

Arendals Fossekompani

Corporate Governance report

Part of Annual report 2021

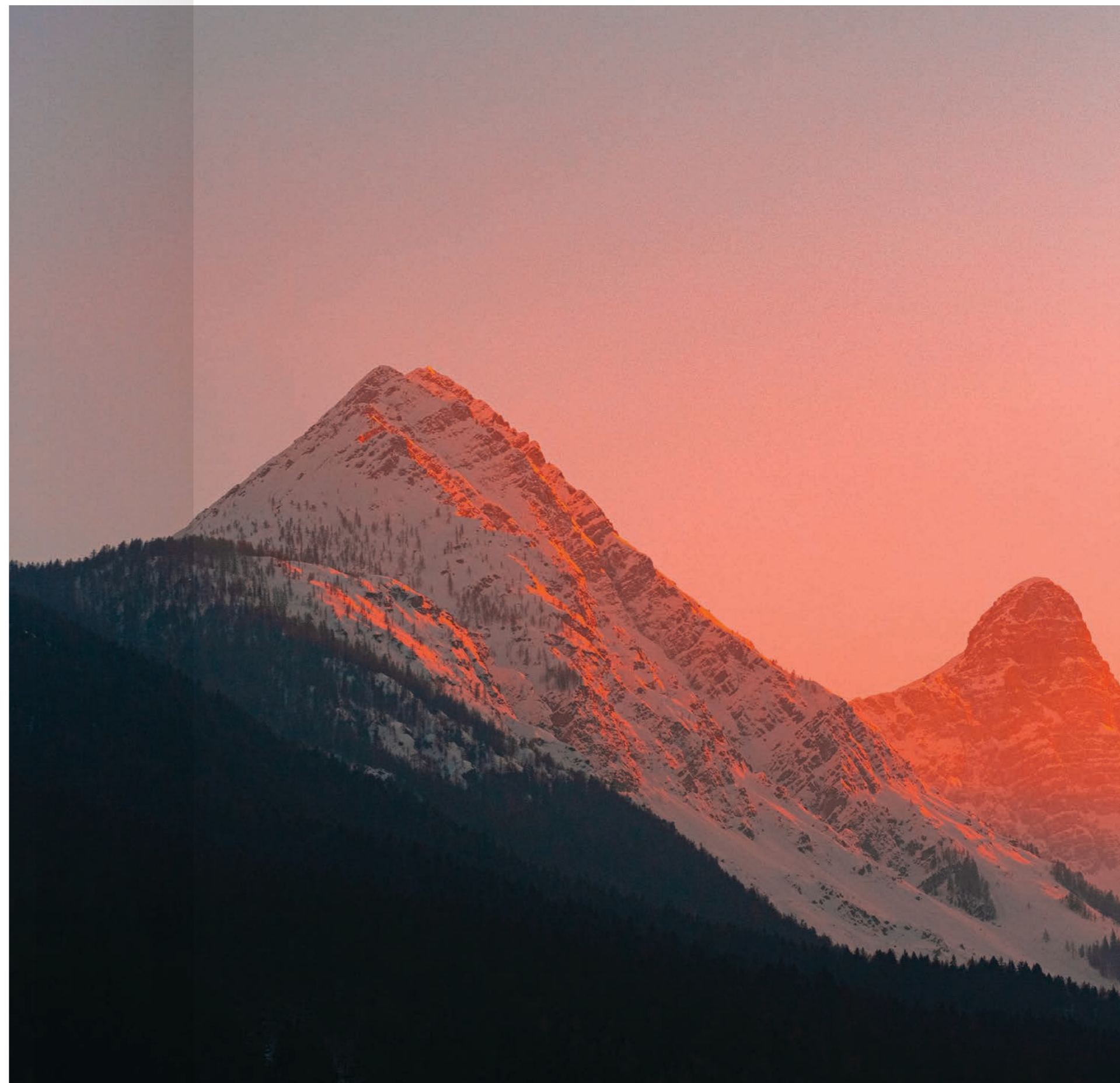
Corporate
Governance report

Responsible business practice

Adopted by the Board of Directors on 17 August 2006
(last revised 30 March 2022)

Arendals Fossekompani is an industrial investment company which, on the basis of local power production, develops companies with international potential. We engage in active, long-term and responsible ownership, and combine industrial competence with financial strength.

