

TCFD-REPORT CLIMATE RISK AT AGDER ENERGI 2021



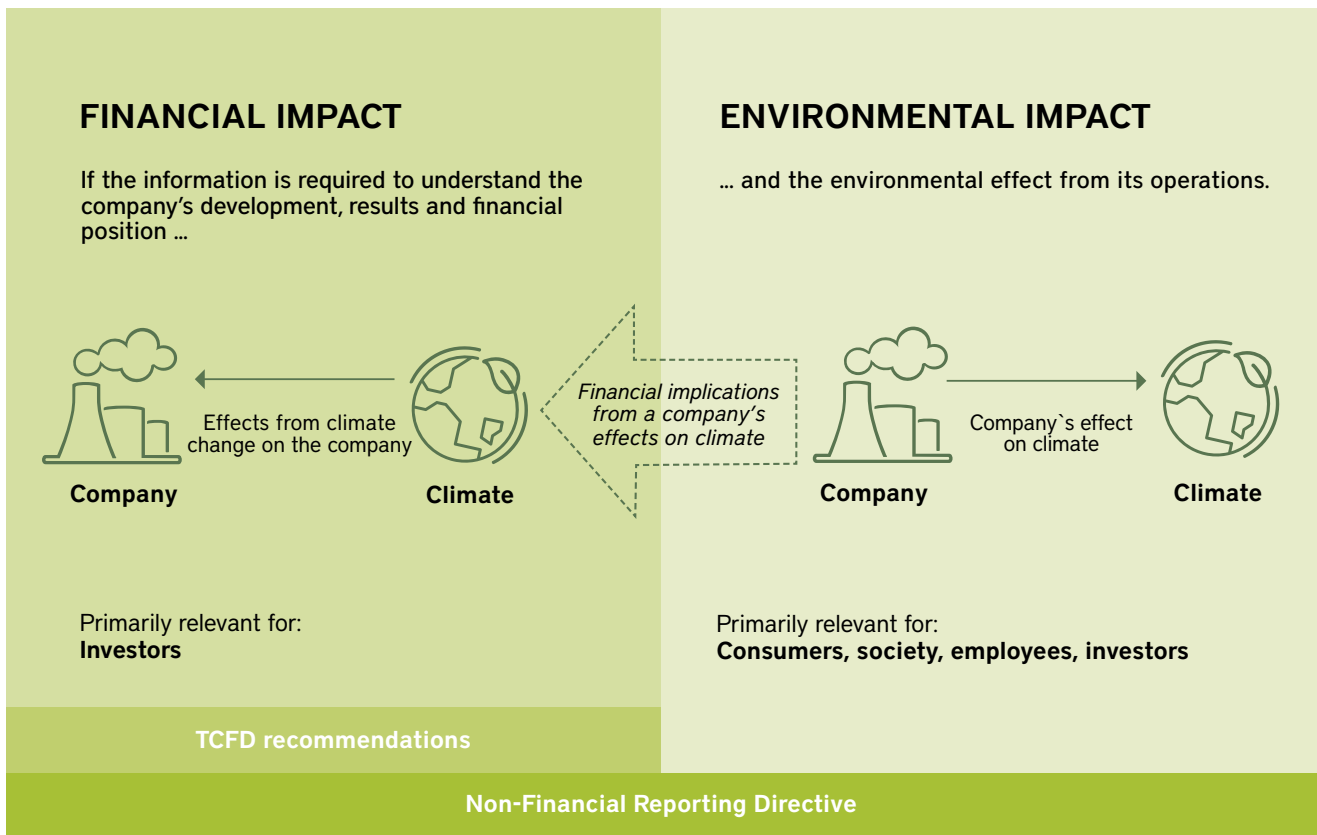
CLIMATE RISK REPORTING AT AGDER ENERGI

In parallel with the growing focus on climate risk, there has been a growing focus on climate risk reporting. The recommendations of the G20 group of countries' Task Force on Climate-Related Financial Disclosures (TCFD) have become the most recognised standard on how to analyse and report climate risk. This report provides an overview of the areas the TCFD recommends that businesses report on in relation to climate risk, and of how Agder Energi complies with those recommendations.

