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# TCFD: Climate- Risk Assessment Report 2022

## 1. Governance

### The involvement of management and Board of Directors

#### a. Describe the Board's oversight of climate-related risks and opportunities

The Board has the overall responsibility for reviewing climate-related issues, including risks and opportunities. The Board will review specific sustainability topics when relevant, including environmental impact and governance. In particular, the Board has discussed a divestment strategy related to CO2 emitting technologies and activities. It is mainly the CEO and Chief Sustainability Officer that brief the Board on sustainability matters.

While producing the annual report, the Board monitors and oversees the progress against goals and targets for addressing climate-related issues.

#### b. Describe the management's oversight of climate-related risks and opportunities

The management team is responsible for ensuring that climate risks are reviewed and updated on an annual basis.

The Chief Sustainability Officer is responsible for supporting the management team and the portfolio companies in identifying and managing climate risks.

In 2021, we conducted climate risk screening of all portfolio companies, and in 2021 and 2022 they were included in EU taxonomy reporting. The sustainability officer of each portfolio company is the point-of-contact, but C-suite positions are required to attend the kick-off and project delivery.

Arendals Fossekompni (AFK) arranges quarterly meetups for the sustainability officers for knowledge sharing. In 2022 our focus was:

- Climate risk screening based on TCFD's recommendations of all portfolio companies in close collaboration with portfolio company management (2020-2022)
- EU taxonomy reporting of all portfolio companies in close collaboration with portfolio company management (2021, 2022)

Arendals Fossekompni's management has actively participated in initiatives to improve understanding of climate change, and thus be able to better support the portfolio companies and the Board. Initiatives include:

- Participation from the CSO in Governmental Expert Committee on Climate-friendly Investments.
- UNGC membership: Attending course in Science-Based Targets.
- Membership in Klimapartnere.
- Attending courses and seminars related to sustainability.

## 2. Strategy

### The actual and potential impacts of climate-related risks and opportunities

#### a. Describe the climate-related risks and opportunities

##### the organization has identified over the short, medium, and long term

Arendals Fossekompani has ownership in a diverse portfolio exposed to a variety of climate-related risks and opportunities. These risk and opportunities will vary depending on diverse factors such as pace of government action to reduce emissions, and how quickly the climate responds to increased greenhouse gas emissions. To assess these factors we have considered multiple climate scenarios and time-frames when identifying potential risks. Some of these are relevant for the entire portfolio, while others are more specific, e.g. concerning one portfolio company or a part of the value chain.

The aggregated climate risk assessment for AFK is based on the results of the individual climate risk assessments per portfolio company. Three climate scenarios were used based on 1) -1.2 and IEA Net Zero, 2) RCP 4.5, and 3) RCP 6.0.

Overall, AFK's portfolio companies are exposed to transitional risks throughout their value chains, particularly in terms of rising energy prices, as well as prices for products and services in the supply chain. In addition, regulations aimed at driving the transition to a circular economy may impact AFK. Nevertheless, the assessment showed that the transitional risks in general present, or may present, opportunities without costly alterations to existing business models.

AFK's exposure to physical risks is more difficult to control and more costly to address. The largest physical risks are found in the supply chains, and to a large extent with tier 2 and 3 suppliers. At the customer end of the value chain, the physical effects of climate change may increase demand for some of the portfolio companies' products and services.

Two of the scenarios are summarized below. The middle scenario is not included, as we believe the risks and opportunities are likely to be found in the middle of the two extremes, and by analyzing the climate crisis and the net zero scenario the majority of possible outcomes is covered. RCP 6.0 represents a climate crisis scenario with more physical risk. RCP 1.2 combines with IEA Net Zero and represents a green revolution scenario with more transition risk.