The Group operates a decentralised management model in the pursuit of strategic development and operational improvements. This model allows us to create value for our shareholders, employees, customers and society as a whole. Good corporate governance will ensure we achieve this goal.



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Arendals Fossekompani is listed on the Oslo Stock Exchange and is therefore subject to reporting requirements for corporate governance under the Accounting Act section 3-3b, as well as Norwegian securities trading legislation and Oslo Børs' Continuing obligations of stock exchange listed companies.

CORPORATE GUIDELINES

The following guidelines form the basis for corporate governance at Arendals Fossekompani:

- Arendals Fossekompani shall communicate relevant information honestly and openly to the public about our activities and any circumstances related to corporate governance.
- The Board of Directors at Arendals Fossekompani shall be autonomous and independent of Group management.
- Emphasis shall be placed on avoiding conflicts of interest between shareholders, board members and executive management.
- The tasks and functions of the Board and executive management at Arendals Fossekompani shall be distinct and clearly defined.
- All shareholders shall be treated equally.

NORWEGIAN CODE OF PRACTICE

Each element of the Norwegian Code of Practice for Corporate Governance, last revised 14 October 2021, is addressed below. A total review and amendment of this corporate governance report was performed by the Board of Directors in 2022 following the revised Code of Practice and changes made in the company since the last corporate governance report of 25 March 2021. A description is given of Arendals Fossekompani's compliance with, and deviations from, the Code of Practice. A complete overview of the Code of Practice and official remarks by the Oslo Stock Exchange are available online at www.nues.no.



1. CORPORATE GOVERNANCE REPORT

The Group has prepared a separate corporate governance policy, and the Board has decided to implement the *Norwegian Code of Practice for Corporate Governance*.

The Company has implemented further instructions for corporate governance, including rules of procedure for the Board of Directors of February 2022, rules of procedure for the CEO of February 2022, instructions for the Audit Committee of May 2021, instructions for the Remuneration Committee, insider instructions, a policy on disclosure of information.

Arendals Fossekompani's Code of Conduct reflects the company's commitment to ethical business conduct and addresses topics such as anti-corruption, equality and anti-discrimination, and sustainability. The Code of Conduct is subject to regular review and the last version was adopted by the Board of Directors of Arendals Fossekompani on 15 December 2020. The Company's expectations and guidelines towards its suppliers and business partners are set out in the Supplier Code of Conduct as approved by the Board of Directors.

2. BUSINESS ACTIVITIES

The object of Arendals Fossekompani is, through in-house production, participation in new infrastructure, purchase

or leasing, to make use of or sell electricity, as well as to participate, directly or indirectly, in other industrial activities or business enterprises, including investing in real estate.

These objectives are expressly stated in Section 1 of the company's Articles of Association. The Articles of Association are available on the company's website: www.arendalsfossekompani.no.

Arendals Fossekompani has significant financial capacity. Our investment portfolio will, at all times, consist partly of long-term and active ownership commitments, and partly of liquid financial assets. Liquidity will be managed mainly via listed shares and bonds. The bulk of our share portfolio will consist of a limited number of major investments. Our investment strategy is based on our belief that active, long-term and responsible ownership provides the best return for the risk involved.

Further descriptions of Arendals Fossekompani's targets, strategies, risk profile and the objective of creating long-term value for shareholders in a sustainable way can be found in the Annual Report 2021, available at the company's website www.arendalsfossekompani.no under Investor Information (<https://arendalsfossekompani.no/en/investor-information/>).

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The targets, strategies and risk profile are reviewed annually. Sustainability is a topic on the board's agenda regularly. Every year a materiality analysis regarding topics relevant for environmental, social issues and governance is presented to the Board of Directors.