The TCFD framework focuses on the financial implications of climate risk: how climate-related changes affect our financial position. Agder Energi's environmental impacts (how our operations affect the climate and environment) are covered by

the GRI framework and are reported in our sustainability report. There is some overlap between the two frameworks. In the same way as other relevant risk factors, climate risk is covered by Agder Energi's enterprise risk management system. That means

climate risk is taken into account in corporate governance, strategic planning, prioritisation, operational activities, risk management and reporting.



Core Elements og Recommended Climate-Related Financial Disclosures



Governance

The organization's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management

The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Governance	Strategy	Risk management	Metrics and targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material	Disclose how the organization identifies, assesses, and manages climate-related risks	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material
Recommended disclosures	Recommended disclosures	Recommended disclosures	Recommended disclosures
a) Describe the board's oversight 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	a) Describe the organization's processes for identifying and assessing climate-related risks	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process
b) Describe management's role in assessing and managing climate-related risks and opportunities	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	b) Describe the organization's processes for managing climate-related risks	b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets



TCFD Recommendations	Agder Energi's comments
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1. GOVERNANCE

Investors and other stakeholders have an interest in understanding how the Board of Directors of a company assesses climate-related risks and opportunities, as well as the role of the management in assessing and managing climate-related matters. This gives investors and stakeholders an idea of whether climate-related questions and challenges are receiving sufficient attention from the management and Board.

A. Board's oversight of climate-related risks and opportunities

The Agder Energi Group's current business strategy was adopted by the Board in 2020. With a stated strategic goal of achieving "profitable growth in a renewable future", the strategy sets a clear course for the group's activities with respect to sustainability. The strategy was based on assessments relating to key areas such as politics, markets, technology and climate change. As such, the analyses covered both physical climate risks and transition risks. The business strategy and new ventures are reviewed at least once a year in the light of updated analyses and are adjusted as required.

In addition, there are biannual reports to the Board on risk assessment and risk management, which cover climate risk (both physical risks and transition risks).

B. Management's role in assessing and managing climate-related risks and opportunities

Due to its dual significance, technical responsibility for climate-related matters is split between two Business Area Directors: The CFO has been given responsibility for the financial implications of climate-related risks, and exercises this through the group's risk management section. The Chief HR and Communication Officer is responsible for the environmental impact of the company's activities, and exercises this through the Group's sustainability function. As such, climate-related issues are reported to the management through both risk reporting and sustainability reporting, but from two different perspectives.

The Early Warning-section works systematically to monitor trends and developments, so it can keep the management and Board up-to-date with the changing risk and opportunity landscape. The opportunities and risks arising from the green transition have become increasingly influential in the management's decision-making and prioritisations, reflecting changes in society as a whole.

2. STRATEGY

Investors and other affected stakeholders need to understand how climate change, and society's adaptation to it, may affect the company's business activities, strategy and financial planning in the short, medium and long term.

A. Climate-related risks and opportunities the organization has identified over the short, medium, and long term

Climate risk is assessed over the medium term (2025) and long term (2050). The main difference is that the physical risks are greater in the long term, whereas transition risks are highest in the medium term, and then decline as the company and society around it have had time to adapt to a low-emission society. For Agder Energi, transition risks will also provide business opportunities.

The table below provides an overall summary of the most important changes, including both risks and opportunities.

