



TCFD Report 2020

Climate-related risks and opportunities



Climate has been a material topic in Orkla's environmental work for many years. We are committed to understanding how our business impacts the climate, which reduction measures are relevant and how climate change can impact Orkla's business development.

We regard openness around climate-related risks and opportunities as crucial for maintaining trust by investors and other stakeholders. Therefore, Orkla has since 2008 made a significant effort to report to CDP¹. This has increased the Group's knowledge of requirements and expectations, as well as given necessary input for the development of Orkla's climate strategy. A long-term-oriented and structured work has resulted in Orkla achieving top score A for the climate work in 2020.

¹ CDP is an independent non-profit organization that has the world's largest database of company information on climate change. The organization works both to expand company reporting on climate emissions, and to give investors and managers access to information on how companies work with climate, across sectors. The organization is supported by managers and investors globally. They also work with topics that report on forests and water risk.



In order to deal with the challenges posed by climate change, biodiversity loss and natural resource scarcity, global greenhouse gas emissions must be halved in the next ten years and all sectors must switch to sustainable production.

As a manufacturer of food and other consumer goods, Orkla's primary contribution to sustainable development lies in the ability to offer sustainable products, and UN Sustainable Development Goal 12 – responsible consumption and production – forms the very core of the Group's sustainability work.

The Orkla companies have worked for many years to achieve the Group's 2025 sustainability targets. In 2020, Orkla launched a new internal sustainability aspiration up to 2030 which underscores the importance of sustainable products and of mobilising the entire organisation. Across products and countries, Orkla companies shall lead the way in transitioning to sustainable production and consumption and being "a local champion for sustainability".

The Task Force on Climate-related Financial Disclosure (TCFD), established on the initiative of the Financial Stability Board, in 2017 launched a framework with voluntary guidelines for climate risk reporting. Orkla will further develop the Group's climate reporting to include TCFD's recommendations. The recommendations contribute to an increased understanding of how climate conditions can affect financial conditions and Orkla's business, as well as a valuable structure for the improvement work.

This report is structured in line with the recommendations and the main elements of the TCFD framework and describes the status of Orkla's work.

Core elements of TCFD's reporting recommendations

The Task Force on Climate-related Financial Disclosures (TCFD) framework recognises that climate change will affect all sectors of the economy, so the recommendations are made applicable to all organisations and give a uniform analysis and reporting method for climate-related risks and opportunities. According to the TCFD 2017 Recommendation Report, *"The recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets."*