Arendals Fossekompani integrates considerations related to its broader stakeholders into its business and value creation for its shareholders through its sustainability framework and reporting. The company's objectives, principal strategies and stakeholder engagement are further described in the company's annual report, sustainability report and its website.

Arendals Fossekompani has a clear focus on its corporate responsibility for environmental and social conditions, including work environment, diversity, equality, non-discrimination, human rights and work against corruption and bribery. The company is committed to contribute to the UN Sustainable Development Goals (UN SDGs), and the company's work with diversity and equality is further described in the separate chapter Diversity and Equality in the Annual Report. Further details and descriptions on the company's work on these matters can be found in the company's Annual Report available at the company's website www.arendalsfossekompani.no under Investor Information (<https://arendalsfossekompani.no/en/investor-information/>) and its Sustainability Report available at the company's website www.arendalsfossekompani.no under ESG (<https://arendalsfossekompani.no/en/esg/>). More information can also be found on the company's website.

3. EQUITY AND DIVIDENDS

Equity

The book value of the Group's equity as of 31 December 2021 was MNOK 3,909 which amounted to 57 % of total assets. Actual equity is significantly higher, and the company has a solid financial foundation. The Board constantly assesses the company's financial capacity in light of its objectives, strategy and risk profile.

Dividend policy

It is Arendals Fossekompani's policy to pay a dividend that reflects the company's long-term strategy, financial position and investment capacity. The annual dividend shall, over time, ensure that shareholders receive a competitive return on their investment.

As of Q2 2020, Arendals Fossekompani announces dividends on a quarterly basis. The Board of Directors approves the quarterly dividends based on an authorization from the General Meeting. When deciding the quarterly dividends, the Board of Directors takes into consideration expected cash flow, capital expenditure plans, financing requirements and appropriate financial flexibility. The Board believes that quarterly dividend payments provide a flexibility that benefits both the company and its shareholders.

From July 1, 2013, the General Meeting has the opportunity to authorize the Board of Directors to distribute dividends on the basis of the approved annual accounts. Proposals for such authorization should be justified. In order to en-

sure flexibility and efficiency in the implementation of quarterly dividend payments, the Board of Directors proposes that the Company's Annual General Meeting in 2022 authorize the Board of Directors to pay dividends, limited in time to the Company's Annual General Meeting in 2023.

Capital increase

No authorisation to undertake a share issue has been granted to the Board. The most recent capital increase occurred in 2012, when the share capital was raised by NOK 201,582,900 to NOK 223,981,000 through a transfer from other funds.

Purchase of treasury shares

The General Meeting can authorise the Board to purchase up to 10% of the company's own shares. At the annual General Meeting on 6 May 2021 the Board was authorised to purchase treasury shares up to a maximum of 7.93 percent of the total number of shares. The terms of the authorisation permit the Board of Directors to acquire treasury shares only between a minimum price of NOK 10 and a maximum price of NOK 2,000 per share. This authorization will remain in effect until the Annual General Meeting in 2022.

As of 31 December 2021, the Group owns a total of 1,099,300 shares, or 2.0% of all the shares in the company. These shares are freely negotiable.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

Share class

The Group's shares consist exclusively of A shares. According to Section 11 of the company's Articles of Association, no shareholder may personally or by proxy vote for more than one quarter of the total number of shares. Shares transferred to new owners do not confer voting rights until the transfer has been approved by the Board. All shares have equal rights.

Transactions involving treasury shares

The Board may exercise its authority to acquire treasury shares as long as the shares are acquired at the market price. Correspondingly, the divestment of acquired shares will also be undertaken at market price yet so that the shares can be discounted if the shares are used in connection with programs for employees and board members. At the same time, the authorization gives the Board the flexibility to utilize the mechanisms that the Public Limited

Companies Act gives access to in situations where the acquisition or disposal of shares is considered advantageous to the company and the company's shareholders, including for use in share purchase programs for directors and employees of the company.

Transactions with related parties

No transactions have occurred between the company and shareholders, board members, senior executives or their related parties in 2021 that could be described as not immaterial transactions.