Risk category	Risk assessment	Main action	Conclusion
<p>Physical risk</p> <p><i>Costs associated with physical damage as a result of climate change</i></p>	<p>Agder Energi has infrastructure that is particularly vulnerable to extreme weather events, especially along river systems and in forests. Both an increase in extreme weather events and more intense precipitation will increase the risks associated with outages, expenses for fault resolution, damage to equipment, rising insurance premiums and revenue loss.</p> <p>Changes to hydrological conditions may affect operating patterns and revenues from power generation. That may create both risks and opportunities for Agder Energi, but the downside is expected to be bigger than the upside.</p>	<p>The Group has contingency plans for dealing with emergency situations and carries out drills.</p> <p>Our Network business area has in recent years carried out a major project to reduce risks, which has involved extra line clearing and doing more work on analysing and understanding forests.</p> <p>The condition of our infrastructure is increasingly monitored using real-time data, which allows a proactive maintenance strategy.</p> <p>Hydrological models are used to monitor and simulate changes in hydrological resources and electricity prices.</p>	<p>High risk</p>
<p>Transition risk</p> <p><i>Financial risk associated with the transition to a low-emission society</i></p>	<p>Stricter hydropower license terms designed to protect the environment and biodiversity may result in a loss of revenues.</p> <p>Bans (or taxes) on environmentally hazardous substances may increase the cost of refurbishing facilities and building new ones, as well as affecting our reputation.</p> <p>Changes to markets and technology provide new opportunities, but also increase competition for established companies such as Agder Energi.</p> <p>Reputation represents the biggest upside for Agder Energi, which already produces all of its energy from renewable sources. The EU's classification system (taxonomy) will increase transparency, but it will require resources to implement it.</p>	<p>Agder Energi systematically monitors changes to the political landscape, markets and technology through its Early Warning system.</p> <p>The Group seeks to influence and adapt to policy by maintaining close ties to the places where the regulatory framework is formed, including Brussels/the EU, and it actively analyses how changes and trends may affect Agder Energi.</p> <p>Our corporate strategy is to both build on our position in the market for renewable energy and actively seek out new opportunities in new value chains in the green economy.</p>	<p>Medium risk</p>

B. Impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

In broad terms, it can be said that physical climate-related risks affect our contingency planning and operations, whereas transition risks affect our strategic planning. Within transition risk, the opportunities arising from the green transition have received a lot of attention. As an established player in the renewable energy industry, we want to be actively involved in and to accelerate the green transition. Agder Energi shall help to build a society based on renewable energy and enable customers and partners to take part in the green transition. These are our strategic priorities:

- Develop renewable hydroelectric power
- Develop smart grid solutions
- Develop energy management and trading
- Focus on the customer interface, as an innovative provider of energy solutions for the business market, and as an integrator of green, energy-related services for the domestic market
- Enter new value chains in the green economy

Our strategic prioritisations and decision-making processes focus on financial considerations, supplemented by risk assessments. Our risk assessments take into account climate risk where relevant. We are working to incorporate Environment, Social and Governance (ESG) considerations into our decision-making processes, but so far they are only qualitative assessment criteria.

C. Resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

In 2020, Agder Energi carried out a joint scenario analysis looking at the climate risk facing the companies in the Group. The analysis involved two different future scenarios prepared internally by Agder Energi, based on outlooks "A: Successful climate policy" and "C: Dramatic changes" from the Norwegian climate risk commission's report to the Ministry of Finance in December 2018.

Physical climate risk represents a high risk to Agder Energi in both scenarios, while the level of transition risk varies greatly between them, particularly driven by the difference in political will between the two scenarios.

For its strategic planning, the Group has used a wider range of scenarios which incorporate the assumptions of the climate scenarios together with possible developments in other relevant areas. Medium-term trends in electricity prices are the most important factor for the financial outlook. The electricity price trends in the scenarios vary, depending on what is the biggest driver of the transition to a society based on renewable energy: markets, technology or policy frameworks. The Group's financial planning is therefore based on a range of potential electricity prices that reflects different future outlooks.

3. RISK MANAGEMENT

Investors and other stakeholders need to understand how climate-related risk factors are identified, assessed and managed, and whether those processes are included in the existing risk management framework. This information assists users of climate-related financial disclosures in evaluating the overall risk profile and risk management activities of the business.

A. Processes for identifying and assessing climate-related risks

Risk associated with external developments is assessed through regular risk assessment processes, which cover changes to the climate, policy frameworks, technology, etc.

Agder Energi is participating in the research project Climate Futures, which is a Centre for Research-Based Innovation. The centre produces climate warnings, for the coming months and years, which its partners can access and use. It is developing techniques to tailor the information in such a way that it can be used as effectively as possible.

In 2020, Agder Energi carried out a scenario-based climate risk assessment of all of its business areas, in order to put the spotlight on climate risk. The methodology involved identifying and assessing possible climate risks based on two hypothetical future scenarios. The scenarios were designed to be probable, but no conclusion was drawn as to exactly how probable. The aim was to build knowledge and raise awareness in order to inform our contingency planning, strategic choices, identification of opportunities and long-term investment decisions. (The results of the risk assessment are described in Section 2A.)

