



2021

KMC Properties ASA

ESG in KMC Properties

Managing KMC Properties' impacts on the environment and society is a central pillar in the company's efforts to build a sustainable business.

About this report

This is KMC Properties' inaugural ESG report. The report is prepared with reference to the Global Reporting Initiative (GRI) Standards (2021) and covers the 2021 calendar year. Feedback on this report is appreciated and can be directed to andreas.grimsbu@kmc.no.

Governance

Managing environmental, social and governance (ESG) issues is central for KMC Properties to succeed in generating a maximum risk-adjusted return on invested capital. ESG concerns such as climate change, labour conditions and ethical business conduct are increasingly being regulated, and business partners request more detailed information and expect transparency.

The board of directors holds overall responsibility for ensuring KMC Properties' responsible governance of ESG issues and has approved this report. The CEO, together with key functions, manages ESG issues on a day-to-day basis. The board is continuously informed about ESG issues and decisions. The reporting lines from properties to the top management are made by selected employees who obtain the necessary information, which is sent to the management.

Identifying what is important

As a real estate company, KMC Properties' main impacts are through its tenants' activities and through the development of properties. Establishing a system for managing ESG related risks and opportunities in KMC Properties' value chain has been prioritised. This includes ensuring that the company's tenants manage ESG issues and are transparent about their impacts on the environment, society and the economy in their operations.

Materiality assessment and stakeholder engagement

KMC Properties has engaged an independent specialist to carry out a materiality assessment using the GRI-3 Materiality Standard. Stakeholders, including banks, investors, employees, and tenants were interviewed. In these interviews, potential and actual impacts to the environment, society and economy caused by KMC Properties' activities were assessed according to their significance. Additionally, financially material topics were discussed and incorporated into the list of material topics. The assessment forms the foundation for this report and will inform strategy and the development of governing documents going forward.

The following ESG topics have been determined to be material for KMC Properties:

- Circular economy
- Impact on climate change
- Negative environmental impacts on properties and their surroundings
- Working conditions on properties
- Violation of indigenous people's rights
- Diversity and equality
- Corruption

The materiality assessment will form the foundation for developing strategy, governing documents and management system going forward.

ESG regulations

ESG issues are increasingly being included in international and national legislation. KMC Properties is currently focused on the following legislation entering into force in 2022:

The Norwegian Transparency Act

The Norwegian Transparency Act comes into force in July 2022. The Act requires companies (with revenue above NOK 70 million) within its scope to carry out three main activities:

- Undertake Human Rights Due Diligence
- Report on Human Rights Due Diligence
- Respond to requests for information.

The EU taxonomy regulation

The European Green Deal and the EU Sustainable Finance Action Plan standardises how financial market participants and companies shall consider and disclose sustainability data.

The EU Taxonomy provides a classification system which defines sustainable economic activities. The EU Taxonomy was approved by the Norwegian Government in December 2021, but it has yet to be incorporated into the EEA agreement (expected in June 2022). KMC Properties will follow the EU regulations and their implementation in Norwegian law closely, and act accordingly.

KMC Properties’ ESG management priorities for 2022

Focus areas in 2022	Measures for 2022
ESG Governance	<ul style="list-style-type: none"> ■ Develop a ESG strategy ■ Develop a code of conduct ■ Digitalise ESG data collection ■ Establish a whistle-blower channel ■ Enhance stakeholder engagement on ESG issues ■ Assess climate-related risks according to the TCFD framework ■ Prepare for the Norwegian Transparency Act (see textbox) ■ Prepare for reporting alignment with the EU taxonomy in 2022
Managing environmental impacts	<ul style="list-style-type: none"> ■ Develop an environmental policy ■ Develop a carbon emission reduction strategy ■ Develop an environmental risk assessment plan for existing properties ■ Further develop acquisition procedures to include environmental issues
Safeguarding human rights	<ul style="list-style-type: none"> ■ Develop a human rights policy including statements on indigenous peoples’ rights, gender equality and working conditions ■ Develop social screening criteria for tenants ■ Establish contact with identified indigenous groups ■ Set gender diversity targets
Ensuring ethical business conduct	<ul style="list-style-type: none"> ■ Develop an anti-corruption policy and procedures for own operations and supply chain

ENVIRONMENT

The real estate and construction sector has a substantial environmental footprint. It accounts for up to 30 per cent of GHG emissions globally, is a major consumer of natural resources and impacts biodiversity.

