economy.

We view 100% of Primrock's capex as Dark green. In fiscal 2024, virtually all the company's capex was attributed to investments in energy storage facilities providing balancing services to the Swedish Transmission System Operator (TSO; Svenska kraftnät) or to investments with the main purpose of allowing more renewable energy in the grid.

Climate Transition Plan

Metrics And Targets

Transition targets

Transition metrics[1]	2020/2021	2021/2022	2022/2023	2023/2024	Future
Scope 1 & 2[2] emissions (tonnes CO_2e)	5.9	14	18.1	29.6	Continue to source 100% renewable electricity to maintain zero scope 2 emissions (market-based)
Scope 3[3] emissions (tonnes CO_2e)	Not calculated	Not calculated	10.27	27.80	No target
Operational energy consumption (MWh)	115	480	603	1,794	No target
Prequalified capacity for balancing services (MW)	3.6	11	17.2	39.8	Reach 88 MW of prequalified capacity (+120% year on year) in 2024 and 188 MW (+114% year on year) in 2025
Installed capacity (MW)	4.2	6	11	32.7	Continue growing its installed capacity

[1]Primrock's financial/accounting/reporting year runs from Sept. 1 to Aug. 31. All annual figures relate to the full financial year. [2]Primrock's scope 2 emissions are calculated on a market basis. [3]Primrock's scope 3 emissions are calculated for fuel- and energy-related activities, business travel, employee commuting, and end-of-life treatment of sold products following GHGP guidance. Primrock plans to provide disclosures on its remaining material scope 3 categories--purchased goods and services, capital goods, upstream transportation and distribution, and waste generated in operations--for future reporting periods. CO_2e--Carbon dioxide equivalent.

Primrock's climate transition targets and metrics reporting are nascent. Primrock has not set specific climate emissions reduction targets or made a public commitment to alignment with the Paris Agreement or net zero by 2050, and it does not yet report its complete carbon footprint. This said, all the company's emissions stem from its activities, which support the electrification and decarbonization of the economy and are thus integral to the global energy transition, which mitigates our concerns. We note the company is yet to develop a more robust climate transition strategy that includes targets to reduce the most material sources of scope 3 emissions.

Through its operations, Primrock supports the decarbonization of energy sources for industry and transportation. Primrock facilitates an increase in the renewable electricity distribution capacity in Sweden. We believe this enables the electrification of offtakers including the transport and industrial sectors, which are highly emitting and energy intensive. Additionally, we note positively its operations also benefit renewable energy producers in the country. We believe its role as a green pure player contributes to the transition to a low carbon and climate resilient future.

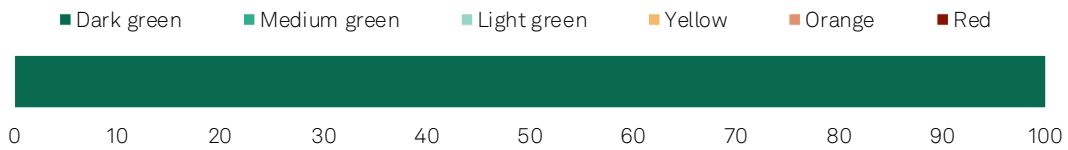
We view positively that Primrock's installed capacity has increased by 197% from fiscal 2023 to fiscal 2024 and its prequalified capacity for balancing services has more than doubled in the same period. However, we note that increasing its operations also leads to an increase of its direct and indirect GHG emissions. This said, we consider scope 1 and 2 emissions from the company negligible compared with scope 3 emissions. Scope 1 covers fugitive emissions from refrigerants used for air conditioner equipment at energy storage sites (the company does not own or control stationary or mobile assets with a combustion engine). Regarding scope 2 emissions, Primrock purchases electricity that is certified to come 100% from renewable sources (solar, wind, and hydropower). We view scope 3 emissions as the most material source of

emissions for Primrock and the company is yet to improve its monitoring and reporting of the most material categories.

In 2024, about 85% of reported scope 3 emissions by Primrock are attributed to lifecycle energy emissions and transmission losses associated with the electricity Primrock consumed. Since fiscal 2023, the company has reported scope 3 emissions covering fuel- and energy-related activities, business travel, employee commuting, and end-of-life treatment of sold products, categories following Greenhouse Gas Protocol Guidance. The company is yet to manage and mitigate some of its most material emissions, including those associated with the production of batteries used in its projects, which can be emission-intensive (depending on the grid in the region of production), as well as the mining and transportation of raw materials, and those associated with installing or decommissioning Primrock's modular units at project sites. In this regard we expect Primrock to improve its monitoring and reporting on indirect emissions in the future.

Actions And Investments

2023 capex breakdown by shade (% of total)



Source: S&P Global Ratings.

