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).

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The Governance Group

The Governance Group AS (TGG) is an independent advisory firm specializing 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 large corporations in the energy, shipping, telecom, real estate and finance sectors, as well as government agencies in several countries.

1. INTRODUCTION

The Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations for more effective climate-related financial disclosures. The aim is to facilitate more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets and exposure to climate-related risks

This report summarizes key findings, gaps and recommendations on climate-related risks and opportunities for Aker Solutions ASA. 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, 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.

The interviews were conducted during May 2021 and this report was reviewed by interviewees in September 2021. 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 the importance of climate-related risks and opportunities and their impact on the future of the company.
- After the 2020 merger of Kværner and Aker Solutions, considerable efforts have been made to establish a new company strategy.
- Targets for the transition to a low-carbon economy have been set for 2025 and 2030. By 2025, the company's objective is that 1/3 of the revenue should come from energy transition projects or from renewable energy business. By 2030, the objective is that this will count for 2/3 of the revenue.
- The strategy is supported by specific budget allocations.
- Management incentives and metrics related to climate risk are in place. This includes balanced scorecards for Executives and Leaders (groups L0 and L1).

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 (which includes 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, temperature highs and lows etc.) on site, in yards 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 times. 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 transitioning away from fossil fuels, and the pace of change in demand for products, technologies and services offered by Aker Solutions are key uncertainties.

- Suppliers are onboarded through comprehensive pre-qualification processes that include ISO, Human Rights and HSSE aspects. However, the supplier screening process seems to be lacking emissions profiles and climate-related risk evaluations.
- Long term risks are identified for 2030 and beyond, with matching detailed financial planning up to 2025.

Overall, Aker Solutions demonstrates both coherence and foresight in its strategy, risk and performance management of climate-related risks and opportunities. The company has also developed relevant metrics to monitor its progress towards a greener economy driven by market and regulatory measures. Based on its heavy reliance on revenue from traditional oil & gas projects, Aker Solutions has identified a roadmap and relevant metrics to monitor progress in terms of positioning the company for a radical transition to a low-emission economy.

PHYSICAL ***Acute risks related to extreme weather events and chronic risks related to ecosystem changes***	**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 events causing delays on site projects and in yards or causing delays in transportation of supplies which in turn impact project profit margins. • Changes in availability of natural resources (i.e. water scarcity)
	Opportunities: • Increased need for products and services such as repairs, maintenance and experience with harsh weather conditions.
REGULATORY ***Stricter regulations such as CO2 taxes cap-and-trade schemes, energy efficiency requirements and reporting requirements***	**Risks:** • Several risks related to regulatory change mid-term (2021-2025), i.e. changes to carbon tax, energy regulations, product efficiency regulations etc. • Uncertainty related to future / long term regulations • Risks related to the EU taxonomy, Climate law and 2050 ambitions are considered low, since Aker Solutions is not directly involved in oil & gas production.
	Opportunities: • Current carbon tax up to 2025 provides a clear and consistent regulatory framework for oil & gas
MARKET ***Changes in market demand, customer requirements and investor behaviour***	**Risks:** • Expect a decline in demand from the oil & gas sector in a long-term perspective • Rapid changes in customer requirements/demand for zero/low emissions products/services • Renewable projects such as offshore wind requires much more assembly line manufacturing, while Aker Solutions previously has more experience with highly specialized “one off” deliverables. • Increased focus from banks and investors may impact company valuation and access to capital and cost of capital • 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. • As investors divest from O&G, banks are more reluctant to act as intermediaries and insurance companies are reconsidering their underwriting policies.
	Opportunities: • Current knowledge from oil & gas can be used for renewable and energy transition solutions • Increased market for energy from wind power, especially floating wind installations • Increased market for competence in carbon capture

	• Achieving the new strategy's ambition related to green growth, will increase Aker Solution's attractiveness for investors and lower cost of capital by qualifying for green or sustainability linked financial instruments e.g. loans and bonds.
TECHNOLOGY ***Step-wise or radical technology shifts leading to increased need for investments or risk of stranded assets***	**Risks:** • 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. This entails that existing technologies may become obsolete. • Products, services and assets may become obsolete or need major technology investments. More investments may be needed to ensure continued growth and achieving the new strategic goals related to growth in renewables and energy transition solutions. • Risks of significant write-offs and stranded assets • More competition in the renewable sector, with specialized technology • Risks (and opportunities) linked to technological breakthroughs and disruptions.
	Opportunities: • Increased demand if able to invest and develop attractive technologies and solutions. Offering products and technologies aimed at generating renewable energy or substantially reducing CO_2 emissions (CCS, offshore wind, floating solar, hydrogen, electrification, subsea compression etc.) would give Aker Solutions a more balanced portfolio. • Digitalization as an enabler for climate change mitigation
REPUTATION ***Risk of stigmatisation leading to loss of goodwill, brand value and employee attraction***	**Risks:** • Most projects are still within the oil & gas sector which may raise concerns regarding impact on climate from investors and other key stakeholders. • The ability to build and attract a highly competent global workforce may be challenged as younger talents tend to prefer greener employers.
	Opportunities: • Long term focus on HSSE is making Aker Solutions stand out from the crowd (in current and future sectors). • Current renewables project work, including multiple wind projects and studies, CCUS, converter platforms, etc. can be leveraged.

Table 1 Risks and opportunities identified.