Governance

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

Strategy

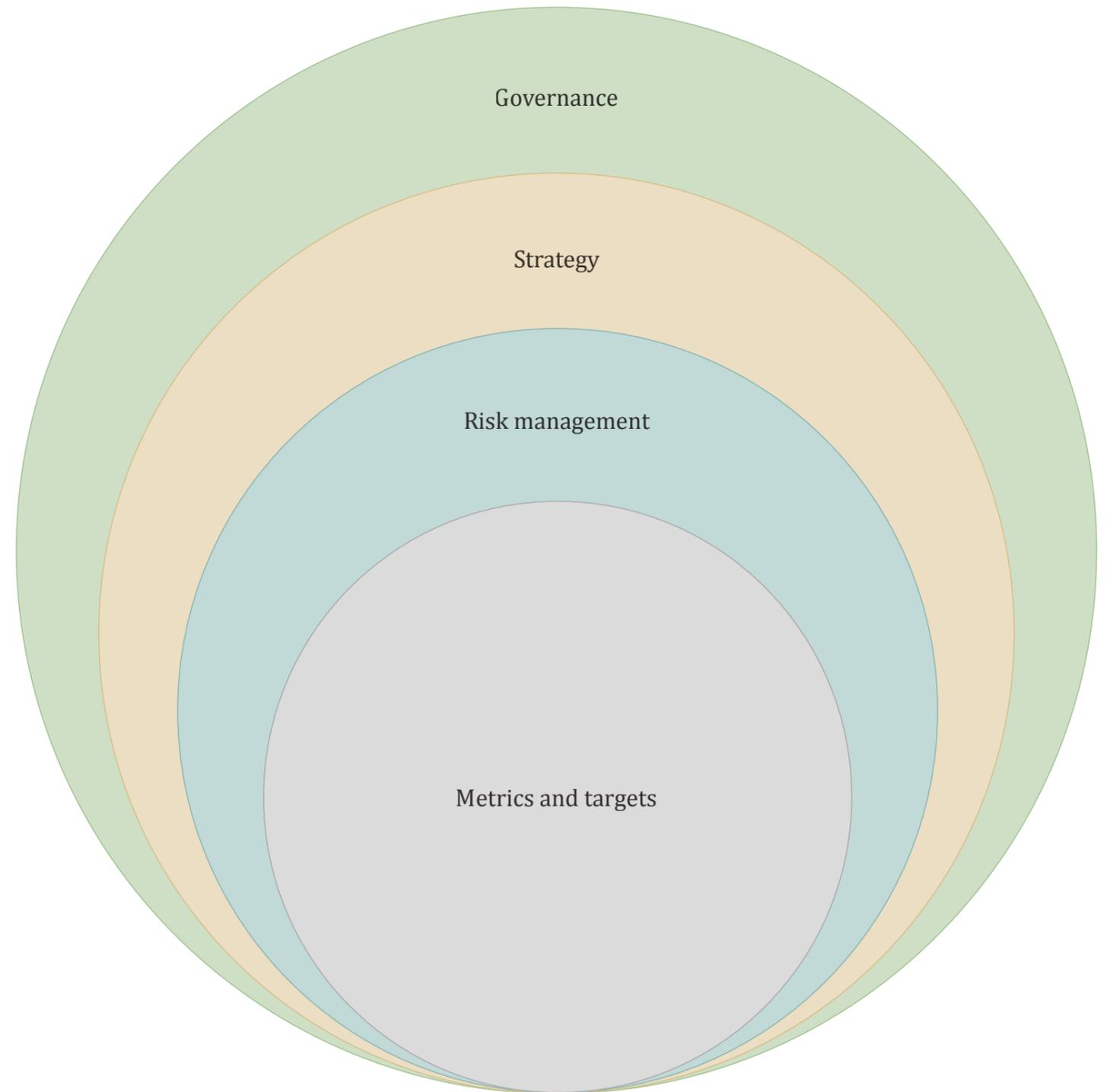
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.

Risk Management

The process used by 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

Climate change is one of society's great challenges. Reports from the UN Intergovernmental Panel on Climate Change (IPCC) show that people and nature all over the world are already being affected by these changes, and that urgent action is needed to slow the pace of change. A major readjustment must be made in almost every sector to be able to limit global warming to 1.5°C. Orkla will assume its share of responsibility for tackling climate challenges and is making long-term efforts to reduce its greenhouse gas emissions as required by the Paris Agreement. From a commercial perspective, there is growth potential for Orkla in consumers' mounting interest in a climate-friendly diet and sustainable consumption.

Orkla's Board of Directors monitors the Group's climate work and results through an annual presentation of the implemented measures and assessment of progress. Orkla's Executive Management Team is presented with the status twice a year, in addition to taking part in ongoing discussion of individual cases that are considered to be of significant importance to Orkla's operations.

The CEO of each Orkla company is responsible for implementing the Group's directive on corporate responsibility and drawing up action plans for the sustainability work based on Orkla's sustainability targets up to 2025. This work must be integrated into the company's operations and be based on the precautionary principle and the principle of continuous improvement. The companies' prioritization must be based on an assessment of both the business' and stakeholders' needs. Orkla's governing documents are accessible to all the companies through the Group's web-based governance portal. To ensure that employees are familiar with Orkla's directives, internal training is provided by both the Group and the companies. The training has created greater awareness and knowledge of corporate responsibility and sustainability issues, promoted more active engagement and ensured a more uniform approach to efforts in these areas.



The Board of Directors is concerned with ensuring a systematic management of risk in all parts of the business and considers this a prerequisite for long-term value creation for shareholders, employees and society. Orkla works in a structured manner to identify risk factors and implement risk-reducing measures. In accordance with the Group's risk management instructions, risk assessments must be made on an ongoing basis in all units, and be presented and processed in the internal boards as part of the annual budget process.

Orkla has developed Group targets for sustainability for 2025, which include several climate-related and environmental targets.

> 60% renewable energy

63% reduction in greenhouse gas emissions from own operations
(77% reduction by 2040)^{1,2}

29% reduction in greenhouse gas emissions in the value chain, outside
own operations (75% reduction by 2040)^{1,3}

30% reduction in energy and water consumption

50% reduction in food waste

More details on governance can be found in Orkla's annual report 2020. Specifically:

- Orkla's Board of Directors' report 2020 on risk management at page 29,
- The chapter on Corporate Governance from page 10,
- Description of Risk Management and Internal Control routines at page 50

Orkla will continue to work on integrating climate risk issues into the Group's risk management process and establish formal interdisciplinary routines that engage both the board and management.

