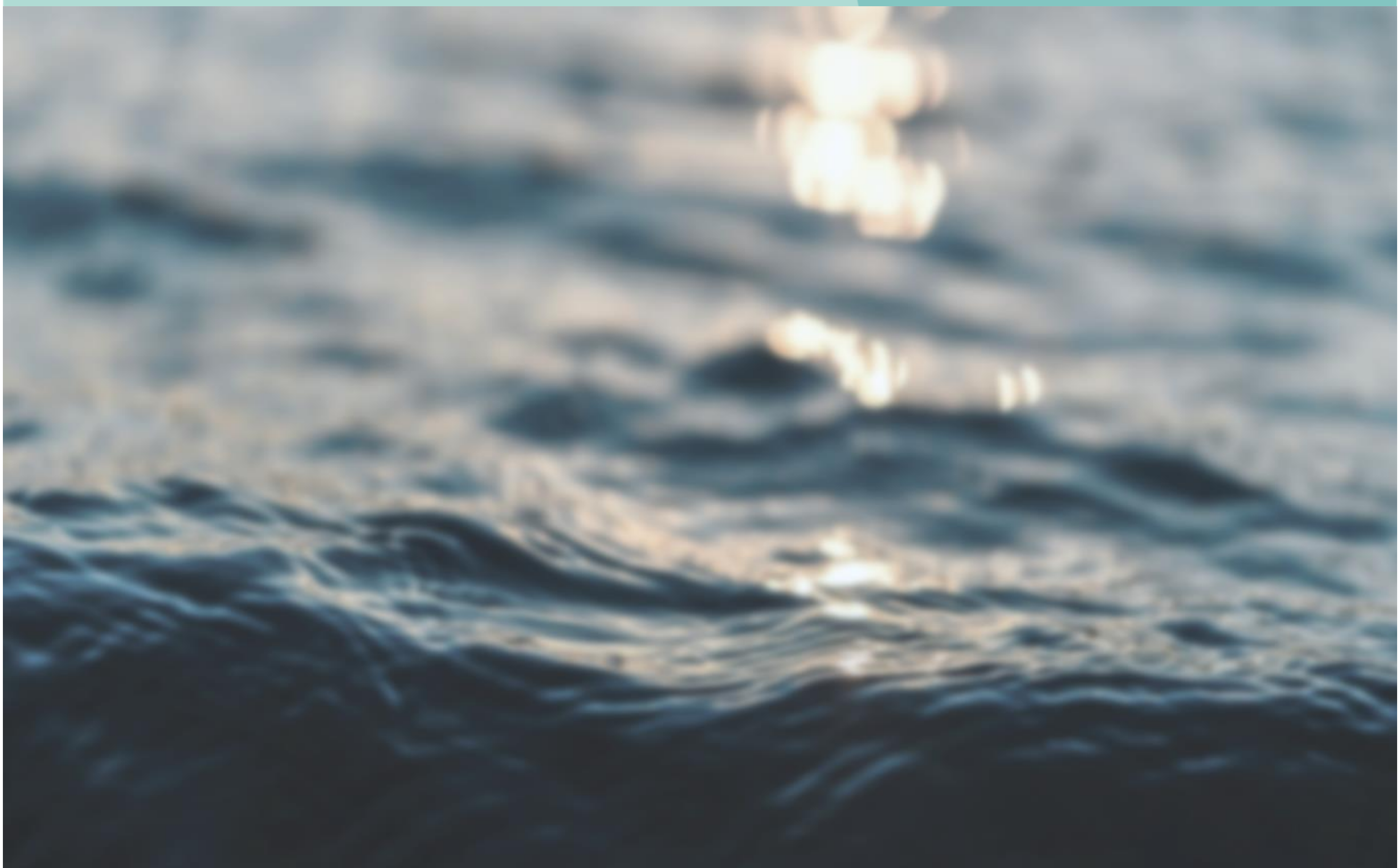
THE GOVERNANCE GROUP



Climate risk review

Mapping climate risk management in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

21.02.2020

Contents

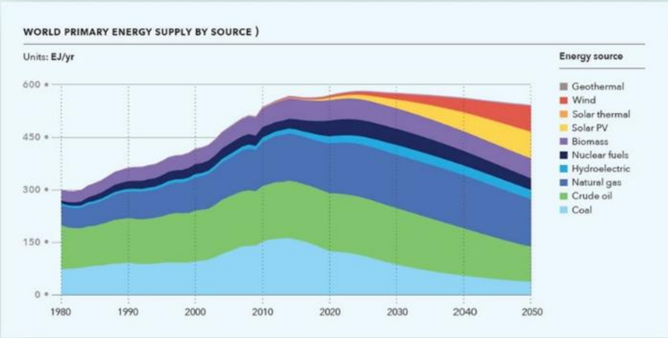
The Governance Group

The Governance Group AS (TGG) is an independent advisory firm specialising in ESG risk analysis and sustainability strategies. TGG has a core team in Oslo and a network of affiliated experts in Africa, the Americas, Asia and Europe. Clients include corporations in the energy, shipping, telecom, real estate and finance sectors, as well as government agencies in several countries. TGG holds no responsibility for decisions made based on the content of this report.