In 2021, 2000 shares were sold from the company to senior executives and board members, in accordance with the approved share purchase program. See Note 4 of the 2021 Annual Report.

Guidelines for board members and senior executives

If a board member or senior executive has a material direct or indirect interest in an agreement that is being entered into by the company, that person must disclose the fact before the matter is put to the Board, and he or she may not participate in discussions or votes on that matter.

5. FREELY NEGOTIABLE SHARES

Under current Norwegian legislation on industrial licensing, a shareholder who acquires more than 20% of the total number of shares in the company must apply for a licence. The law requires the Board's approval for such acquisitions. A number of other provisions of the Industrial Licensing Act could cause the acquisition of the company's shares to have consequences for both the company itself and other shareholders. The company has therefore found it necessary to reserve the right to refuse approval of share acquisitions. According to Section 7 of the Articles of Association, therefore, any acquisition by means of transfer is conditional on the Board's consent. Consent may be refused only on reasonable grounds.

6. GENERAL MEETING

Notification

The annual general meeting is held as early in the year as is practically possible after the close of the previous financial year, usually in April or May. Meeting notices and attendance registration forms are sent to all shareholders no later than 21 days prior to the General Meeting through digital communication or through regular mail to shareholders with a known address for shareholders who do not consent to digital communication. Documents are also made available on the company's website

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www.arendalsfossekompani.no and through the Oslo Stock Exchange distribution service. The annual report and other enclosures to the general meeting notice are made available solely via the company's website and the Oslo Stock Exchange distribution service. Shareholders who wish to receive the enclosures by regular mail must contact the company. The Board will provide shareholders with all the information necessary to help them take a position on all agenda items, along with proposals relating to the election of board members. The Articles of Association permit notice of participation to be given up to two days prior to the date of the General Meeting.

The company's financial calendar will be published online.

Participation

Shareholders can give notice of their participation either in writing or via email or digital solutions. The Board wishes to arrange the meeting so that as many as possible of the shareholders are able to participate. Shareholders who cannot attend in person are encouraged to appoint a proxy. The company accommodates requests of digital attendance to general meeting held physically in line with legal requirements. Representatives of the Board of Directors shall attend the general meeting, along with the auditor. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) shall participate on behalf of executive management.

Agenda and execution

The Board of Directors will set the agenda according to the list in Section 10 of the Articles of Association. According to Section 10, the participants of the general meeting appoint a chairperson to lead the meeting.

7. NOMINATIONS COMMITTEE

The company has a Nominations Committee established in accordance with item 11 of the Articles of Association with three members. One of the members in the Nomination Committee is currently a member of the Board of Directors.



The latest recommendation from NUES in 2021 is to have no member in the Nomination Committee from the Board of Directors. The current practice in AFK will be evaluated in 2022. Candidates for election to the Board of Directors are announced in conjunction with the invitation to attend the general meeting. Nominations for other candidates can be submitted before and during the general meeting itself.

8. BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

The Board consists of seven members and is currently composed of the following: Jon Hindar (Chairman), Morten Bergesen (Deputy Chairman), Christian Must, Didrik Vignæs, Heidi Marie Petersen, Kristine Landmark and Stine Rolstad Brenna, all elected by the shareholders. Note 4 of the Annual Report contains information about board meeting attendance. Information about the competence and independence of board members is provided in subsequent paragraphs.

Election of board members

The General Meeting elects seven representatives to the Board of Directors. Ahead of the election, the names of candidates may be submitted to the Nominations Committee by an individual shareholder or by several shareholders jointly. Nominations submitted in time will be included in the invitation to attend the general meeting sent to all shareholders and posted on the company's website. Board members are elected by simple majority. Members are elected for two years at a time, with the possibility of re-election. About half of all board members are elected each year.

The composition and competence of the Board of Directors

The Board of Directors should be composed so that it safeguards the interests of the shareholder community and the company's need for expertise and diversity. This means that the individual board members have the necessary experience, competence and capacity to carry out their duties satisfactorily and independently.