¹ Targets for greenhouse gas reduction have been validated by the Sciencebased Targets initiative.

² Scope 1 and Scope 2 in accordance with the Greenhouse Gas Protocol. Base year 2014.

³ Scope 3 in accordance with the Greenhouse Gas Protocol. Base year 2014.

Strategy

The Orkla companies have worked systematically to reduce the environmental impact of their own operations for several years. To understand even better potential risks and opportunities associated with climate change, a process was started in the autumn of 2019 to report in line with the TCFD framework, and the first qualitative risk assessment was presented in Orkla's annual report for 2019. In 2020, work was carried out to increase awareness internally on the identified risk factors.

For Orkla, business risk is mainly related to the price and availability of important agricultural raw materials. Extreme weather has impacted on the production of certain agricultural raw materials purchased by Orkla, and has at times affected the price and availability of these commodities. Changes in weather patterns have also led to higher energy prices in some of the countries in which Orkla has production facilities. The Group anticipates continued volatility in prices of raw materials, energy and water in the coming years, but expects the consequences of extreme weather to be moderate in the short and medium term. The bulk of Orkla's production and procurement takes place in the Nordics, Baltics and Eastern Europe, where there is less likelihood of water scarcity and drought than in warmer climate areas. Few of the companies' factories are located in areas at risk of flooding or water shortages, but drought and extreme weather can lead to higher water and energy costs. Changes in regulatory frameworks or political framework conditions can also entail increased costs. At the same time, there is a growing awareness of the importance of sustainable consumption, and more and more people want environmentally friendly products. For Orkla, this means new opportunities for innovation.

Orkla has a systematic and holistic approach to climate work and the overall analysis of climate risk and opportunities is presented on the following pages.



Orkla will gradually develop a more comprehensive and detailed assessment of climate-related risk and the commercial implications for Orkla. Climate conditions have an economic and strategic impact with a significant effect on Orkla's current or future profitability, and risk criteria are defined in Orkla's risk management procedures.

We have not yet carried out an in-depth analysis to quantify the effect of risk factors and opportunities based on different climate scenarios. This will be the focus of our further work and will take into consideration both the physical risk of climate harm, but also changes in climate policy and framework conditions that may have an impact on further operations and investments. These are important inputs to future and long-term business plans.

Orkla's mapping and reporting of climate risk will be further developed in line with TCFD's recommendations.

Climate risks

Operations and infrastructure

» Orkla's own production operations are exposed to a relatively limited degree to flooding, water scarcity, power failures or other acute physical risks, but such events will impact the countries in which we operate in the years to come. Several Orkla companies in areas exposed to water shortage or power supply interruptions, such as India and Romania, are taking risk-mitigating action. MTR Foods in India has established systems for collecting rainwater, recycling water and ensuring access to locally produced solar energy. Annual water consumption costs are expected to rise in the years ahead.

» The costs of purchased energy have increased in the past few years due in part to new taxes and changes in precipitation, and we expect prices to continue to fluctuate in the coming years.

Raw material availability

» Climate change is causing water scarcity, erosion and changes in biodiversity that affect the basis for agriculture in vulnerable areas. This type of chronic physical climate risk is expected to lead to considerable fluctuation in the prices of cocoa, cotton, soya and other agricultural products from Asia, Africa, South America and Southern Europe in both the short and long term. In the years ahead, drought, flooding and other forms of extreme weather may also affect crop harvests in the rest of Europe and the USA. The anticipated effects of such acute physical climate risks are cost fluctuations, quality deficiencies and temporary supply problems for key raw materials such as grain, fruit, vegetables and animal products. Ocean warming is causing changes in the sustenance base and habitats of several species of fish, and could affect supply and prices.

» To reduce the risk of serious shortage of raw materials, Orkla is committed to promoting sustainable agriculture and fishing by monitoring its suppliers, purchasing certified raw materials, participating in improvement projects and engaging in political dialogue. We are also increasing our use of long-term contract farming agreements and are exploring the possibility of replacing certain raw materials with other alternatives.

Regulatory and operating frameworks

» Only one Orkla factory is currently covered by the EU emissions trading system (EU ETS), and we do not expect the changes planned in the system (phase 4) to affect this situation. In a 3-10-year perspective, changes in the regulatory framework for climate quotas could affect more businesses.