1. INTRODUCTION

The Governance Group has been requested to conduct a review of climate-related risks and opportunities for Aker Solutions ASA (listed on the Oslo Stock Exchange). The review is based on the general framework developed by the Task Force on Climate-related Financial Disclosures (TCFD), with recommendations for disclosing clear, comparative and consistent information about the risks and opportunities presented by climate change. This report summarises key findings, gaps and recommendations.

The main input to the review has been through interviews with key personnel from the strategy, finance, risk, supply chain, HSSE and environment departments at Aker Solutions. Based on a short introduction to the TCFD framework, each interviewee was asked to disclose risks and opportunities related to the 11 disclosure items put forward by the TCFD.



Source: DNV GL - Energy Transition Outlook 2019 report

The interviews were conducted during the first half of February 2020 and preliminary findings were discussed at an internal workshop on 14th February 2020. The Governance Group has, on this basis, calibrated the findings and prepared a climate risk review as presented here.

2. KEY FINDINGS

Governance and strategy:

- Management at Aker Solutions recognises strongly the importance of climate-related risks and opportunities and their impact on the future of the industry.
- Considerable measures have been taken to reduce the carbon footprint of the business. A new company strategy has been developed[1] to balance the portfolio of products and technologies.
- Targets set for 2030 are to generate 20% of company revenue from renewables and 25% from distinct low carbon solutions. The remaining 55% is still expected to come from "traditional" Oil and Gas services, whilst seeking to minimise the environmental footprint of new and existing assets.
- The strategy is supported by earmarked budgets.
- Management incentives and metrics related to climate risk are in place. Balanced scorecards are implemented for executive management positions.

Risk management:

- Climate risk is effectively assessed and handled as part of the existing risk management framework, procedures and tools. Aker Solutions has a separate team working on enterprise risk- and performance management, linking risk and performance to strategy implementation.
- Top risks (including climate risk) are communicated on a regular basis to the Executive Management Team and the Board Audit Committee.
- Aker Solutions' operations are exposed to extreme weather (storms, air quality, floods etc.) at construction sites and during transportation of supplies. Contingency plans are developed per project, but Aker Solutions is, generally, dependent on certain key suppliers, often with long lead

[1] As per 3Q 2019

time, and extreme weather could still lead to disruptions, project delays and have financial and reputational impact.
- The main transition risks are perceived to be market- and technology-related. The pace of the energy market transition and the demand for products, technologies and services offered by Aker Solutions are key uncertainties. Mitigation strategies are in place and continuously reviewed by top management.
- A systematic analysis of climate-related risk for the entire supply chain seems to be missing. Being cost driven and having 60-80% of the production costs coming from suppliers, Aker Solutions could be considerably exposed to transition risk in the supply chain.

Overall, Aker Solutions provides impressive coherence and foresight in strategy, risk and performance management and has, in many ways, managed to turn industry transition risks into business opportunities. Aker Solutions demonstrates a strong ability to navigate and adapt to changing market conditions with regard to climate change.

3. IDENTIFIED RISKS AND OPPORTUNITIES

PHYSICAL RISKS	– Air quality, floods, hurricanes, wave heights etc. can harm both personnel and assets and lead to operational downtime and/or extra cost of business continuity. – Extreme weather conditions may hit suppliers and/or transportation of equipment. This can potentially lead to disruptions and project delays, which, again, can have financial and reputational impact.
REGULATORY RISKS	– Carbon tax may postpone or stop planned O&G projects, causing stronger competition and reduced order intake. – Regional regulations may cause uneven playing fields for global companies. Abrupt and populistic climate politics may lead to unpredictable regulatory frameworks.
MARKET AND TECHNOLOGY RISKS	– Investors divest from O&G, banks are more reluctant to act as intermediaries and insurance companies are reconsidering their underwriting policies. – Competition may increase due to potentially less investment in the O&G industry. – The energy transition may happen significantly faster or slower than assumed. Aker Solutions needs to be flexible and able to adapt to a continuously changing market. More investments may be needed. – Key suppliers may be exposed to climate-related risks. With a decline in the O&G market, key suppliers may leave the market, go bankrupt etc. – Products, services and assets may become obsolete or need major technology investments.
REPUTATIONAL RISKS	– The industry faces increasing reputational challenges and declining political goodwill. – There are challenges of recruiting new talents to the industry in general. – Talents, investors and potential new customers may associate Aker Solutions solely with the O&G industry.
OPPORTUNITIES	– Offering products and technologies aimed at generating renewable energy or substantially reducing CO2 emissions (CCS, offshore wind, electrification, subsea compression etc.) would give Aker Solutions a more balanced portfolio. – A higher CO2 tax may spin off the CCS market and low carbon technologies and increase the demand for Aker Solutions' products and services. – Investing in green technology would give Aker Solutions access to green finance and potential lower cost of capital. – Focusing on green technology could attract (and retain) talents and investors.

Table 1 Risks and opportunities identified.

