

## REMUNERATION POLICY FOR DIRECTORS

of

Arendals Fossekompani ASA

Version no.	Date implemented	Revisions
1.0	6 May 2021	<i>Revision of former policy for remuneration in accordance with amendments of section 6-16a of the Norwegian Public Limited Liability Companies Act implementing article 9a of directive (EU) 2017/828 (as regards the encouragement of long-term shareholder engagement)</i>  <i>Previously, AFK published an annual «Erklæring om fastsettelse av lønn og annen godtgjørelse til ledende ansatte».</i>
1.1	5 May 2022	<i>Update of policy to include new long-term incentive plan for share purchase (LTIP).</i>

# REMUNERATION POLICY FOR DIRECTORS OF ARENDALS FOSSEKOMPANI ASA

Approved by the general meeting on 05.05.2022

The board of directors of Arendals Fossekompani ASA (“AFK”) has prepared a policy on the determination of salary and other remuneration of the CEO and senior executives of AFK, and any employed members of the board and corporate assembly if applicable.

This policy applies to the following executive management:

- Chief Executive Officer (CEO) - position currently held by Ørjan Svanevik
- Chief Financial Officer (CFO) - position currently held by Lars Peder Fensli
- Executive Vice President - position currently held by Morten Henriksen
- Executive Vice President - position currently held by Torkil Mogstad
- Chief Sustainability Officer (CSO)- position currently held by Ingunn Ettestøl

(Hereinafter collectively referred to as the “Executive Management” or separately as each “Executive”.)

## 1. Purpose and principles for the remuneration policy

This policy is designed to align with AFK’s overall business strategy, long-term interests and financial sustainability.

AFK is a Group with more than 2200 employees in over 27 countries. For more than 100 years, AFK has produced hydropower which has been used to build Norwegian industry and Norwegian communities. The know-how, capital and engineering skills related to the production of hydropower have laid the foundation for Arendals Fossekompani to successfully own energy and technology related companies that help build a greener tomorrow. In addition to producing clean energy, AFK’s companies help customers utilize their resources in a more sustainable way, and they provide technology, systems and solutions that make energy from renewable sources increasingly accessible and usable. By developing sustainable products and services, AFK ensures long-term value creation for shareholders, employees and society.

As a group that is active in several dynamic portfolio companies internationally, AFK is dependent on being able to offer remuneration which can attract and retain high-quality leaders to further develop our business. AFK offers remuneration that recognises the market value of an executive’s role, skills, responsibilities, performance and experience in order to attract and keep excellent leaders. The remuneration scheme for AFK’s Executive Management shall be competitive and flexible, but neither appear complicated nor be wage leading.

This policy is designed with this in mind and has been developed in order to create a performance-based system which is founded on AFK’s values. The remuneration components for the Executive Management are structured to provide strong alignment between the interests of executives and shareholders, including a focus on delivering AFK’s key strategic objectives, and to support the business strategy and long-term interests.

The total remuneration of the Executive Management is constructed as a combination of fixed salary and variable compensation. The fixed salary shall be competitive and provide predictability, and ensure that AFK can retain excellent leaders. The variable compensation shall be motivating for our leaders to aspire to achieve exceptional results.

The fixed salary shall constitute approximately 50-75% of the total compensation, whereas variable compensation such as bonus payments shall constitute approximately 15-40% of the total remuneration.

In the preparation of the remuneration scheme, the board has considered any actual or potential conflicts of interest in preparing and maintaining this policy. The board has not found any actual or potential conflicts of interest.

The board will consider reasonable measures to be taken to mitigate any such conflicts of interest.

The pay and employment conditions of the employees of AFK were considered by the board when establishing this policy.

## **2. Remuneration of the Executive Management**

### **2.1 Fixed salary**

The fixed salaries are based on the following objective criteria: the business performance and current salary level relative to market, whereas the exact amount is normally approved annually by the board upon suggestion from the compensation committee for the CEO. For the other members of the Executive Management, the exact amount is normally approved annually by the CEO upon advice from the board or the compensation committee. The fixed salary is determined during the first quarter of the new fiscal year and valid from 1 January the same year.