Governance of environmental impacts

KMC Properties aims to minimise its environmental impact and considers itself an actor in making the industry more environmentally responsible. Through cooperation with its tenants, KMC Properties is focused on building and rehabilitating energy efficient buildings. These include tailored infrastructure solutions that contribute to a circular economy for the industry and its tenants.

done by looking at opportunities for environmentally friendly material use on new buildings, and on the expansion of existing properties in collaboration with KMC’s tenants. Furthermore, work is being done on using recycled building materials, choosing constructions that provide a reduced climate footprint and facilitating future fossil-free construction sites where it is practically possible. All construction sites have a waste plan with source sorting and requirements for sorting grade. The projects are optimised with local masses and materials for plot filling to reduce the climate impact. KMC Properties will invest in solar cells and battery solutions, travel as environmentally friendly as possible and attend trade fairs / courses to stay updated.

The chief operating officer in KMC properties manages the environmental aspects in the company’s operation. This is

The materiality assessment identified KMC Properties’ largest environmental impacts and hence its strategic focus areas:

- Limiting GHG emissions and managing climate risks
- Contributing to the circular economy
- Reducing the environmental impact of newbuilds and the current portfolio.

The company is working to incorporate these considerations into its current management system, develop an environmental policy and an emission reduction strategy in 2022.

Limiting emissions and managing climate risks

The real estate sector uses more energy than any other sector and is a growing contributor to GHG emissions. As property owner and property developer, KMC Properties aims to reduce the energy consumption and the emissions of its operations.

Climate accounting

In 2021, KMC Properties produced its first climate account, representing a starting point for the company's work to reduce emissions across its value chain. The climate account has been prepared in accordance with the GHG protocol, using the operational control approach.

KMC Properties has no direct GHG emissions (Scope 1) from sources controlled or owned by the organisation. The company's most significant emissions occur indirectly (Scope 3). In the 2021 baseline, Scope 3 emissions include tenant gas and electricity consumption and business travel (air travel and hotel stays). In 2021, KMC Properties emitted a total of 43 670 metric tonnes CO₂e (Scope 1,2 and 3).

Energy efficiency

Enhancing energy efficiency is a central element to reduce emissions. The total reported energy consumption for KMC Properties' portfolio was 278 921 MWh in 2021. The largest source of energy consumption is related to electricity, and the annual energy consumption per square metre was 972 kWh/m²/year.

In 2021, KMC Properties initiated a pilot project at the property in Fredrikstad, to test the use of solar panels and battery containers in collaboration with its tenant, in order to increase the usage of local produced renewable energy and optimise the tenants' and the energy distributors' capacity. If the trial project is successful, the goal is to instal solar panels and battery solutions on all properties where this is relevant. Three of KMC Properties' tenants have already installed solar panels.

Energy and emission performance of KMC Properties:

Energy consumption¹

Russia	4 768
Norway	86 417
Denmark	57 642
Sweden	31 574
The Netherlands	98 521

Total energy consumption - portfolio (MWh)	278 921
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Energy intensity (kWh/m ²)	972
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GHG emissions (metric tonnes CO₂)

Scope 2 emissions²

Location-based	1
Market-based	31

Scope 3 emissions³

Downstream leased assets	43 659
Business travel (air + hotel)	10

Total Scope 2 and 3 (location-based scope 2)	43 670
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1) Includes data for 32 properties, which makes up 74% of the portfolio (80% of leased area) and offices.

2) Scope 2 – Electricity, district heating and district cooling. Based on DEFRA emission factors.

3) Scope 3 – Only including downstream leased asset category (collected data for electricity use at 32 properties and gas use at 17 properties) and business air travel. Calculated based on DEFRA emission factors. Hotel stays based on a 4-star hotel for Norway through <https://www.hotelfootprints.org/footprinting> (as recommended by DEFRA).

Climate risks

As a property owner and developer KMC Properties is exposed to both physical and transitional climate risk. In 2022, the company plans to conduct a climate risk assessment in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The company will assess their investment strategy on a regular basis, taking into consideration how the company may be impacted by stricter regulations, market demand and physical climate risks.

KMC Properties aims to broaden its GHG reporting by including additional sources of emissions in its climate accounting for 2022. As a result, future ESG reports will include more data on energy consumption and emissions. KMC Properties will work to establish a structured approach to data collection that aims to simplify the process and reduce the risk of errors, as well as develop an emission reduction strategy.

Contributing to a circular economy

The global real estate sector is one of the largest consumers of raw materials and one of the largest producers of waste. Circular economy is defined as an environmental objective in the EU taxonomy, and KMC Properties acknowledges that it needs a more consistent approach to both choice of materials and waste management going forward.

For this report, the company has gathered data on waste generation related to one construction and renovation project finalised in 2021. A total of 70 tonnes of waste were generated with a recycling rate of 58.6 per cent.

The results of this year's report provide valuable input for KMC Properties' work to define its role in the circular economy going forward.