4. DETAILED DISCLOSURES

#	Disclosure	Summary of findings
	Governance	
1	***Describe the board's oversight of climate-related risks and opportunities.***	– Climate-related risks are on the Board's agenda and reported quarterly. – The board has approved the new company strategy and supporting business plans.
2	***Describe management's role in assessing and managing climate-related risks and opportunities.***	– Strong recognition of climate-related risks and impacts with regards to the future of the industry. – EMT heavily involved in the strategy process, the transition goals, KPIs and risk management. Integrated with the business, owned and acted upon. – Aker Solutions is seeking new markets, new technologies as well as new partners to find sustainable solutions for offshore production (energy/oil/gas).
	Strategy	
3	***Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.***	– See table 1 above (Identified risks and opportunities).
4	***Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning***	– Aker Solutions demonstrates strong awareness of the potential impacts from climate-related risks and has recently updated the company vision to *"take the position as industry leader in renewables and low carbon solutions".* – In line with the revised vision, Aker Solutions: 1. Invests in new technology and offerings addressing the need for lowering industry carbon footprint, e.g. electrification, unmanned facilities, subsea compression and carbon capture. New technology can also be used to lengthen the life cycle of current production sites. 2. Seeks other markets and alternative sources of energy, e.g. floating wind, offshore power stations and hubs, offshore fish farming, subsea data storage and ocean economy (fish farming, data storage, power stations etc). – There is clear integration of risk management into business units, strategy and dedicated financial planning/budgeting
5	***Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.***	– The strategy is stress-tested against different climate related scenarios. Transition risk is considered high. Key considerations include how fast the industry moves, how complex it will be and how the customers/markets/regulations will respond. Is Aker Solutions moving too quickly or too slowly? Over or under investing?
	Risk management	
6	***Describe the organisation's processes for identifying and assessing climate-related risks.***	– Climate-related risks are systematically identified and assessed as part of the overall ERM framework consisting of risk appetite, risk governance, risk category, tools, processes and metrics. – Top risks, including climate risk, are aggregated from each risk category derived from each delivery centre and reported to the Board Audit Committee every quarter. – Risk review is also part of the regular EMT meetings. – The top risks have a 3-5-year perspective.
7	***Describe the organisation's processes for managing climate-related risks.***	– Aker Solutions is well organised for managing risks with individual departments maintaining frameworks, reporting and following up of enterprise risk management (ERM) and enterprise performance management (EPM). – Combining ERM and EPM supports a consistent and unified implementation of the company strategy and contributes to mitigating climate related risks from an overall perspective.

		– Top management continuously reviews and updates the mitigating strategies. **Management of physical risks:** – Contingency plans are in place to manage extreme weather per project. **Management of transition risks:** – Strategic focus on increasing revenue from low carbon solutions and renewable energy production, including R&D budgets. – "Green teams" established to coordinate Aker Solutions' efforts in making existing technology greener. – Focus on extending the lifecycle of production facilities to keep the industry relevant for longer. – Participation in various front-end forums to promote low carbon innovations and Aker Solutions' expertise herein. – Entered into partnership with Principle Power to gain access to proven floating wind technology.
8	***Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management***	– Climate-related risks are part of the overall ERM approach as described above. – Of the 10-12 top risks communicated to the EMT and Board Audit Committee, 2-3 of the risks are climate related.
	Metrics and targets	
9	***Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.***	– Aker Solution applies KPI's for every delivery centre to assess performance. – KPI for energy and emissions in Solutions: *"Revenue from low carbon and renewables, %"*. The following KPI metrics are set: 7% by 2020, 15% by 2023 and 15% by 2030. – KPI for energy and emissions in Operations: *"ESG rating"* and *"CO2 emission intensity"*. – KPI's are part of EMT's scorecards as applicable. – Aker Solutions lacks metrics for emission reductions for clients.
10	***Disclose Scope 1, Scope2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.***	– Scope 1 and 2 are disclosed. – Aker Solutions is working on disclosing scope 3 (business travel) but has challenges with receiving the necessary data from travel agencies. – Started reporting to CDP in 2018 (per manhours). From 2019 will report per revenue.
11	***Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.***	– By 2030: 20% of revenue from renewables and 25% of revenue from low carbon solutions. – Status 2019: 2,1% of revenue from renewables and low-carbon solutions combined. – Targets for own emissions: 2 % annually (scope 1+2+3). To be verified.

Table 2 Disclosed items.

5. RECOMMENDATIONS

Aker Solutions demonstrates a systematic and high-quality approach to climate risk management. The Governance Group recommends the following actions and priorities moving forward:

1. **Communicate and promote** the systematic approach to climate risk management, green growth and ESG. This will help attract talent, investors and customers. For low-carbon solutions: identify and communicate metrics to illustrate the reduction of clients' (e.g. IOCs) carbon footprint.
2. **Seek green financing** to mitigate rising cost/reduced availability of capital. Align investment plans and portfolio with the new EU taxonomy categories.
3. **Address supply chain risks**: Assess and mitigate climate risks for the entire supply chain.
4. **Coordinate** the company efforts and reporting on ESG with climate-related risk management internally.

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