Primrock is expanding, scaling up capacity and its service provision primarily in the Scandinavian market with an immediate focus on Sweden. In fiscal 2024, 100% of the company's capex was attributed to investments in energy storage facilities providing balancing services to the Swedish TSO or to investments with the main purpose of allowing more renewable energy in the grid. As of the end of its reporting period, Primrock has submitted several applications for pre-qualification of additional capacity for the provision of ancillary services that have not yet been processed and approved by Svenska kraftnät (Swedish TSO). Additionally, in March 2023, Primrock signed an agreement with a manufacturer of copper and aluminum wire to supply its intensive manufacturing plant with up to 7.2 MW of uninterrupted and reliable power. Primrock's plan is to expand the customer base for Quality as a Service (QaaS) and has initiated a number of feasibility studies with prospective customers in 2024. The company has informed us that it does not plan to engage with fossil fuel generating companies.

During the year, Primrock has been working on developing plans for new market offerings and services and intends to launch offerings and system solutions aimed specifically at the goal to enable a 100% fossil-free transport sector.

100% of Primrock's capex plan supports the growth of the business as a green pure player, which we believe contributes to the needed electrification and decarbonization of the economy. We believe the systems it develops help make individual electricity users more resilient to power outages and disturbances from the electricity grid. Also, its facilities provide ancillary services to the grid, which contribute to the overall adaptation of the electricity system and enable an increasing share of renewable electricity production.

Primrock's strategy is to build many relatively small facilities at several geographical locations. This strategy enables the power grid to temporarily transition to fragmented operation, and mitigates the effects of sudden power outages, thus contributing to a less vulnerable electricity system. Through its operations, the company increases the reliability of the system, and allows an increase of renewable electricity distribution capacity which therefore supports electrification of the economy.

We note some of Primrock's operational expenditures support the decarbonization of its own operations. In 2024, Primrock reviewed all refrigeration systems that have been in operation for over three years, to mitigate potential leaks. Regarding scope 2 emissions, Primrock purchases electricity that is certified to come 100% from renewable sources (solar, wind, and hydropower, from local producers to the greatest extent possible). While we view this as positive, we tend to see the management and reporting of both location-based, and market-based scope 2 emissions as best practice.

While we view Primrock's effort to track and mitigate scope 3 emissions as nascent, we acknowledge progress on this front. We view Primrock's direct emissions (scope 1 and 2) as negligible and acknowledge its most material source of emissions is its value chain (upstream and downstream). In this regard we note the company is yet to manage and mitigate emissions associated with the production of batteries used in its projects, as well as the mining and transportation of raw materials, and those associated with installing or decommissioning Primrock's modular units at project sites. We note this is common for green pure players and acknowledge Primrock has developed a supplier selection policy that is a good foundation for identifying partners with better practices on aspects such as battery sourcing. In 2024, Primrock has obtained GHG data from suppliers of inverters and batteries, but not from suppliers of other main components such as transformers, switchgear, and electrical cables. Also, it has complete GHG data from waste in Primrock's assembly room but lacks the necessary data from construction projects. We appreciate the effort Primrock is undertaking to calculate and manage indirect emissions in all material categories and expect the company to continue increasing the scope of reported data in the future.

Primrock's waste policy follows the EU waste management hierarchy. It comprises production, installation, and end of life. Re-use of components is encouraged through the modular approach of the company's product, meaning elements can be re-assembled and used again. Waste management plans are created for each project with the aim of minimizing waste generation. In terms of battery recycling and waste management, Primrock designs and deploys battery energy storage systems that have a long technical and financial life, estimated at 15-20 years. The systems are designed to reduce the need for premature recycling. At the end of their useful life, batteries will be transferred to specialized local battery recycling facilities. As part of the procurement process, information relating to supplier waste management is collected and assessed to the extent possible.

Implementation Drivers

While Primrock is in an early stage of formalizing its sustainability governance, it demonstrates clear awareness and oversight of sustainability issues from its board and senior management. The company's in-house environmental risk assessment has identified key issues including supply chain risk related to the sourcing of electrical components, those related to the extraction of metals, and risks to the underperformance of the balancing system, among others. Its policies provide a description of how each risk is managed. The company monitors local environmental impacts by following local legislation, such as carrying out environmental impact assessments that include physical climate risk in the Swedish context. As the company matures, additional integration of external expertise and standards, such as ISO certification (the company informs us this is planned for 2025), could further strengthen its consideration of environmental risks.

According to the issuer, 100% of its capex, opex, and revenues come from activities covered by the EU Taxonomy criteria for substantial contribution to climate change mitigation. Primrock maps 98% of its revenues, 94% of its opex, and 79% of its capex in fiscal 2024 to activities covered under "4.10 Storage of electricity." The remaining percentages are mapped to activities covered under "4.9 Transmission and distribution of electricity." In this regard, we believe this allows the company to access green financing in the European region, as well as Swedish regulatory incentives to continue growing its operations.

Primrock is a small private company with limited access to capital markets. However, we believe growing regulation and tightening emission limits, particularly in the Nordic countries as well as in the eurozone, will allow the company to continue growing.

As Primrock expands its business, its understanding of supply chain risks could diminish. Over time and as Primrock grows, greater engagement with suppliers to continuously improve their practices, such as through quantitative sustainability criteria, lifecycle assessment, or auditing and verification measures, would benefit the company via reduced risks. We do not expect the company will lose advances made in its supplier engagement policy. However, we believe if the business grows faster than expected, it may be harder to map its entire supply chain and implement supplier screening and auditing considerations.

