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# EU Taxonomy Report 2022

## BACKGROUND

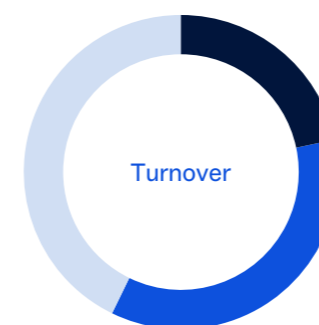
Arendals Fossekompani (AFK) has performed an assessment of the Group's activities against the EU Taxonomy. There was no legal requirement to report on the EU Taxonomy in Norway for the financial year 2022 and interpretations are still being made to the applicable criteria. Reporting is based on the Climate Delegated Act and the reports from Platform on Sustainable Finance. Due to the AFK Group holding structure, aggregated reporting is based on a bottom-up approach, where all portfolio companies have performed standalone assessments. For 2022, only core activities have been assessed for eligibility and alignment. We plan to expand our assessment to cover all activities in the group for the 2023 reporting, as we expect more criteria to be adopted by the EU and more guidance will be available related to local thresholds in Norway.

58% of the Group's turnover is eligible with the EU Taxonomy. An alignment of 22% shows that the Group contributes positively. Our investment strategy has resulted in 69% eligibility of the Group's CapEx, and 25% alignment. The OpEx KPI results from our reporting on turnover and CapEx as no activities have been identified solely for OpEx. We have 50% eligible and 14% aligned share of OpEx.

The results show a relatively high eligibility related to Capex, turnover and OpEx. The relatively low alignment compared to eligibility, is partly due to the fact that some of the eligible activities have not yet been considered for alignment, since there are still uncertainties related to the details of the EU Taxonomy guidelines for some of the activities.

## ELIGIBLE AND ALIGNED SHARE OF TURNOVER, CAPEX AND OPEX FOR AFK GROUP

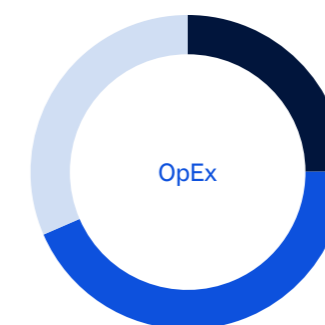
■ Aligned ■ Eligible, not aligned ■ Non-eligible



22%  
aligned

36%  
eligible, not aligned

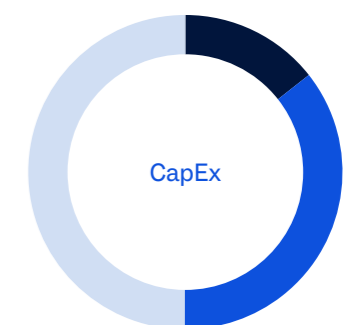
42%  
non-eligible



25%  
aligned

44%  
eligible, not aligned

31%  
non-eligible



14%  
aligned

36%  
eligible, not aligned

50%  
non-eligible

## 1. Introduction

As a key part of the European Union's Green Deal, the EU Taxonomy was created to define a common and enforceable language on sustainability to scale up sustainable investments and avoid greenwashing. The EU Taxonomy establishes a European classification system for sustainable economic activities. It includes six environmental objectives, where the two first are adopted by the EU and the other are not yet adopted:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

The EU Taxonomy regulation was adopted in Norway on 17 December 2021 and was expected to enter into force in 2022. Due to delays in the legislative process in the European Economic Area, the regulation only entered into force in Norway from 1 January 2023. Therefore, there is no requirement to report on the EU Taxonomy in the 2022 reporting of Norwegian undertakings. Considering the implementation in the EU and following the advice from Norwegian authorities, AFK has chosen to report on EU Taxonomy alignment and eligibility for 2022.