According to the company's Articles of Association, the Board shall comprise five to seven members. The Board currently consists of seven members. The CEO is not a member of the Board. The Board is elected for two years at a time and selects its own chair. Jon Hindar has been elected to Chair the Board.

Changes to the Board of Directors in 2021

At the annual general meeting held in May 2021 Jon Hindar, Morten Bergesen and Heidi Marie Petersen were re-elected as Board Members for a term of two years. Arild Nysæther resigned from the Board of Directors and Christian Must was elected as a new board member at the annual general meeting held in May 2021.

Independence of the Board of Directors

All shareholder-elected board members are considered autonomous and independent of Group management. The same applies as regards material business connections. At the close of the year Morten Bergesen, Christian Must and Didrik Vignæs is the Managing Director of Vicama AS, which is the largest shareholder in Ulefoss Invest AS each owned – directly, indirectly or via related parties – approximately 26% of the company's shares.

The Board works actively to ensure that no conflict of interest exists between shareholders, the Board, executive management and the company's other stakeholders.

Shares owned by board members

In addition to the shares held by the representatives of the three principal shareholders mentioned above, as of 31 December 2021 board members had the following shareholdings – either personally or through wholly owned companies: Jon Hindar (10,000 shares), Stine Rolstad Brenna (7,500 shares), Kristine Landmark (14,800 shares) and Heidi M. Petersen (22,475 shares).

Deviations from the Code: The Board elects its own chair, in accordance with Section 4 of the Articles of Association.

9. THE WORK OF THE BOARD OF DIRECTORS

The Board's tasks

The Board shall determine the Group's strategy, carry out necessary control functions and ensure that the Group is satisfactorily managed and organised. The Board shall set the company's financial objectives and approve its plans and budgets.

Rules of Procedure for the Board

The Rules of Procedure encompass the following: the role of the Board and its tasks, the tasks of the CEO and his or her obligations towards the Board, formal procedures for the handling of matters brought before the Board, notice of board meetings and matters required to be considered by the Board etc. The Rules also stipulate when the Board

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is in quorum, how minutes are to be kept, how legal disqualification is determined and how the duty of confidentiality is to apply. The Board may deviate from the Rules of Procedure in certain situations.

Providing instructions for executive management

A clear distinction has been made between the tasks and work of the Board and that of executive management. The Chairman of the Board is responsible for ensuring that the Board's proceedings and work are conducted in an effective and correct manner. The CEO is responsible for managing company operations. The CEO's tasks are clearly stated in the instructions drawn up for that position.

Notice of board meetings and meeting procedures

The Board has an annual plan containing a set of predetermined topics for consideration at board meetings.

The Board normally meets 6–8 times a year. Additional meetings will be held when necessary. In 2021 a total of 10 board meetings were held.

All board members receive information about the company's operational and financial performance on a regular basis and in good time before the scheduled meetings. Board members also receive monthly operational reports. The company's business plan, strategy and risks are reviewed and evaluated regularly by the Board.

The final agenda for the board meeting is determined by the Chairman in consultation with the CEO. The CEO attends board meetings together with the board members. Others are invited to attend when this is deemed necessary.

Duty of confidentiality – communication between the Board and shareholders

In principle, the minutes of board meetings and the Board's discussions are confidential, unless the Board decides otherwise or there is no apparent reason to maintain confidentiality or secrecy.

Legal competence

The Board complies with the rules for legal competence and disqualification pursuant to Section 6–27 of the Norwegian Public Limited Liability Companies Act and the Board's own Rules of Procedure. There were no issues in 2021 which a board member was disqualified from discussing or voting on for reasons of legal competence. See also item 4 above, Guidelines for board members and senior executives.

Use of board committees

The Group has established an Audit Committee consisting of members of the Board. The Board has also established a Remuneration Committee comprising members of the Board

The Audit Committee

The Audit Committee is a preparatory committee to the Board of Directors comprising of three members of the Board, except the Chairman of the Board.