### CLIMATE-RELATED RISKS AND OPPORTUNITIES TABLE, BASED ON 2020 ASSESSMENT:

| Scenario: RCP 6.0   | Climate crisis   |   |
|---|--|---|
| Extreme weather events increasing in severity and frequency | <b>Risk</b><br>Damages to physical assets, including property and industry parks<br>Unpredictable weather patterns affecting production of renewable energy (Vergia)<br>Extreme weather events causing supply chain disruption, affecting costs and operations in exposed areas<br>Extreme weather events could put the health and safety of workers at risk (NSSLGlobal)  | <b>Opportunity</b><br>Extreme weather events increase the demand for disaster relief and effective satellite communication (NSSLGlobal)<br>Unpredictable and volatile weather increase the demand for reliable weather monitoring (Alytic)  |
| Shifts in temperatures and weather patterns                 | <b>Risk</b><br>Long-term effects causing political instability and supply chain disruptions, affecting costs and operations<br>Long-term effects on health and productivity  | <b>Opportunity</b><br>Reduced political stability increases the need for effective satellite communication (NSSLGlobal)<br>Increased demand for climate resilient buildings (AFK Property)  |
| Scenario: RCP 1.2, IEA Net Zero                             | Green revolution   |   |
| Increased regulatory requirements                           | <b>Risk</b><br>Carbon tax and mechanisms affect price of products and services, EU Carbon Border Mechanism is also relevant<br>Increased costs following regulations for non-financial reporting, including CSRD and EU Taxonomy<br>Increased production prices as costs of raw materials and products increase following legislation related to energy intensive production (e.g. mining)<br>Circular product characteristics | <b>Opportunity</b><br>Increased investor confidence through climate risk and impact reporting   |
| Shifts in market demand                                     | Energy price fluctuations due to variable renewable electricity production<br>Rising energy prices (e.g. due to carbon tax) may increase operational costs<br>Increased demand for circular products and services increases prices of these products and services  | Opportunity to reduce climate footprint through increased circularity and reduced waste<br>Increased demand for sustainable product offering and knowledge of green solutions<br>Increased demand for products and services enabling resource efficiency<br>Increased demand for grid capacity and flexibility to handle variable renewable energy production (Volue) |
| Transition to low-emission technologies                     |  | Increased demand for renewable energy<br>Increased demand for low impact upgrades and digital solutions<br>Increased demand for production of zero-emission technologies  |

**b. Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning**

The knowledge gained from our insights into climate-related risks and opportunities has led to a number of strategic decisions across the portfolio. To reduce our exposure to potentially stranded assets, we decided to divest Cogen Energia in 2021. This reduced our portfolio's carbon footprint by 98%. Also, we have shifted our investment focus to renewables and technologies considered green within the EU Taxonomy framework. And, the influence of physical locations to physical climate risk was considered to be minimal.

AFK continues to be an active owner, encouraging portfolio companies to monitor and manage their climate risks and opportunities. For example, all portfolio companies are required to disclose EU taxonomy eligibility and alignment scores, as well as scope 1, 2, and 3 greenhouse gas emissions. We expect our commitment to science-based emission targets to require strategic shifts and investments when building our future portfolio.

**c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario**

The current portfolio of AFK is a diverse portfolio, and likely to be more resilient in any scenario. Arendals Fossekompni has yet to calculate how the climate scenarios will impact the investment strategy. However, based on the climate risk assessment, the current portfolio is better suited for a low emission scenario. We have not calculated the portfolio's resilience in a high-emission scenario where physical climate risk is prevalent. Our ambition is to calculate this resilience in our climate risk assessment for 2023.

## 3. Risk Management

### How we identify, assess, and manage climate-related risks

**a. Describe the organisation's processes for identifying and assessing climate-related risks.**

Climate risk assessments were performed for Volue, Tekna, ENRX, NSSLGlobal, and Alytic in 2020/2021. The assessments were based on TCFD's recommendations and included physical and transition risks. The risk of existing and emerging regulatory requirements were included as part of transition risk assessment. The findings were discussed with key management in each portfolio company and placed in a risk matrix (probability vs. consequence). From there, risks and opportunities are prioritized based on the most material impact. To what extent the climate risk assessments have been integrated in the portfolio company's overall risk management approach varies.