Nasdaq Green Designation

Nasdaq Green Equity Designation – Private company

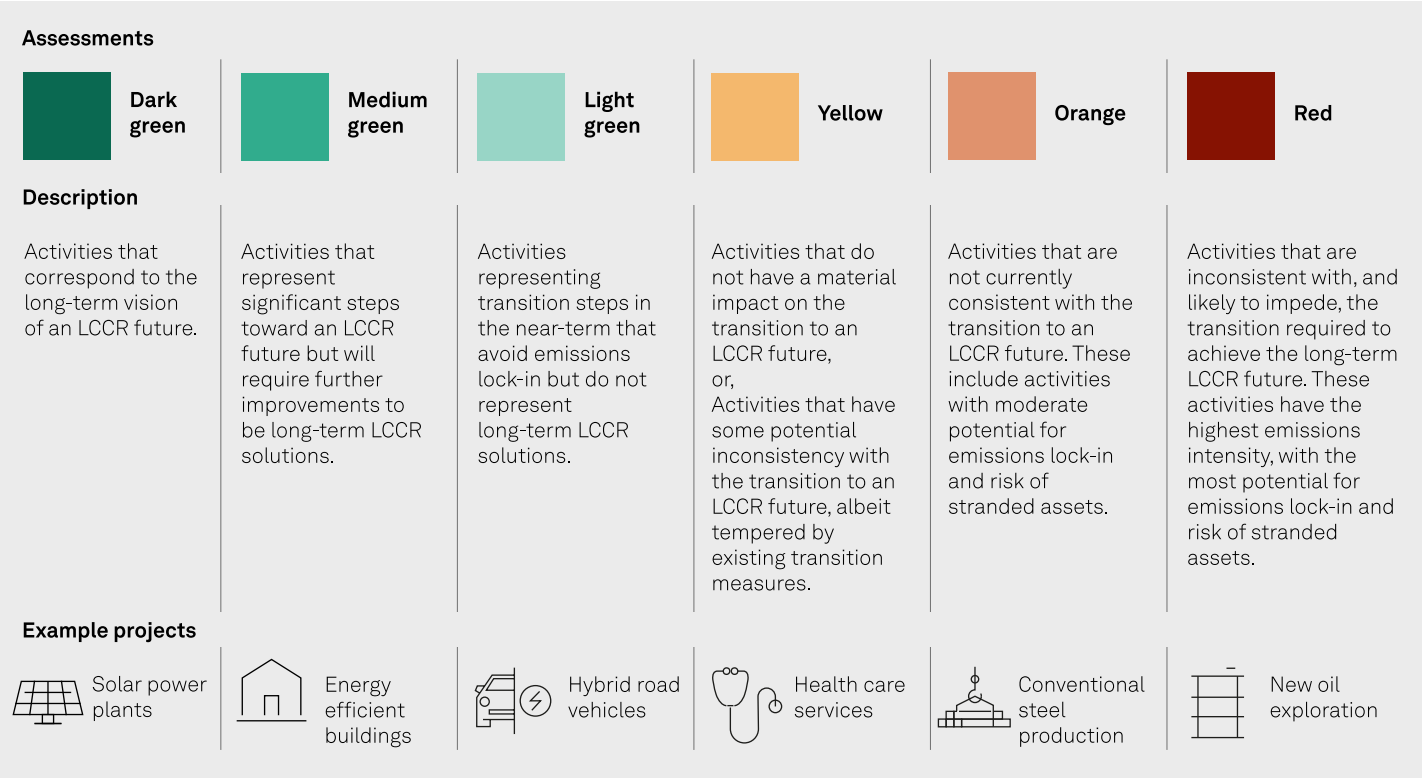
S&P Global Ratings confirms that Primrock meets the requirements for Nasdaq Green Equity Designation for a private company set out in the Nasdaq Green Equity Principles.

In 2024, 100% of Primrock's turnover came from assets with some Shade of Green, exceeding the 50% threshold for green activities for company turnover. The sum of opex and capex allocated a Shade of Green is 100%. This exceeds the 50% threshold for investments, defined as the sum of capex and opex. In 2024, Primrock had no turnover derived from fossil fuel activities, meeting the threshold of less than 5% of the company's turnover being derived from fossil fuel activities.

In addition, Primrock meets Nasdaq transparency requirements on EU Taxonomy alignment and environmental targets and key performance indicators (KPIs). The company has reported its EU Taxonomy data publicly on its website. It has reported environmental targets and KPIs data publicly on its website.

Investors should note that the statements above are the results of S&P Global Ratings' assessment. The awarding of the Green Designation to Primrock is subject to Nasdaq approval.

S&P Global Ratings' Shades of Green



Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Related Research

- Analytical Approach: Climate Transition Assessments, July 18, 2024
- Analytical Approach: Shades of Green Assessment, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach For Climate Transition Assessments, July 18, 2024

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