investor

Climate Report 2020

Task Force on Climate-related Financial Disclosures (TCFD) Report

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Introduction

Investor is an engaged and long-term owner of high-quality companies. We are guided by our purpose to create value for people and society by building strong and sustainable businesses.

The business community has a key role in taking action and coming up with new innovative solutions to combat climate change and increase resource efficiency. As an owner, we acknowledge our broader role to accelerate the transition to a sustainable low carbon economy. Investor is committed to climate targets aligned with the Paris Agreement and has set a target to halve its greenhouse gas emissions by 2030 as well as a target to halve greenhouse gas emissions from its portfolio companies by 2030.

> **"We are convinced that companies integrating sustainability in their business models will outperform competition over time. We drive our portfolio companies to accelerate the transformation to a low-carbon economy. To us, this is about future-proofing Investor and our companies. "**
>
> **Johan Forssell, President and CEO**

As a long-term owner, we both need to take into account risks and take advantage of opportunities resulting from climate change in order to contribute to the transition to a society with net-zero greenhouse gas emissions. The future success of our companies depends on their capacity to drive change and to invest for the long-term in new solutions that are more resource efficient and that meet the needs of their customers, not only today but also tomorrow. We encourage our companies to invest in innovation and develop products that make a positive contribution to the environment.

Investor supports the Task Force on Climate-related Financial Disclosures (TCFD) Report (TCFD) and have started to implement its recommendations, which enable us to better understand the actual and potential impact of climate-related risks and opportunities on our business, strategy and financial planning. By identifying and assessing the most material risks and opportunities for Investor and our portfolio, we can manage and mitigate the risks while seizing the opportunities. This creates resilience and enables long-term value creation. This report is structured in accordance with TCFD reporting recommendations. Read more about Investor's sustainability approach and progress in the Annual Report and on our webpage.

About Investor AB

94	**24**	**SEK 546bn**
employees	major holdings	net asset value (adjusted)

Governance

The section on governance includes describing Investor's governance structure in relation to climate-related risks and opportunities.

Board oversight
The Board of Directors decides on the Sustainability Policy, Governance, Risk and Compliance Policy and Finance Policy, all of which set the principles for how Investor should act. The policies are reviewed and approved on an annual basis. The Board of Directors is responsible for Investor's overall strategy, including the approach to integrate sustainability aspects as part of our value creation.

The Sustainability Policy sets the framework for Investor's sustainability approach and work. The Board of Directors has decided on a long-term sustainability approach covering both Investor and our portfolio companies. The climate targets approved by the Board are aligned with the Paris Agreement (reduce greenhouse gas emissions by 50% by 2030).

The CEO is a member of the Board of Directors and has the overall responsibility for Investor's business strategy including climate-related issues. Investor follows up and monitors progress at portfolio level both through an annual self-assessment questionnaire as well as its own analysis as part of the value-creation plans and dialogues with the companies' sustainability departments. The portfolio companies' progress is presented to the Board on a regular basis and at least yearly.

Risk assessment are conducted continuously in the day to day business at Investor. A comprehensive risk assessment is made annually to identify and evaluate existing and emerging risks to mitigate. This assessment encompasses all categories of risks and involves the Management Group, representatives from the whole organization, the control functions as well as input from the subsidiaries. Material risks are compiled in a company-wide risk map. When needed, action plans are defined and implemented to minimize the probability and impact of identified risks.