Climate risk is included as part of the double materiality assessment conducted for all portfolio companies as part of the onboarding process. Here, existing and emerging regulations are particularly relevant. In 2022, the risks were summarized at a group level.

As per year-end 2022, climate risk assessments of Vergia and Ampwell have not yet been conducted, as they were included in the portfolio in 2022. Arendals Fossekompni plans to complete climate risk assessments for the remaining companies by year-end 2023 in line with TCFD's recommendations. Currently, we do not have a formal approach to how often we perform climate risk updates.

**b. Describe the organisation's processes for managing climate-related risks**

The results of the climate risk assessments were presented for Arendals Fossekompni (CEO and CFO in 2021 and 2022). The results influenced the decision to move the portfolio toward industries relevant for the green transition. Climate risk also influenced the decision to divest Cogen Energia, as it presented a risk of stranded assets. The EU taxonomy projects (conducted in 2021 and 2022) is part of a climate risk mitigating initiative, to better understand and manage transition risk. Each portfolio company is responsible for managing their most material climate risks.

**c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management**

Arendals Fossekompni has assessed climate-related risks based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and has documented the recommended disclosures and responses in a stand-alone TCFD report. The report covers the company's exposure to climate-related risks, such as physical, regulatory/liability, technology, market, and reputational risks, as well as potential opportunities. Arendals Fossekompni has not, at this time, identified any material impact on financial reporting judgements and estimates due to climate risks.

AFK has ongoing assessments related to the EU Taxonomy and other internal initiatives to reduce its climate risk exposure. Currently, we expect no material impact from climate change in the medium term, but AFK will regularly assess its portfolio risk exposure to transitional and physical climate risks.

## 4. Metrics and Targets

### How we assess and manage relevant climate-related risks and opportunities

**a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process**

The double materiality and climate risk assessments inform which climate-related KPIs are more relevant for monitoring climate risk. Key metrics used to assess climate-related risks include.

We do not have metrics or physical climate risk exposure, as the exposure is considered less material compared to transition risk.

**b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks**

The disclosure of Scope 1, Scope 2 and Scope 3 for Arendals Fossekompni and portfolio companies is found in the annual report. The GHG emissions are audited by an external auditor in order to minimize risks related to any errors found in the numbers in the annual report.

The company has not calculated the costs linked to possible stranded assets, and has not yet calculated the costs of actions taken to manage the risk or opportunity posed by climate change. The company is in the process of developing plans and timeline to develop the necessary systems to deal with financial implications of climate change. The plans and timeline will be prepared in 2023.

| KPI                     | Climate risk theme   | Reporting frequency      |               |
|-------------------------|--|--------------------------|---------------|
|                         |  | Board meetings quarterly | Annual report |
| EU taxonomy alignment   | Transition risk  | x                        | x             |
| EU taxonomy eligibility | Transition risk  | x                        | x             |
| GHG emissions           | Regulatory risk<br>(e.g. carbon pricing,<br>exposure to stranded assets),<br>Market risk (energy prices) | x                        | x             |
| Energy use              | Regulatory risk<br>(e.g. carbon pricing),<br>Market risk (energy prices)                                 | x                        | x             |
| Emission reductions     | Regulatory risk<br>(e.g. carbon pricing),<br>Market risk (energy prices)                                 | x                        | x             |



**c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets**

Arendals Fossekompani has committed to reducing absolute Scope 1 and 2 GHG emissions with 42% by 2030 from a 2021 base year. Our portfolio companies will set their own science based targets within 2027, as part of the Portfolio Coverage approach. In 2023, we will commit to also setting net zero targets to align with the ambitious aim of the Paris Agreement. This means that we will commit to what science dictates is necessary to reduce emissions to meet net-zero global emissions by 2050 to limit global warming to 1.5 °C. This target is approved by the Board of Directors.

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