## 2. Arendals Fossekompagni and the EU Taxonomy

Arendals Fossekompagni carried out a stakeholder analysis in 2021, where the EU Taxonomy was one of the most material topics addressed. We have incorporated the EU Taxonomy into our investment strategy, encompassing new investments related to electrification, materials and green energy. Such investments should show a potential to contribute to, or to be transformed to contribute to, one of the six environmental objectives defined by the EU Taxonomy. In addition, investments should meet the 'do no significant harm' criteria and minimum safeguard requirements. Due to the strategic importance and stakeholder expectations, we performed an initial assessment of the EU Taxonomy in 2021, which provided an indication of eligibility and alignment of the portfolio. In 2022, we have expanded our assessment to cover alignment, in addition to eligibility.

## 3. Scope

All portfolio companies in the AFK Group have been considered for reporting on the EU Taxonomy for 2022. Vergia is recently established and not considered financially material for the Group and it is therefore scoped out of the 2022 reporting. We have not included joint ventures and associated companies, as they are not consolidated in the Group's financial statements. Each portfolio company has identified their core activities by assessing the financial materiality and strategic relevance of their economic activities. Activities not assessed as core to the portfolio companies, have been scoped out from reporting for 2022. In addition to the adopted Climate Delegated Act 1, we assessed the activities proposed by the Platform on Sustainable Finance 2. Since the criteria for the four remaining environmental objectives have not been adopted by the EU, the reporting on these activities is limited to eligibility, pending the finalization of the criteria.

## 4. Process

The EU Taxonomy assessment has been conducted by each portfolio company, supported by a core team with representatives from AFK. Assessments have been performed in accordance with the structure of the EU Taxonomy, starting with eligibility assessments before assessing compliance with the criteria for substantial contribution and do no significant harm (DNSH). The minimum safeguards assessment has been conducted by on Group level, based on policies and procedures covering the AFK Group. Eligible activities that met the criteria for substantial contribution and DNSH, as well as the minimum safeguards, are reported as aligned. AFK reports the EU Taxonomy on an aggregate of portfolio companies.

### 4.1 Eligibility

The initial EU Taxonomy assessment performed in 2021 laid the foundation for the 2022 reporting. A re-evaluation of the eligible activities was performed, taking into account portfolio companies acquired by Arendals Fossekompagni in 2022 and FAQs published by the European Commission. Eligibility was assessed considering the portfolio companies' business activities against the economic activities defined in the EU Taxonomy. Relevant NACE-codes and activity descriptions for each economic activity were identified and examined. We have conducted a comprehensive assessment of all potential economic activities and reported on core activities for each portfolio company. Since the EU Taxonomy is under development, we expect changes in the eligible activities. This may for instance be relevant for companies that potentially contribute to climate change adaptation within the information and communication sector, as few activities to date are defined as enabling. We await adopted requirements from the EU commission to clarify and resolve these challenges.

### 4.2 Alignment

The alignment process consists of assessing the criteria for substantial contribution and do no significant harm, as well as minimum safeguards. Since the EU Taxonomy is still under development, there are uncertainties within interpretations and best practice. Some of the criteria refer to EU directives that may be only partially adopted and implemented in Norway. Subsequently this may lead to requirements and thresholds not being provided. We also recognize the lack of industry experiences and guidance, as 2022 is the first year of alignment reporting in the EU.

#### 4.2.1 SUBSTANTIAL CONTRIBUTION AND DO NO SIGNIFICANT HARM

Considering the uncertainty with the EU Taxonomy, common guidelines and assumptions for all portfolio companies have been necessary. Our interpretation of the criteria has led to three main assumptions, which will be disclosed in the following paragraphs.

Climate risk assessment is a common criterion for the objective of climate change adaptation (CCA) and refer to physical climate risks listed in Annex I, Appendix A in the Delegated Acts. We conducted climate risk assessments on portfolio company level guided by the TCFD framework in 2021. These assessments were applied when considering the climate risk assessment criteria. We plan to further develop the climate risk assessments in 2023 to assess the vulnerability and materiality of the physical climate risks. The updated assessments will also focus on adaptation solutions and implementation of adaptation plans.

Regarding activities contributing to climate change mitigation (CCM), a common criterion is Life Cycle Analysis (LCA) or similarly proving the economic activity's contribution to GHG-emission reductions verified by a third party. Our approach to assess this criterion has been industry level documentation that verifies the business activities' contribution to reduce GHG emissions.