Our experience of the process was that it was useful to learn more about the distinction between climate risk and climate reporting/accounting. In addition, it was useful for raising awareness of the potential consequences of the transition to a low-emission society. This was a new area for many people at the Group, and it led to good, constructive discussions within our management teams.

B. Processes for managing climate-related risks

Historically, Agder Energi has always worked on emergency preparedness for extreme weather events, but without referring to it as “climate risk”. This includes both preventive measures and crisis management.

Climate-related risks are prioritised and managed in the same way as other risks facing the Group, but with a recognition that climate risk must be considered over a longer time frame than many ordinary business risks. The impacts of climate change, and of mitigation measures, have long lead times. For risks that may have serious consequences, the precautionary principle is applied to a greater extent than elsewhere.

Our new business strategy can be seen as a mitigation measure in its own right. It states that our current operations shall adapt in order to remain profitable and relevant in a renewable future with an electric power system that looks different from today, and it also sets out opportunities created by the transition to a low-emission society.

C. How processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management

Our day-to-day work within our enterprise risk management system covers climate risk in the same way as other risks, including for the purposes of identification, assessment, prioritisation, management and monitoring.

In 2021, the UN’s Intergovernmental Panel on Climate Change (IPCC) published a new report. As part of our annual risk assessments, it will be natural to review climate risk based on the IPCC’s updated climate scenarios.





4. METRICS AND TARGETS

Investors and other affected stakeholders need to understand how businesses measure and monitor climate-related risks and opportunities. Information about the metrics, methods and targets used by the business make it easier for investors and other affected stakeholders to assess the business's potential return on equity, ability to meet its financial obligations, exposure to climate-related challenges and progress with adapting to change. These metrics and parameters also enable investors and other affected stakeholders to assess the progress and adaptability of the business, as well as to compare businesses within a sector or industry.

A. Metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process

Important metrics for physical climate risk include reliability (grid) and value-adjusted availability factor (power stations), while analytical models for hydrology and meteorology are important tools for assessing changes in the risk outlook. We are constantly improving our ability to assess the condition of power stations based on digital solutions and real-time data, and we monitor forests in the proximity of power lines to identify "high-risk trees" that are outside the statutory limits for line clearing.

Transition risk is increasingly monitored through our Early Warning system, as described in Section 1B. The Group's team of analysts follows the electricity market closely to identify drivers and trends affecting prices.

As well as having an environmental impact, our own greenhouse gas emissions represent a reputational risk for the Group. Greenhouses gas emissions are monitored closely through the Group's work towards its sustainability goals and climate reporting. Agder Energi is the first Norwegian energy group to have its climate change targets approved under the international Science Based Targets initiative, which is backed by organisations including the UN and WWF.

B. Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions, and the related risks

Agder Energi's GHG emissions are presented in the 2021 Sustainability Report, which is available on our website ae.no.

Important risk factors for our own GHG emissions include the use of oil to cover peak loads at district heating plants, SF6 emissions from our infrastructure and the use of fossil fuel-based vehicles at our sites.

C. Targets used by the organization to manage climate-related risks and opportunities and performance against targets

The Group has defined various process goals for climate risk. In addition, several of our commercial goals and sustainability goals are relevant to climate risk.

Process goals for climate risk



Monitoring climate risk at the Group and reporting in accordance with the TCFD standards



Taking climate risk into account in all new projects

Commercial goals related to climate risk



Value-adjusted availability at Agder Energi Vannkraft



Grid reliability at Agder Energi Nett



Reducing our own GHGs

- Reduce use of fossil fuels to cover peak loads at district heating plants
- Reduce SF6 emissions at our sites
- Reduce emissions from vehicles used at our sites



Require concrete suppliers to set their own targets based on the Science Based Targets initiative (SBTi)



New revenues arising from climate change/transition

For target levels, updates and more details about the Group's work towards its sustainability goals and trends in GHG emissions, please see our 2021 Sustainability Report.