The fixed salary may be increased annually in line with the range of increases awarded to other employees in AFK. Exceptions may apply in certain circumstances, such as:

- Where there is a significant change in an Executive's scope or role;
- Where it is considered necessary to reflect significant changes in market practice; or
- Where there is, in the Board's opinion, a need to retain an executive in relation to a competitive offer from another potential employer.

In such events, the increase cannot exceed 50 % of the current fixed salary.

The fixed salary will normally constitute at least 65% of the total remuneration.

### **2.2 Variable compensation**

The variable compensation shall consist of performance-based elements and other elements determined by the board.

The performance based variable compensation shall contribute to growth and value creation for the shareholders and/or AFK's financial results over time which is further described for each element.

- **Bonus program**
  - Scheme: The board shall annually consider a bonus which is partly based on the group's annual results, and partly on other criteria described below. The bonus is not included in the holiday pay basis or the basis for calculating entitlement to pension.
  - Criteria:
    - Annual results: *The bonus will be calculated from the previous year's financial results and current year performance against budget.*
    - Other objectives: Objective made to support the business strategy.

- Objective: Bonus calculated from the financial results and from non-financial achievements shall motivate to achieve better results for AFK on the most essential areas of AFK's activities.
  - Relative proportion of total remuneration: The bonus will normally constitute 15-40% of the total remuneration.
- **Shares, share options, other remuneration associated with shares**  
AFK has an Existing long-term incentive plan (E-LTIP) and a New Long-term incentive plan (N-LTIP) programme for the Executive Management.

Existing Long-term incentive plan (Program only applicable for the current members of the executive management, as of 06.04.2022. This program will not be renewed).

- Scheme: The CEO has a right to purchase 75,000 (3000) shares with 15% discount from market value. Other persons in the Executive Management (including the CFO, CSO and Executive Vice Presidents) have a right to purchase 20,625 (825) shares with 15% discount from market value. The shares have a three-year tie-in period. Parts of the purchase price may be funded by a loan from AFK on separate terms.
- Criteria: The right to purchase shares is offered when the Executive joins the executive leadership in AFK.
- Objective: The right to purchase shares shall create interdependence between the Executive and AFK and stimulate the Executive to create value for all shareholders.

New Long-term incentive plan

- Scheme: The Executive Management have a right to purchase shares with 20% discount from market value. The shares have a three-year-tie-in period. The shares may be funded by a loan from AFK limited to up to 2/3 of the share purchase. The CEO may take up loans up to 3 MNOK each year annually for 3 years to fund the share purchase. Other persons in the Executive Management (including the CFO, CSO and Executive Vice Presidents) may take up loans up to 1,5 MNOK each year annually for 3 years to fund the share purchase.  
Where share purchases under this plan are not funded by a loan from AFK, the maximum value of shares that can be purchased within the N-LTIP, is nevertheless limited to the number of shares that could be purchased within the limits set out by the maximum loan and equity requirements under the N-LTIP.
- The right to purchase shares under this program for Executives, that are also eligible to purchase shares under a similar long-term incentive program in other companies within the AFK Group, will usually be limited in proportion to their engagement in AFK (measured in percentage of a full-time equivalent position).
- Criteria: The right to purchase shares applies to the Executive Management while in their position.
- Objective: The right to purchase shares shall create interdependence between the Executive and AFK and stimulate the Executive to create value for all shareholders.
- AFK may offer to buy back shares purchased under one of the programs set out above during certain specified periods of time at a value based on the 3 day volume weighted average share price.

- If shares acquired under Standard share purchase programme or under the Long-term incentive plan are sold, and if mutually agreed, before the three-year-tie-in period has expired, the value of the discount shall be repaid based on pro-rata calculation of the remaining period.

### 2.3 Pension, early retirement scheme, payments linked to termination of employment and other agreements

- **Retirement pension**

- Main characteristics of the retirement pension plan:
  - AFK pension fund: Executive Management were until 2015 members of AFK's pension fund. Subject to full contribution time of 30 years, the Executive is entitled to 66% of the pensionable income. After 2015, the performance-based scheme was terminated for all employees under 60 years. Employees over 60 retain the old scheme until pensionable age.
  - Defined contribution pension plan: From 2010, AFK established a defined contribution pension plan which applies for new Executives. The defined contribution pension plan includes a deposit of 5% of salary from 0 - 7,1G and 8% of salary between 7,1 and 12G. Salary from 12G to 16G is not pensionable income (top hat). Bonuses, options and other benefits are not pensionable.
- Relative proportion of total remuneration: annual accrued pension is approximately NOK 100,000 which will normally constitute 1% of the total remuneration of the CEO and 3-5% of the total remuneration of the other Executives.