To some economic activities, criteria related to GHG emission reduction requires a comparison to the "best performing alternative". This entails that companies shall identify the best performing alternative in the market and retrieve data on GHG emissions to compare. As there is currently a considerable lack of available data in the market, we have approached the criteria by comparing the Group's business activities to traditional technologies, products, or solutions. As soon as more information is available about "best performing alternative", we will review and adapt our approach.

Table 1 describes the nature of AFK Group's eligible and aligned economic activities. It also provides an explanation of how Arendals Fossekompagni has assessed compliance with the different criteria.

Portfolio company	Economic activity in the EU Taxonomy	Business activity	Assessment of technical screening criteria
AFK Vannkraft	4.5 Electricity generation from hydropower (CCM)	Generation of hydropower at Bøylefoss and Flatenfoss	<p><b>Substantial Contribution:</b> Both plants are run-of-river plants and do not have artificial reservoirs.</p> <p><b>DNSH:</b> CCA: Climate risk assessment performed in 2021 based on the TCFD framework.</p> <p>W&amp;M: The Water Framework Directive is implemented through the Norwegian 'Vannforskriften', which hydropower plants are required to comply with. Additionally, both plants have fish friendly turbines.</p> <p>B&amp;E: Environmental impact assessments were conducted in 2018 for both plants in relation to concession and permit. Mitigation measures are implemented within the time constraints of the concession/permit.</p> <p><b>Conclusion:</b> Aligned</p>
AFK Property	7.1 Construction of new buildings (CCM)	Transforming an old shipyard area into a new urban residential/commercial zone (Vindholmen Eiendom AS)	<p>Not assessed for alignment, due to late clarification from Norwegian authorities on requirements for non-zero efficiency buildings.</p> <p><b>Conclusion:</b> Eligible, not aligned</p>

Portfolio company	Economic activity in the EU Taxonomy	Business activity	Assessment of technical screening criteria
Ampwell	4.10 Storage of electricity (CCM)	Development, construction, and operation of electricity storage systems as an innovative energy storage technology. This includes not only the development and design of energy storage solutions, but also their realization.	<p><b>Substantial contribution:</b> The business activity provides rechargeable batteries, battery sets and accumulators.</p> <p><b>DNSH:</b> CCA: Climate risk assessment is conducted in the planning development and adaptation measures are implemented.</p> <p>W&amp;M: N/A, not pumped hydropower storage.</p> <p>CE: The solution only consists of purchased equipment which meets EU requirements. Waste management of equipment is in place and with collaboration of a recycling partner.</p> <p>B&amp;E: The essential basis for environmental protection is provided by the certified environmental management system according to DIN EN ISO 14001:2015. An environmental impact analysis has not been performed, the criteria is still considered fulfilled.</p> <p><b>Conclusion:</b> Aligned</p>
ENRX	3.6. Manufacture of other low carbon technologies (CCM)	<p>Manufacturing of induction power generators for a wide range of applications; hardening, brazing, welding, bonding and more.</p> <p>The activity enables customers to lower own emissions in production processes and also enables manufacturing of low carbon technologies.</p>	<p><b>Substantial contribution:</b> The purpose of the applications is to strengthen the material structure, durability, and lifetime of metal components, all with high accuracy and repeatability, and replacing alternative technologies with traditional methods such as manual work with flame/gas. Criteria not yet fulfilled, as no PEF / OEF documentation is available at this point. However, the assumption is that induction is the economically best solution for several applications available like welding, brazing, etc. on the market.</p> <p><b>DNSH:</b> Complies with some of the DNSH requirements.</p> <p><b>Conclusion:</b> Eligible, not aligned</p>
ENRX	9.1 Close to market research, development and innovation (CCM)	Improving the efficiency of wireless charging and efficiency of flame/gas heating through development of systems and applications, utilization of new materials and production methods.	<p><b>Substantial contribution:</b> The R&amp;D activities aim at efficiency increase of wireless charging, therefore needing less energy transfer and potentially less infrastructure. However, all criteria have not been assessed yet.</p> <p><b>DNSH:</b> Complies with some of the DNSH requirements.</p> <p><b>Conclusion:</b> Eligible, not aligned</p>
ENRX	2.6 Manufacture of durable electrical and electronic equipment (CE)	Advanced generation of industrial charging solutions that bring flexibility to production processes and guarantees optimum safety and improved availability.	Not assessed for alignment, pending adoption of the European Commission (activity retrieved from the Platform on Sustainable Finance's draft report, August 2021)