The committee is also responsible for providing support to the Board in for instance reporting of annual accounts, audits, internal control and risk management. The instruction for the Audit Committee was last revised by the Board of Directors in May 2021, to also include the obligation to supervise the audit of the annual accounts by the auditor in line with the EU regulation (EU) No 537/2014, and to assess and supervise the interdependence of the auditor as included in the amendments to the Auditors Act of 1 January 2021. At least one member shall be independent of the company's executive management and have qualifications within accounting or auditing. Board members who are also members of the executive management cannot at the same time be members of the Audit Committee.

The Remuneration Committee

The Remuneration Committee is a preparatory committee to the Board of Directors comprising of three board members including the Chairman of the Board. The committee shall prepare compensation related matters for the Board and prepare the remuneration policy for remuneration of executive management and the remuneration report to the General Meeting.

Self-assessment

The Board carries out an assessment of its activities once a year. This assessment will take as its starting point the company's business activities and the work of the Board, how the Board works and its interactions. In this connection the Board also evaluates its performance in relation to corporate governance.

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Group has no separate internal auditing department. Financial audits are carried out on a task-sharing basis, and in compliance with our guidelines and approval routines. The Board carries out an annual review of the company's most important risk areas and internal controls and receives a report from the auditor addressing such matters. The Board evaluates the company's core values and guidelines on ethics and social responsibility every year and verifies the extent of compliance with these guidelines.

Group and company financial reporting process

The Board receives monthly financial reports, with accompanying comments on the financial performance of the Group, the company and all subsidiaries. Extensive

reports are prepared every fiscal quarter, with comments about the financial status of all levels in the Group.

The finance department analyses the company's income statement and balance sheet in connection with each monthly report. A detailed reconciliation of balance sheet and income statement items are prepared each quarter, based on a predetermined plan. The value of material and risk-exposed balance sheet items are assessed. Major and unusual transactions are reviewed. All control procedures are documented. The most significant subsidiaries (see Note 1 – Segment reporting) have similar routines for financial reporting to the Group.

FCCS Oracle, a cloud-based database solution delivered by Oracle, is used for financial consolidation. Our subsidiaries report all figures to this database online. The finance departments at our subsidiaries are responsible for the quality of the data reported each month and quarter. The quality of the reported data is checked by the companies' auditors in connection with the preparation of the annual financial statements. The subsidiary EFD Induction also uses FCCS Oracle for its consolidation. The other subsidiaries use spreadsheets for consolidation.

The Audit Committee (see above) carries out and documents a detailed review of the quarterly and annual reports prior to their consideration by the Board. The minutes and documentation from the Audit Committee meetings are available to the Board.

11. REMUNERATION TO THE BOARD OF DIRECTORS

The annual general meeting determines the remuneration payable to board members. The 2021 annual general meeting resolved that, with effect from May 2021, the Chairman of the Board will receive a fee of NOK 561,000, and NOK 321,000 will be paid to the other board members.

Remuneration paid to board members is not linked to financial performance or option schemes etc. None of the Board's shareholder-elected members work for the company in other capacities.

12. REMUNERATION OF SENIOR EXECUTIVES

The Remuneration Policy for guidelines for remuneration of executive management and report on the annual remuneration of executive management (Lederlønnsrapporten) is a separate agenda item that is subject to approval and advisory vote by the annual general meeting in accor-

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dance with the Public Limited Companies Act section 6-16 a and b. The General Meeting shall approve the Remuneration Policy by any material change and at least every fourth year and annually provide an advisory vote on the annual remuneration report of the previous year.

The Remuneration Policy and Remuneration Report are available on the company's website www.arendalsfossekompani.no.

Guidelines

The CEO's employment terms and conditions are determined by the Board of Directors. Each year the Board makes a thorough assessment of the salary and other remuneration paid to the CEO in line with the guidelines in the Remuneration Policy. The Board may also award an annual performance-related bonus to the CEO.