Waste generated	Tonnes
Wood	28.28
Paper	0
Glass	0
Iron and metals	11.42
Gypsum-based materials	0
Plastic	0
Concrete and brick	0
Contaminated concrete and brick	0
Electronic waste	0
Mixed industrial waste	29.03
Incinerated waste	1.36
Chemicals (paint, glue, vanish)	0

Reducing environmental impact of properties

When constructing and operating industrial properties, KMC Properties impacts local ecosystems and biodiversity. Pollution from the properties or construction activities, and habitat disturbance and conversion, are identified risks associated with the company's business. Several of the company's properties are located along the Norwegian coastline, in or close to vulnerable ecosystems.⁴

The company takes necessary precautions to limit potential negative impacts on the surrounding environment. KMC Properties operates in accordance with all laws and regulations related to the environment and conducts environmental due diligence (EDD) as required. There was no non-compliance with environmental laws and regulations in 2021.

Several of KMC Properties' tenants operates in accordance with special cleaning and emission requirements, hence, supporting KMC Properties in its efforts. KMC Properties uses a

standardise checklist to collect data from tenants on pollution and the use of renewable materials and measures.

In 2022, KMC Properties will work to increase environmental awareness and responsibility amongst its employees, tenants, and suppliers. Furthermore, the company will actively work to identify and implement measures to reduce negative environmental impact caused by its properties and construction activities.

SOCIETY

KMC Properties considers its business' potential impact on people to be significant. Safeguarding human rights in its operations is a key priority.

Governance of social issues in KMC Properties

KMC Properties aims to be a responsible employer, property owner and real estate developer. KMC Properties' most important priority is to take care of its own employees, tenants' and suppliers' health and safety.

The materiality assessment identified KMC Properties' impacts on society and informed its strategic focus areas. These are:

- Working conditions on properties
- Violation of the rights of indigenous people
- Diversity and equality

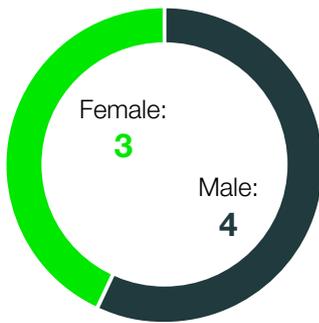
Ensuring safe working conditions

KMC Properties seeks to ensure safe and reasonable working conditions for people working at its properties, including tenants and entrepreneurs. The overall responsibility of health, safety and working environment (HSE) in construction and rehabilitation projects lies with KMC Properties, and the COO manages these issues on a daily basis and reports directly to the CEO. Projects must at all times follow applicable laws and regulations, including the right to Norwegian minimum wage rates and injury insurance. KMC Properties carries out inspections regularly to safeguard good working condition.

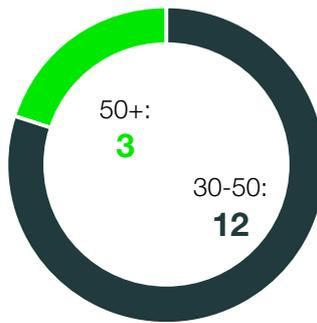
The company manages a portfolio of light industrial facilities, which is associated with risks such as: flammable material, hazardous waste, slippery floors, high altitudes, loose objects. The tenants are responsible for their employees' working conditions and projects when operating on the property. In preparation for this report, KMC Properties has requested information on work related injuries from its tenants.

4) <https://artsdatabanken.no/lister/rodlisterforarter/2021>

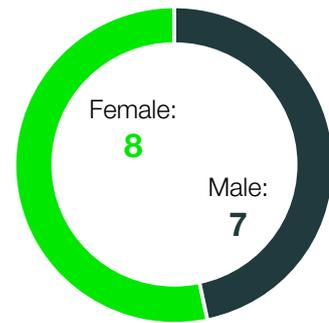
Gender balance
Board of directors



Age distribution
KMC Properties' employees



Gender balance
KMC Properties' employees



KMC Properties has obtained HSE data from 28 tenants. In 2021, the number of recordable work-related injuries at the company's properties where 66. These were primarily related to minor injuries such as cuts, fall and crush.

The executive management team is seeking to cooperate with tenants to reduce work-related risks and ensure that workers have safe and decent working conditions. This will be a central pillar in the development of KMC Properties' sustainability strategy and governing documents going forward.