Portfolio company	Economic activity in the EU Taxonomy	Business activity	Assessment of technical screening criteria
Tekna	3.6. Manufacture of other low carbon technologies (CCM)	Production of metal powder produced for additive manufacturing, micro-electronics and energy storage. Production of plasma systems, including auxiliary equipment such as power feeders, probes and powder washing systems	Not assessed for alignment, pending documentation and clarifications regarding the application of the substantial contribution requirements.  <b>Conclusion:</b> Eligible, not aligned
Volue	8.2 Data-driven solutions for GHG emissions reductions (CCM)	<b>Optimisation:</b> Production planning and optimization products, forecasting and analytics products.	<b>Substantial contribution:</b> 1.The optimisation solutions substantial contribute to GHG emission reductions by the functionality of hydro power regulation and water inflow planning. The solutions enable more efficient use of energy and water usage, and thereby less need of other energy sources.  2. The solution complies with the criteria for the products SHOP, Volue Optimal Hydro & Volue Optimal Multi Asset. Third-party verification will be collected in 2023, we have still assessed the activity to fulfil the requirement.  <b>DNSH:</b> CCA: The monitoring solutions are robust to physical climate risk and comply to the criteria set out in Appendix A  CE: The monitoring solution only consist of purchased equipment which meets EU requirements. Waste management of electric equipment is in place and with collaboration of a recycling partner.  <b>Conclusion:</b> Aligned
Volue	4.9 Transmission and distribution of electricity (CCM)	Power grid: Monitoring systems to help secure supply of energy, by identifying which areas are most affected by problems/downtime on the grid.	<b>Substantial contribution:</b> 1. The solution comply with a) the system is the interconnected European system, i.e. the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinated systems. 2. The technology comply with d) installation and operation of equipment and infrastructure where the main objective is an increase of the generation or use of renewable electricity generation and g) communication and control (including advanced software and control rooms, automation of substations or feeders, and voltage control capabilities to adapt to more decentralised renewable infeed).  <b>DNSH:</b> CCA: The monitoring solution are robust to physical climate risk and comply to the criteria set out in Appendix A  CE: The monitoring solution only consist of purchased equipment which meets EU requirements. Waste management of equipment is in place and with collaboration of a recycling partner  PP: N/A, there are no overground high voltage lines B&E: N/A, there are no physical activities  <b>Conclusion:</b> Aligned

Portfolio company	Economic activity in the EU Taxonomy	Business activity	Assessment of technical screening criteria
Volue	8.2 Data-driven solutions for GHG emissions reductions (CCM)	Industrial IoT Renewable: Communication and instrumental solutions in the renewable energy sector including data collection, web portals with automatic notifications, APPS, communication, monitoring, remote control and automation  Spark: Matchmaker in the Neighbourhood Energy system (energy resource, local grid operators and regional power markets).	<b>Substantial contribution:</b> The solutions facilitate necessary data analytics in the renewable energy sector and enable efficient energy use within a community, which substantial contribute to reduce GHG emissions. Criteria is not fully assessed for alignment in 2022.  <b>DNSH:</b> CCA: The solutions are robust to physical climate risk and comply to the criteria set out in Appendix A  CE: The solutions only consists of purchased equipment which meets EU requirements. Waste management of equipment is in place and with collaboration of a recycling partner  <b>Conclusion:</b> Eligible, not aligned
Volue	8.2 Computer programming, consultancy and related activities (CCA)	Water and community: System that offers information about water networks such as pipe material, dimension, operational history, and additional network data that affect water and waste-water management.  IoT Environment: Weather stations to the Scandinavian MET-offices, climate research instrumentation and complete environmental monitoring solutions.	<b>Substantial contribution:</b> "Water and community" enables operators to efficiently locate areas of maintenance in the water network, helping operators to restore the water network after down time due to extreme weather conditions.  "IoT Environment" gives insight and information to operators on environmental aspects and measurements, and have a substantial contribution to climate change adaptation.  These activities are compliant with the criteria in reference to the climate risk assessment conducted in 2021. Turnover is excluded in line with the Disclosure Delegated Act annex I, section 1.1.1.  <b>DNSH:</b> N/A  <b>Conclusion:</b> Aligned
Alytic	9.1 Close to market research, development and innovation (CCA)	Kontali: Expertise on a large variety of seafood species and industries, closely follow the value chains end to end. Covering global trends, detailed in-depth analyses and research. Delivering reports to decision makers all over the world, both in private and public sectors.	<b>Substantial contribution:</b> The solution substantial contributes to climate change adaptation by enabling data and insight to the public and private operating in the aquaculture, and hence enables the operators to make quality decisions in line with trends from climate change. We aim to fulfil documentation requirements for all criteria in 2023.  <b>DNSH:</b> Complies with most of the DNSH requirements  <b>Conclusion:</b> Eligible, not aligned