» Taxes on fossil-fuel energy sources are expected to increase further, and may affect Orkla's production and transport costs.

» In a 1-3-year perspective, changes in national manufacturer's liability systems are expected to raise the costs of handling used packaging, partly due to the European Strategy for Plastic in a Circular Economy. To contribute to good, cost-effective solutions to plastic pollution problems and reduce greenhouse gas emissions from packaging, Orkla is engaging actively in packaging innovation and collaboration on improvements in collection, sorting and recycling systems.

» We anticipate stricter regulation of fishing and production of agricultural raw materials vulnerable to climate change as part of the efforts to ensure sustainable fishing and agriculture. Orkla pursues a dialogue with government authorities on these issues, both directly and through its membership in national and international trade organisations.

Market and technology

» Consumers and professional customers are increasingly requesting information on the climate impact of individual products or raw materials, which necessitates new knowledge and expertise and could increase complexity. Orkla has developed a tool that makes it possible to map the climate footprint of food products, and has begun to provide information on this impact for selected products and customer groups. In the years to come, use of this tool will be expanded to include more companies and products. This is a difficult process that will have to be carried out over time.

» Production of many food raw materials is associated with high greenhouse gas emissions, high water consumption, risk of biodiversity loss and social challenges arising from climate change. Orkla's efforts to reduce greenhouse gas emissions in its supply chain and achieve sustainable raw material production mitigate the brand risk related to these challenges.

Climate opportunities

Increased resource efficiency

» In 2014-20, Orkla achieved a reduction of 19 per cent in energy consumption and 6 per cent in water consumption in its own operations. Efficiency improvement initiatives will generate a cost benefit and reduce the effect of potential increases in market prices. These initiatives also reduce Orkla's exposure to future tax increases. To reach Orkla's targets of reducing energy consumption and greenhouse gas emissions, investments must be made in energy-efficient production technology.

» The quantity of organic waste from Orkla's own operations was reduced by 23 per cent in the period 2014-2020. The targeted reduction up to 2025 is expected to reduce raw material and waste management costs.

Energy and transport

» Orkla's businesses are in the process of phasing out fossil-fuel heating oil and increasing investments in renewable energy. In addition, Orkla purchases guarantees of origin for all electricity for its own operations in Europe. Renewable energy accounted for 47 per cent of energy consumption in 2020. The transition to renewable energy is expected to generate a growing cost benefit in the years to come, in step with energy market price trends. It will also reduce exposure to climate-related energy taxes.

» Orkla produced 2 884 GWh renewable energy from its own hydropower plants in 2020, at a power price of 9.8 Norwegian øre per kWh. Several factors could affect energy prices in the coming years. The price picture for energy options up to 2030 (Nasdaq) indicates lower energy prices, followed by higher prices.

Business development

» Orkla actively seeks climate-related investment opportunities and considers both acquisitions that can strengthen its existing operations and new areas for growth. One example of such an area is seaweed cultivation for industrial food production. Several companies are also considering new business models, including models for a circular economy.

Product innovation

» The increased interest in a plant-based diet offers substantial opportunity for growth for Orkla. In 2020 around 32 per cent of the turnover of Orkla Foods and Orkla Confectionery & Snacks was generated by vegan products. The plant-based brands NATURLI'®, Anamma, Felix, Beauvais Veggie and Lecora Green Line had a total turnover of NOK 869 million in 2020 and 21 per cent growth compared with 2019.

» Many Orkla companies are developing products that make it easier for consumers and professional customers to reduce their climate footprint or achieve more sustainable consumption in other ways. The companies work across business areas to make their product portfolio more sustainable, and in 2020 Orkla's most sustainable products¹ generated 19 per cent of sales. This strengthens the companies' competitiveness, and our goal is to achieve a steady increase in sales of the most sustainable products in coming years.

¹ Applies to classified revenues in Orkla Branded Consumer Goods. 71% of revenue is classified in 2020. To be considered one of Orkla's most sustainable products, the product must satisfy the criteria in at least two of the following three categories: sustainable raw materials, sustainable packaging and products that promote a healthy lifestyle.



Risk management

The identification and management of climate-related risks follows the Group's established process for risk management. The management of each Orkla company is responsible for risk management and internal control. Orkla's risk management system is fundamental to achieving these objectives. To ensure ongoing follow-up in each Orkla company, a semi-annual update of the risk picture is carried out, in addition to the risk analysis that is integrated into the company's decision-making processes.