3. DETAILED DISCLOSURES

#	Disclosure	Summary of findings
	Governance	
1	***Describe the board's oversight of climate-related risks and opportunities.***	– Climate-related risks are reported quarterly to the board by the board audit committee and the CEO – The board approves the company strategy and supporting business plans, with scheduled agenda items such as the identified risks and progress against KPIs, including sustainable business performance and emission reduction targets. – During 2020 the most substantial board decision was the strategic decision to substantially increase the revenues within energy transition solutions for oil and gas operations, together with projects for renewable energy sources, targeting 1/3 of total revenues in 2025 and 2/3 in 2030.
2	***Describe management's role in assessing and managing climate-related risks and opportunities.***	– The Executive Management Team (EMT) recognises the importance of climate-related risks and opportunities and their impact on the future of the company – EMT heavily involved in the strategy process, the transition goals, KPIs and risk management, and integration into the business units. – ERM (Enterprise Risk Management) process is performed as a bottom-up exercise, where risks are aggregated to create a bigger picture for regular EMT review. – Management incentives and metrics related to climate risk are included in balanced scorecards for executives and leaders (groups L1 and L2).
	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 revised the company strategy, backed by its new purpose: to solve global energy challenges for future generations. – In line with this purpose, Aker Solutions: 1. Invests in new technology and offerings addressing the need for lowering carbon footprint in the oil & gas sectors, e.g. electrification, low carbon fuels, subsea compression and carbon capture and storage. 2. Seeks other markets and alternative sources of energy, e.g. ammonia and hydrogen fuels, floating wind, offshore power stations and hubs, offshore fish farming, subsea data storage and ocean economy (fish farming, data storage, power stations etc). – Strategic decisions have been translated into new company targets for 2025 and 2030: By 2025, the company's objective is that one third of the revenue should come from energy transition projects or from renewable energy business. By 2030, the objective is that this will count for two thirds of the revenue. This will entail changes to current business model, products/services, and investments. – The company has committed to the Science Based Targets initiative and will set and submit targets aligned with the SBTi process for review and validation in 2022. – Separately, the company has also committed to reduce own emissions (Scope 1 and 2) by 50% by 2030. – Financial planning and forecasting related to the strategic targets for 2025 and 2030, are backed by detailed analyses of pipelines of project portfolios and tenders.

5	***Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.***	– Transition risk is considered high if not mitigated effectively. Key considerations include the speed of transition and timing, in terms of when changes materialize in different markets and regulations. – Aker Solutions uses scenarios presented by IEA, Rystad and others to stress-test the resilience of the new strategy in both its risk and strategy work internally. The main strategic response is diversification and shifting towards more renewable revenues/markets to ensure a resilient business model in light of a 2°C scenario.
	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, tools, processes and metrics. Enterprise Performance Management (EPM) ensures strategic implementation and value generation. – These two processes (ERM and EPM) are basis for mitigation actions or investment decisions. An analysis is made for cost vs. income before being reported to the Executive Management Team (EMT). – Top risks, including climate risk, are part of the regular EMT meetings and reported to the Board Audit Committee every quarter. – Detailed financial planning covers the timeline to 2025, while risks and opportunities are in ERM processes considered for 2021 - 2030, and some initiatives used for projections towards 2050.
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 energy transition solutions and renewable energy production, including R&D budgets. – "Green teams" established to coordinate Aker Solutions' efforts in making existing technology greener. – Increased reporting on revenue from renewable and transitional solutions, project back log, forecasts and R&D. – Expect to increase climate/carbon calculations on products and services, through EPD or LCA. – Interaction with banks and investors on green finance. – Participation in various front-end forums to promote low carbon innovations and Aker Solutions' expertise herein.
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 systematically integrated into the overall ERM and EPM approach as described above. – Suppliers are onboarded through comprehensive pre-qualification process, to identify, assess and potentially manage climate-related risks in the value chain.
	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 Solutions uses several metrics to assess climate-related performance, including:
		    o KPI for "green" proportion of revenue compared to total revenue (energy transition and renewables)
		    o KPI for reductions in CO_2 emissions for own operations
		    o KPIs for scores on ESG ratings

		o KPIs for "green" back log o KPIs for "green" R&D – KPI's are part of EMT's scorecards
10	***Disclose Scope 1, Scope2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.***	– Scope 1 and 2 are disclosed, and some categories in Scope 3 (Business travel and some figures for Upstream transportation and distribution) – Aker Solutions is working on disclosing on a wider set of Scope 3 categories – Emissions and risk reporting are published in the annual sustainability report, and reported in external initiatives such as publicly available reporting to CDP
11	***Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.***	– Key climate-related targets include: o Green growth: By 2025, the company's objective is that one third of the revenue should come from energy transition-related projects or from renewable energy projects. By 2030, the objective is that this will count for two thirds of the revenue. o Emission reductions: Targets for own emissions: 50% reduction by 2030 from a 2019 baseline (Scope 1+2) – Performance against target in 2020: 3,9% of revenue from renewables and energy transition solutions.

Table 2 Disclosed items.

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 transitioning from oil & gas to renewable and energy transition projects, climate risk management, green growth and ESG. This will help retain and attract talent, investors and customers.
2. **Seek green and sustainability linked 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 critical suppliers.
4. **Calculate benefits and emission reductions** from projects reducing client CO2 emissions through energy transition solutions: Provide calculations that credibly document the reduction of clients' (e.g. IOCs) carbon footprint.
5. **Support** the company's strategic reorientation through effective board and top management oversight – the strategy implies a massive transformation of the company's current business and requires extensive top-level support.

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