Portfolio company	Economic activity in the EU Taxonomy	Business activity	Assessment of technical screening criteria
Alytic	8.2 Data-driven solutions for GHG emissions reductions (CCM)	<p>Factlines: The digital solution and expertise make supply chain mapping efficient in order to ensure compliance on climate targets in supply chains.</p> <p>Greenfact: An independent and neutral market intelligence provider for Green Certificates. The aim is to simplify the complex market to make informed decisions and positively contribute to the global net-zero transformation.</p>	<p><b>Substantial contribution:</b> The Factlines solution substantially contributes to GHG emission reductions by enabling insight in own supply chain and hence enables companies to ensure their suppliers are compliant on climate targets. The Greenfact solution substantial contributes to GHG emission reductions by enabling the energy market to efficient source renewable energy as the only source of their energy consumption.</p> <p>We aim to fulfil documentation requirements for all criteria in 2023.</p> <p><b>DNSH:</b> Complies with most of the DNSH requirements</p> <p><b>Conclusion:</b> Eligible, not aligned</p>
NSSLGlobal	14.1 Provision of electrical and electronic equipment through circular business models (CE)	VSAT Leasing orders, take back program: Equipment is refurbished for resale and rental.	<p>Not assessed for alignment, pending adoption of the European Commission (activity retrieved from the Platform on Sustainable Finance's draft report, August 2021).</p> <p><b>Conclusion:</b> Eligible, not aligned</p>
NSSLGlobal	6.7 Emergency services - technical protection response and assistance (CCA)	Airtime Sales (Communication systems for disaster relief): NSSL Global supports rapid mobile deployment in areas of natural disaster- for governments, NGOs and charities.	<p>Not assessed for alignment, pending adoption of the European Commission (activity retrieved from the Platform on Sustainable Finance's draft report, August 2021).</p> <p><b>Conclusion:</b> Eligible, not aligned</p>

CCM: Climate Change Mitigation CCA: Climate Change adaptation, W&M: Sustainable use and protection of water and marine resources, CE: Transition to a circular economy, PP: Pollution prevention and control regarding use and presence of chemicals, B&E: Protection and restoration of biodiversity and ecosystems.

#### 4.2.2 MINIMUM SAFEGUARDS

Minimum safeguard requirements are defined in article 18 of the EU Taxonomy regulation. According to which, an undertaking shall implement procedures to ensure the alignment with:

- The OECD Guidelines for Multinational Enterprises (OECD Guidelines for MNE)
- The UN Guiding Principles on Business and Human Rights (UNGPs), including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work
- The International Bill of Human Rights.

When assessing compliance, the Platform on Sustainable Finance's final report on minimum safeguards was also considered.

The AFK Group's Compliance Handbook incorporates the OECD Guidelines for MNE and the OECD Due Diligence Guidance for Responsible Business Conduct (OECD DD Guidance), which are in line with the UNGPs. The Group's policies, such as the Code of Conduct and the Supplier Code of Conduct which can be found on our website, includes our policy on the internationally recognized human rights, that includes the International Bill of Human Rights and the ILO core conventions on Fundamental Principles and Rights at Work.