The Group's risk management lies within the remit of the finance functions and is intended to ensure that all risk of significance for Orkla's value creation is identified, analysed and effectively dealt with by business areas and specialised staffs. This entails, among other things, continuously monitoring key risk indicators in order to reassess the Group's level of risk and associated risk mitigation measures, if necessary, and ensuring that Orkla's risk management is in compliance with relevant regulatory requirements and reasonably satisfactory to Orkla's stakeholders. Designated risk management experts carry out detailed risk assessments in certain specialised fields and are responsible for selected measures to mitigate risk at Group level. The Central Finance staff are responsible for Orkla's risk management model, and the Group's risk management programme is reviewed on a regular basis.

The guidelines for risk management state that all significant matters must be considered. Climate risk is a significant risk factor. The Group will consider how climate risk factors can be further integrated into risk management in the future. A thorough assessment will help us understand the effect of climate-related risks and opportunities for the business, including the possible economic effect. It is important that Orkla's companies become familiar with and assess the effect of the exposure they have associated with climate risk and opportunities. In the future, there will therefore be a focus on communicating this and increasing competence further. This means increasing understanding of how to identify, assess and manage climate risk and opportunities throughout the company.



Metrics and targets

Orkla has overall sustainability targets for 2025 that apply to the entire Group and includes ambitious goals to reduce greenhouse gas emissions and the transition to renewable energy.

Orkla has set Science-Based Targets (SBT) aligned with the Paris-Agreement. The calculation of these goals is based on IPCC AR5 and the goal-setting method as described in Science-Based Target Setting Manual scenario RCP 2.6 (IPCCs AR5 WHIII, Chapter 6, Table 6.3, page 431). Orkla's climate targets have been approved by the International Science-Based Targets Initiative (SBTi), and in the autumn of 2019 these were also approved for the requirements that satisfy 1.5 degrees.

For several years, Orkla's companies have worked systematically with improvement measures and the companies are followed up on indicators such as reduced energy consumption and renewable energy. To meet the climate targets, Orkla has also decided to purchase Guarantees of Origin (GO) for all electricity (scope 2). The measures have resulted in greenhouse gas emissions being more than halved since the base year 2014, and Orkla is well on its way to achieving SBT with a 63% reduction in 2025 and 77% by 2040.

The greatest impact on the climate comes from raw material production and the consumption stage. Therefore, further work will focus on reducing emissions in all parts of the value chain. Orkla has also set Science-Based Targets (SBT) for the value chain (scope 3). These emissions will be reduced by 29% within 2025 and 75% by 2040.

Orkla has for many years reported energy and climate accounts. Calculation of greenhouse gas emissions is based on the GHG protocol, both own emissions (scope 1 and 2) and emissions related to the value chain (scope 3). **The status for 2020, as well as 2019, 2018 and the base year 2014 are shown here.**

Climate impact¹ and emissions

GRI reference	Indicators	Unit	2020	2019	2018	Baseline year 2014
305-1	Greenhouse gas emissions from own operations, Scope 1	tCO ₂ e	113 300	121 380	121 120	135 200
305-1	Greenhouse gas emissions from bio-energy, Scope 1	tCO ₂ e	691	446	328	274
305-2	Indirect greenhouse gas emissions, Scope 2, location-based calculation	tCO ₂ e	67 000	72 620	78 700	93 200
305-2	Indirect greenhouse gas emissions, Scope 2, market-based calculation ²	tCO ₂ e	7 310	12 300	13 680	132 640
305-3	Greenhouse gas emissions from raw materials, packaging and waste Scope 3 ³	tCO ₂ e	1 652 350	1 688 000	1 577 200	1 698 100
305-4	Greenhouse gas emissions (Scope 1 and 2 market-based) per FTE ⁴	tCO ₂ e/FTE	6.7	7.2	7.5	15.6
305-4	Greenhouse gas emissions (Scope 1 and 2 market-based) per revenue ⁴	tCO ₂ e/ NOK million	2.6	2.9	3.2	6.9
305-6	Emissions of ozone-depleting substances (ODS) ⁵ used in cooling media	tCFC-11e	0	0.016	0.012	0.014