- **Termination of employment**

- Scheme: The Executives have a right to resign from their positions. AFK has a right to terminate the employment on normal terms i.e. fair dismissal / summary dismissal subject to Norwegian Working Environment.
- The CEO will receive 100% of the fixed salary during the notice period of 6 months, in case of dismissal the CEO is also intitled to another 12 months with 100% of the fixed salary.
- The CFO, the EVPs and the ESG Director will receive 100% of the fixed salary during the notice period of 3 months.
- Duration of employment: the employment contracts with the Executive Management are permanent until termination.

The total remuneration from pension schemes and other agreements will normally constitute [x]% of the total remuneration.

### 2.4 Other remuneration and benefits

The Executive Management receive regular benefits such as paid phone, newspapers and journals, which amount to an annual value of 23.000. The CEO has a company car and expenses for housing, commute and parking in Arendal and benefits amount to an annual value of 300.000. The total remuneration from other benefits will normally constitute 3% of the total remuneration of the CEO and 1% of the total remuneration of the other Executives.

### **3. Derogations from this policy**

#### **3.1 Permitted derogations**

If a derogation from this policy is necessary to serve the long-term interests and sustainability of AFK as a whole, or to assure AFK's viability, a derogation from the following sections and elements is permitted:

- Such adjustment may include granting a cash bonus to one or more Executives for an extraordinary performance, which could not be taken into account when setting the targets at the beginning of the year. It may also include granting extraordinary benefits and/or special exit conditions which is deemed necessary to serve the long-term interests of the Company for recruitment or retention purposes.
- The Board may change or terminate elements of the remuneration in case of resignation or dismissal of an executive, a take-over in whole or in part, significant acquisitions, significant divestments, demerger, merger, changes to the capital structure, certain dividend distributions or other material events (e.g. agree on an earlier pay out date).

#### **3.2 Procedure for temporary derogations**

The following procedure must be followed for any derogations: The board shall approve the derogation after an assessment of whether the conditions stated in section 3.1 apply. The decision and assessment shall be documented.

### **4. Adoption of the policy**

#### **4.1 Rules of procedure for preparation and adoption**

The remuneration committee of AFK shall prepare a draft remuneration policy in accordance with the Instructions for the remuneration committee adopted by the board [25.03.2021] and any applicable laws and regulations.

The board shall review and make necessary alterations to the draft policy as provided by the remuneration committee. The board shall propose to the annual general meeting to adopt new policy.

The general meeting shall approve the policy.

The same procedure applies for material changes to this policy once adopted. The general meeting shall re-approve the policy in case of any material change and, in any case, at least every four years.

If a proposed remuneration policy (or material changes to the adopted policy) are not approved by the general meeting, the board shall submit a revised policy for approval at the following general meeting.

Remuneration of the Executive Management may only be paid in accordance with a remuneration policy which was approved by the general meeting. In the event that the general meeting has not approved the remuneration policy (or material changes of the adopted policy), AFK shall continue to pay remuneration to its Executive Management in accordance with the policy previously approved by the general meeting, or in accordance with the existing practices where no policy had previously been approved by the general meeting.

#### **4.2 Adoption of the policy**

This policy was prepared and adopted in accordance with the procedure described in 4.1 and approved by the general meeting on 5 May 2022.

The board has considered any actual or potential conflicts of interest in preparing and maintaining this policy, please refer to section 1 for the assessment.

The board has considered reasonable measures to be taken to mitigate any such conflicts of interest, please refer to section 1 for the assessment.

The pay and employment conditions of the employees of AFK were considered by taking into account when establishing this policy, please refer to section 1 for the assessment.

The policy shall be made publicly available on AFK's website without delay after adopted by the general meeting, together with the date and the results of the vote. The policy shall remain publicly available, free of charge, at least as long as it is applicable.