The Compliance Handbook requires all companies in the Group to perform company-wide risk assessments, covering Responsible Business Conduct Principles as defined and interpreted by the OECD Guidelines for MNE. Due diligence on Responsible Business Conduct Principles shall be performed according to the OECD DD Guidance. Our due diligence process covers topics such as social and employee matters, human rights, anti-bribery and anti-corruption, tax, consumer rights and competition. To ensure that the procedure is incorporated, AFK and portfolio companies' policies and procedures shall be easily available to employees and other relevant stakeholders. Furthermore, all employees shall receive onboarding training, which includes relevant topics addressed in AFK's Ethical Guidelines and the Compliance Handbook, and information about the whistleblowing channel. In addition to company-wide risk assessments, companies subject to the Transparency Act must perform risk assessments in line with the regulatory requirement. This includes requirements such as providing information about adverse impacts and implemented or planned measures to cease or mitigate these impacts.

Not insignificant breaches of the business conduct principles, as defined in AFK's Ethical Guidelines, shall be reported to AFK. We are not aware of any such breaches. Further, we have not been convicted in court nor contacted by the OECD National Contact Points or the Business and Human Rights Resource Center with allegations on any of the topics covered by minimum safeguards.

Based on our assessment, we believe that the Compliance Handbook and the Groups policies meet the requirements of the minimum safeguards and that we have established adequate human rights due diligence processes as outlined in the UNGPs and OECD Guidelines for MNE. As such, we believe the AFK Group complies with the minimum safeguards requirement. For further details, please refer to our statement on Ethical Business Conduct, which can be found in Chapter 4 Sustainability in the Annual Report 2022, as well as our account on the Norwegian Transparency Act at our webpage.

#### 4.2.3 ACTIVITIES NOT FULLY ASSESSED FOR ALIGNMENT

Due to sector-specific requirements not yet implemented in Norway, and lack of regulatory guidance, some economic activities are not fully assessed for alignment. E.g., nearly zero-energy building (NZEB) is a criteria for construction of new buildings, but the threshold was not established in Norway before late January 2023. AFK Property has therefore not fully assessed their economic activities for alignment.

Tekna's technology and its application is very specific and best performing alternatives are not evident. There is also a lack of industry level documentation and Tekna has chosen to wait with alignment reporting.

NSSLGlobal's and one of Evolgy's eligible activities are retrieved from the Platform on Sustainable Finance's reports. Pending the finalization of the criteria, the reporting is limited to eligibility and alignment assessments have not been performed for these activities.



## 5. Calculation of KPIs

Financial KPIs are reported by each portfolio company and consolidated at group level. The KPIs are allocated to the three categories aligned, eligible but not aligned, and non-eligible activities. Turnover from economic activities contributing to climate change adaptation that are not enabling are excluded from the KPI in line with the Disclosure Delegated Act annex I, section 1.1.1.

## 6. Conclusion

Achieving the goal set in our 2021 reporting, Arendals Fossekompni is pleased to report on alignment for 2022. Given the high percentage of eligible activities, AFK illustrates a great potential within the portfolio companies' business activities. However, due to activities not fully assessed for alignment and the exclusion of turnover from some of Volue's economic activities, the total percentage of alignment is lower than expected considering AFK's investment strategy and business activities. We are looking forward to the 2023 Taxonomy reporting as we expect to increase alignment.

## 7. Next year

We look forward to the first year of mandatory reporting in Norway. Through the 2022 assessment, Arendals Fossekompni has identified areas of improvement and will incorporate these in the 2023 strategy. Our focus will be on documentation and scope of alignment assessments, deriving from more available data and guidance from the EU and Norwegian government. We also expect the technical screening criteria for the four remaining environmental objectives to be adopted by the EU in 2023, in which case AFK will perform alignment assessments on these activities. Further, we will re-evaluate activities that were relevant but scoped out in this year's assessment. We are motivated going forward with the EU Taxonomy reporting and are eager to see how the Taxonomy will evolve and mature in 2023.



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