Total reported incidents in 2021:

Type of injury

Fatalities	0
High-consequence work-related injury (excluding fatalities)	5
Recordable work-related injuries	66

Safeguarding the rights of indigenous people

KMC Properties has operations in Northern Norway in areas where indigenous people are located and is conscious of their rights as stipulated in United Nations Declaration on the Rights of Indigenous Peoples. Establishing stakeholder dialogue with indigenous peoples in the areas of which KMC Properties operates is of key importance to safeguard their rights. KMC Properties will develop policies and procedures to safeguard the rights of indigenous people in 2022. KMC Properties has not identified any incidents of violations of the rights of indigenous people in 2021.

Providing equal opportunities for employees

KMC properties aim to ensure equal opportunities for all its employees. KMC Properties values diversity and prohibits dis-

crimination against any employee or any other person based on sex, colour, age, religion, national origin, political opinion, sexual orientation, disability, or any other basis. The company aims to promote diversity and equal opportunities and works to include this in the company's human resources guidelines. In 2021, KMC Properties had no reported incidents related to discrimination.

At the end of 2021, KMC Properties had 15 employees, of which 9 in Norway and 6 in Russia. Females accounted for 44 per cent. o employees at KMC Properties are employed on a part-time or temporary basis.

GOVERNANCE

KMC Properties values transparency. Anti-corruption has been identified as a material topic, linked to property regulation, operations in Russia and its supply chain. There were no reported incidents of corruption in KMC Properties' operations in 2021.

Governance of ethical business conduct in KMC Properties

KMC Properties recognises that its business conduct has an impact on the economy through transactions and negotiations. KMC Properties aims to be a transparent market player, and as listed on the Oslo Stock Exchange, it is obliged to disclose detailed information on corporate governance (see separate section on Corporate Governance in the annual report).

The materiality assessment identified KMC Properties' most important focus areas:

- Corruption in own operations
- Corruption in supply chain

An important task ahead is to develop an anti-corruption policy and procedures.

Ethics when investing in properties

The process of acquiring a property has several decision gates requiring approval from external bodies. This poses a corruption risk to KMC Properties. The company has established processes to mitigate these risks, including juridical and financial due diligence procedures. The M&A and operation departments lead the procurement processes, where they request a company for legal due diligence and financial due diligence.

KMC Properties carried out five acquisitions in 2021, completed one greenfield project and initiated three additional projects, and completed three and initiated seven additional construction projects related to existing properties. All operations were assessed for the risks mentioned above.

Russia

KMC Properties owns an office building in Moscow with approximately 75 tenants. The Russian property company, LLC Martex, has six employees. The Russian Federation is a country with a considerable higher risk of corruption than the other countries in which KMC Properties operates⁵, and KMC Properties has measures in place to manage the risks associated with this.

KMC Properties' CEO and CFO reviews detailed reports on the tenants, potential tenants, operational expenses and cash flows from its Russian subsidiary weekly. PwC Norway, with assistance from PwC Russia, is engaged to perform specific controls on the cash deposits and cash flows, salaries, and operational expense. A second third party performs annual sanctions control of the tenants in Russia. These measures reduce the risk of corruption significantly.

The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the group may be challenged by the relevant regional and federal authorities.

In Russia it is common to settle disputes in the official court. Martex LLC has won all three legal disputes that have been brought before the court in 2021. Two of the disputes were against former tenants to retrieve receivables towards them. The last court case was a dispute with the real estate register in Moscow, to correct an error in the register.

Supply chain management and minimum social safeguards

KMC Properties is a substantial procurer of steel structures, sandwich elements, roof insulation from Eastern Europe, as well as some pipes and concrete stairs. The remaining materials are mainly from Norway. In July 2022, the Norwegian Transparency Act enters into force. Combined with the Minimum Social Safeguard requirements in the EU Taxonomy, it will be mandatory to disclose information about companies' impacts in the supply chain, with a particular focus on human rights and decent working conditions, and its management of these.

In 2022, KMC Properties will prepare to meet these requirements, and establish due diligence and reporting procedures in line with the OECD Guidelines for Multinational Enterprises.

Comment on situation with Russia and Ukraine. Sanctions.

Sanctions imposed on Russia due to its invasion of Ukraine, has significantly increased the risks related to KMC Properties' operations in Russia. KMC Properties is in a process of selling its only property in Russia, so the focus is on operating in compliance with all relevant laws and regulations and take care of the company's six employees in Russia until the sale is completed. Since the invasion started at the end of February 2022, KMC Properties has, with assistance from Baker McKenzie in Russia, performed a sanction control on its current tenants in Russia without any significant findings. In addition, KMC Properties is monitoring the ever-changing regulatory requirements with assistance from legal and financial consultants in Norway and Russia.

5) <https://www.transparency.org/en/cpi/2020/index/rus>



Bleivassvegen 7: Property located at Ågotnes, in the western part of Norway. The tenant PSW Group is a provider of products, systems and services to the oil and energy industry.





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