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FOR GENERATIONS

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1. Governance

THE INVOLVEMENT OF MANAGEMENT AND BOARD OF DIRECTORS

The Board has the overall responsibility for reviewing climate-related issues. 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, CSO, that briefs the board on ESG matters.

While producing the annual report, the board monitors and oversees the progress of goals and targets addressing climate-related issues. 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, Arendals Fossekompani conducted climate risk screening of all portfolio companies, and from 2021 to 2023, they were included in EU taxonomy reporting. The sustainability officer of each portfolio company is the point-of-contact, and C-suite positions are required to attend the kick-off and project delivery. Arendals Fossekompani arranges quarterly meetups for sustainability officers for knowledge sharing. Arendals Fossekompani's management has actively participated in initiatives to improve understanding of climate change to better support the portfolio companies and the Board.

2. Strategy

THE ACTUAL AND POTENTIAL IMPACTS OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

Arendals Fossekompani has ownership in a diverse portfolio exposed to a variety of climate-related risks and opportunities in different scenarios and time frames. 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 Arendals Fossekompani 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, Arendals Fossekompani'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 Arendals Fossekompani. Nevertheless, the assessment showed that transitional risks in general present, or may present, opportunities without costly alterations to existing business models.

Arendals Fossekompani'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, 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 summarised below. The middle scenario is not included, as Arendals Fossekompani believes the risks and opportunities are likely to be found in the middle of the two extremes. 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		
	Risk <ul style="list-style-type: none"> Damages to physical assets, including property and industry parks Unpredictable weather patterns affecting production of renewable energy (Vergia) Extreme weather events causing supply chain disruption, affecting costs and operations in exposed areas Extreme weather events could put the health and safety of workers at risk (NSSLGlobal) 	Opportunity <ul style="list-style-type: none"> Extreme weather events increase the demand for disaster relief and effective satellite communication (NSSLGlobal) Unpredictable and volatile weather increase the demand for reliable weather monitoring (Alytic)
Shifts in temperatures and weather patterns		
	Risk <ul style="list-style-type: none"> Long-term effects causing political instability and supply chain disruptions, affecting costs and operations Long-term effects on health and productivity 	Opportunity <ul style="list-style-type: none"> Reduced political stability increases the need for effective satellite communication (NSSLGlobal) Increased demand for climate resilient buildings (AFK Property)
Scenario: RCP 1.2, IEA Net Zero	Green revolution	
Increased regulatory requirements		
	Risk <ul style="list-style-type: none"> Carbon tax and mechanisms affect price of products and services, EU Carbon Border Mechanism is also relevant Increased costs following regulations for non-financial reporting, including CSRD and EU Taxonomy Increased production prices as costs of raw materials and products increase following legislation related to energy intensive production (e.g. mining) Circular product characteristics 	Opportunity <ul style="list-style-type: none"> Increased investor confidence through climate risk and impact reporting
Shifts in market demand		
	<ul style="list-style-type: none"> Energy price fluctuations due to variable renewable electricity production Rising energy prices (e.g. due to carbon tax) may increase operational costs Increased demand for circular products and services increases prices of these products and services 	<ul style="list-style-type: none"> Opportunity to reduce climate footprint through increased circularity and reduced waste Increased demand for sustainable product offering and knowledge of green solutions Increased demand for products and services enabling resource efficiency Increased demand for grid capacity and flexibility to handle variable renewable energy production (Volve)
Transition to low-emission technologies		
		<ul style="list-style-type: none"> Increased demand for renewable energy Increased demand for low impact upgrades and digital solutions Increased demand for production of zero-emission technologies

The knowledge gained from our insights into climate-related risks and opportunities has led to a number of strategic decisions across the portfolio. Our investments are focused on renewables and the technologies are considered green within the EU Taxonomy framework. Also, the influence of physical locations to physical climate risk were considered to be minimal.

Arendals Fossekompani 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.

The current portfolio of Arendals Fossekompani is diverse and likely to be more resilient in any scenario. Arendals Fossekompani has yet to calculate how 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 2024.

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 Volve, 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 was 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 prioritised 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.

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

The results of the climate risk assessments were presented for Arendals Fossekompani (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 a company, as it presented a risk of stranded assets. The EU taxonomy projects (conducted in 2021 to 2023) are 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 Fossekompani 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 Fossekompani has not, at this time, identified any material impact on financial reporting judgements and estimates due to climate risks.

Arendals Fossekompani has ongoing assessments related to the EU Taxonomy and other internal initiatives to reduce its climate risk exposure. Currently, Arendals Fossekompani expects no material impact from climate change in the medium term but will regularly assess the 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:

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

We do not have metrics or physical climate risk exposure, as the exposure is considered less material compared to transition risk / plan of developing this in 2023.

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 to minimize risks related to errors found in the numbers in the annual report.

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

Arendals Fossekompni ASA has committed to reduce absolute Scope 1 and 2 GHG emissions 42% by 2030 from a 2021 base year. The share of electricity consumption from renewable energy procurement is targeted to be 100% by 2030. Arendals Fossekompni has in addition committed that 60% of eligible private equity and listed equity portfolio by booked value will be setting SBTi validated targets by 2027 from a 2021 base year. The validation process has been ongoing during second half of 2023 and was approved by the Science Based Target initiative in January 2024.

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