The Board's evaluation is based on market surveys for similar positions. The terms and conditions for other senior executives and employees at the parent company are set by the CEO in line with the guidelines in the Remuneration Policy, who then informs the Chairman of the Board.

Terms and conditions for the senior executives of subsidiaries are set by the boards of the respective companies.

The Board takes the position that the company must remain competitive with regard to the remuneration paid to senior executives, but neither appear complicated nor be wage leading. The remuneration is structured to provide strong alignment between the interests of executives and shareholders, including a focus on delivering the company's key strategic objectives, and to support the business strategy and long-term interests. More information about purpose and principles for remuneration of senior executives in Arendals Fossekompani can be found in the Remuneration Policy published on the company's website www.arendalsfossekompani.no.

Performance-related remuneration

Senior executives at the parent company benefit from normal performance-related bonus schemes as further described in the Remuneration Policy and Remuneration Report available at www.arendalsfossekompani.no.

The subsidiaries offer performance-based remuneration to varying degrees, as laid down in employees' contracts.

Terms and conditions

Terms and conditions for remuneration of the board of directors are described in Note 4 of the Annual Report.

13. INFORMATION AND COMMUNICATION

Annual financial statements and annual report – periodic reporting

The Group normally publishes its preliminary annual financial statements in February. The complete annual financial statements, along with the Annual Report, are published on the company's website in March/April. Otherwise, accounting figures are reported on a quarterly basis.

The company's financial calendar is published on the company's websites.

Other market information

The Group considers it important to inform owners and investors about its performance and financial status. Emphasis is placed on providing the financial market with the same information at the same time. In conversations with shareholders and analysts, care is taken to avoid giving more information to some than to others.

Arendals Fossekompani insider instructions are updated according to the European Market Abuse Regulation (MAR) and are published on the company's website.

14. GUIDELINES FOR EQUALITY AND DIVERSITY

Arendals Fossekompani has implemented guidelines for equality and diversity for the composition of its Board of Directors, board committees and management. The guidelines set forth that diversity shall be an area of priority in nominating people to the governing bodies and management of the company. The main focus area that was identified is to ensure diversity in terms of gender equality and diverse expertise. The guidelines set out more detailed objectives for the purpose of achieving these overall objectives, with both annual target dates and long-term target dates.

The Board of Directors currently consists of three women and four men. The individuals on the Board of Directors have backgrounds from different industry sectors increasing the diversity.

The executive management currently consists of one woman and five men. The individuals on the Board of Directors have backgrounds from different industry sectors increasing the diversity.

The company has set the following objectives for diversity in the Board of Directors:

- At least 40% of the members of Board of Directors shall be women within 2023.

The company has set the following objectives for the diversity in the executive management:

- At least 40% of the management shall be women within 2023.

During 2021, Arendals Fossekompani has recruited new colleagues and is happy to see a growth in the number of female employees, which is a good start for our journey towards better inclusion and greater diversity. At the end of the year 2021, 30% of the members of the board of directors were women, this is more than a doubling from last year.

14. TAKEOVERS

Based on our current shareholder structure, the conditions described for takeovers do not apply to the company.

15. AUDITOR

Auditor's formal relationship with the Board of Directors

The auditor is at the disposal of the Board of Directors and shall attend board meetings if needed. The auditor shall participate in Audit Committee meetings and attend any board meetings that deal specifically with the annual financial statements. The auditor will at that time inform the Board about any issues or concerns he or she might have regarding the annual financial statements and other matters, including any potential disagreements between the auditor and executive management.

The Board holds annual meetings with the auditor to review reports submitted by the latter concerning the company's accounting policies, risk areas and internal control routines.

Auditor's formal relationship with executive management

The Board has drawn up guidelines for the Group's business relations with the auditor. The fees paid to the auditor for statutory auditing and consulting services are presented separately in the annual financial statements.

PwC is the elected auditor. In addition to an ordinary audit, the firm has also provided consulting services within areas such as accounting, taxation and reporting to the Norwegian Water Resources and Energy Directorate (NVE). The Board regularly assesses whether the auditor's control function is being carried out satisfactorily.