Efficient resource use

GRI reference	Indicators	Unit	2020	2019	2018	Baseline year 2014
302-1	Electricity from internally generated hydropower, sold	GWh	2 885	2 160	2 320	2 570
302-1	Total energy usage, own operations	GWh	1 100	1 110	1 120	1 070
302-1	Total energy usage from renewable fuel sources incl. Guarantees of Origin (market-based calculation)	GWh	511	490	495	-
302-1	Energy usage – fossil fuel ⁶	GWh	542	569	566	549
302-1	Energy usage – fossil-free fuel	GWh	56	49	46	31
302-1	Energy usage – purchased electricity	GWh	461	448	459	446
302-1	Energy usage – purchased thermal energy, incl. remote heating	GWh	37	30	46	46
302-3	Energy usage per FTE ⁷	MWh/FTE	60.6	61.5	62.4	65.9
302-3	Energy usage per revenue ⁷	MWh/NOK million	23.3	24.9	26.0	28.9

1: Calculations are based on the Greenhouse Gas Protocol Initiative (GHG Protocol). Include CO₂, CH₄, N₂O, HFC, PFC, SF₆ and NF₃. Historical figures have been corrected based on new information.

2: Market-based emissions take into account the effect of Guarantees of Origin for electricity.

3: Raw materials, packaging and waste management account for around 95% of emissions from Scope 3 activities

4: Historical figures have not been adjusted for later acquired businesses

5: ODS; Ozone depleting substances

6: Includes use of natural gas, propane, oil, diesel, petrol. Orkla uses standard translation factors for different types of fuel

7: Total energy usage in own operations, all types. Historical figures have not been adjusted for acquired businesses

The greenhouse gas accounts for 2020 have been verified by the auditing and consulting company Ernst & Young (EY).



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To Orkla ASA

Independent accountant's assurance report on Orkla AS's Greenhouse Gas (GHG) Statement 2020

We have undertaken a limited assurance engagement of the GHG statement of Orkla ASA for the year ended 31 December 2020, for the period from 1 January 2020 to 31 December 2020, comprising Scope 1, Scope 2, and the waste management share of Scope 3 greenhouse gas emissions presented in Orkla's annual report for 2020, GRI table Environmental engagement (English original version) on page 82 (the "GHG 2020 Report").

Criteria applied by Orkla

In preparing the GHG 2020 Report, Orkla applied the definitions for Scope 1 to 3, set by the Greenhouse Gas Corporate Standard (the "Criteria"). The Criteria can be accessed at ghgprotocol.org and are available to the public. Such Criteria were specifically designed for companies and other organizations preparing a corporate-level GHG emissions inventory. As a result, the subject matter information may not be suitable for another purpose. We consider these reporting criteria to be relevant and appropriate to review the GHG 2020 Report.

Orkla's responsibilities

Orkla's management is responsible for selecting the Criteria, and for presenting the GHG 2020 Report in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the GHG statement, such that it is free from material misstatement, whether due to fraud or error.

EY's responsibilities

Our responsibility is to express a conclusion on the presentation of the GHG 2020 Report based on the evidence we have obtained.

Our engagement was conducted in accordance with the *International Standard for Assurance Engagements on Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000)*. This standard requires that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the GHG 2020 Report is presented in accordance with the Criteria, and to issue a limited assurance report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. EY also applies *International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and

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accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

The Green House Gas quantification process is subject to scientific uncertainty, which arises because of incomplete scientific knowledge about the measurement of GHGs. Additionally, GHG procedures are subject to estimation (or measurement) uncertainty resulting from the measurement and calculation processes used to quantify emissions within the bounds of existing scientific knowledge.

The engagement consists of making enquiries, primarily of persons responsible for preparing the GHG reporting and related information and applying analytical and other relevant procedures.

Our procedures included:

- Interviewing those in charge of greenhouse gas reporting at O to develop an understanding of the process for the preparation of the GHG 2020 Report
- Obtaining and reviewing evidence on a sample basis to support the material 2020 CO2 emissions data for Scope 1, 2, and 3 fuel and energy related activity, based on the Greenhouse Gas Corporate Standard for 2020.

We believe that our procedures provide us with an adequate basis for our conclusion.

Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to Scope 1, Scope 2, and the waste management share of Scope 3 greenhouse gas emissions for the operations of Orkla or the period from 1 January 2020 to 31 December 2020, in order for the GHG 2020 Report to be in accordance with the Criteria.

Oslo, 15 March 2021
ERNST & YOUNG AS

Petter Frode Larsen
State Authorised Public Accountant

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