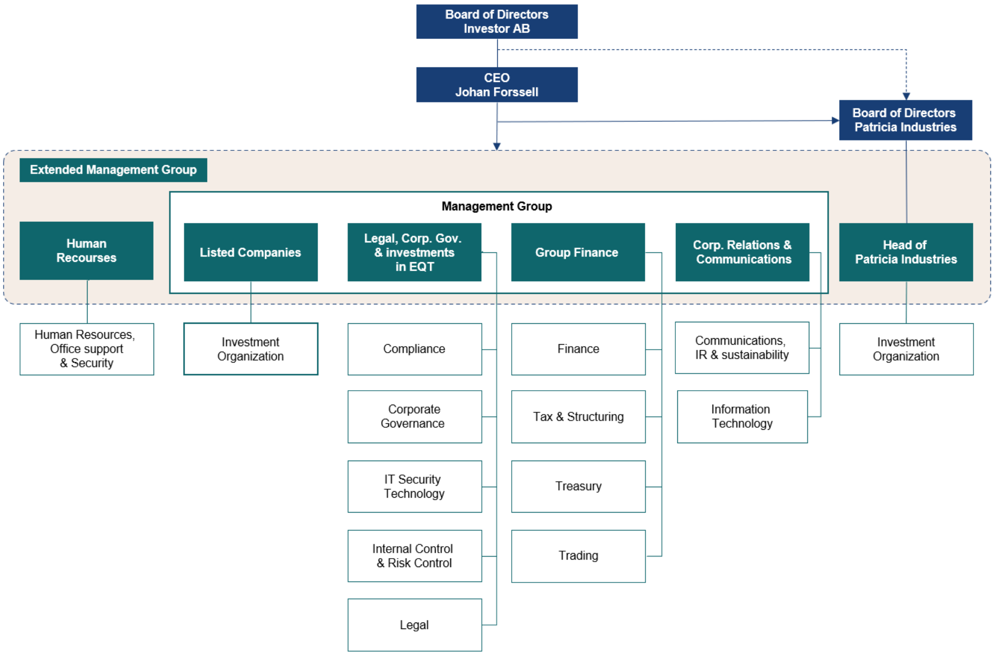
Management approach
The Management Group decides on the development and execution of the sustainability approach and within the Management Group the Head of Corporate Communication & Sustainability is responsible for coordinating and driving the overall sustainability work. The managerial responsibility for responsible investments lies within the investment organization. The Heads of Listed Companies and Patricia Industries are responsible for integrating sustainability into the investment and ownership strategies, including risk assessment, due diligence, continuous

monitoring and follow-up. Investor's board representative together with the business teams engage with the companies at least yearly regarding sustainability.

Each business area is responsible for driving the implementation of our sustainability strategy and assessing potential risks and opportunities related to climate change. Investor also has a dedicated sustainability team that together with the business teams drive specific sustainability related projects and climate-related topics.

All employees within Investor have a responsibility to work in line with the overall sustainability strategy. Investor conducts sustainability training for employees regularly and at least yearly. During the year, Investor has performed a number of activities to increase its knowledge and expertise in climate issues. Investor held several presentations and trainings for employees regarding sustainability and our focus areas during the year. There were two training sessions more connected to climate change with external speakers.

Investor AB's organizational chart



Strategy

The section on strategy includes reporting on current and potential impacts of climate-related risks and opportunities in organizations' business, strategy and financial planning.

Investor's portfolio consists of 24 major holdings. For each company an analysis is done from Investor's perspective as an owner which focuses on the implications on our business, strategy and financial planning. As an industrial holding company, we do not have the level of insight into all our portfolio companies that an operating company would have into its own operations.

Climate-related risks and opportunities
Given Investor's long-term investment horizon it is crucial to take climate aspects into account in investment decisions. Climate risks and opportunities exist both in the short- and long-term perspective. In the shorter term, the transition to a low carbon society also means investment opportunities, e.g. companies with products and services that contribute to the transition to a low-carbon economy. Concurrently, there is a risk that our portfolio companies do not transform quickly enough to meet the demands for lower carbon emission solutions, impacting the long-term value of Investor's portfolio.

Market - The risk that a demand for the products and services our portfolio companies provide shifts to demand for other solutions with lower carbon emissions, could affect our share value and return of investment if the transition is not picked up and acted on quickly. We believe transition risks related to market and reputation are the most material. The risk of not being able to meet these demands by making the transition to a low-carbon economy may have a significant impact on our companies' competitiveness.

Many of our portfolio companies are sustainability leaders, such as Electrolux, ABB and Husqvarna. These companies have since many years developed products demanded by customers who require low carbon solutions. Investments in R&D are important to secure the long-term competitiveness of our portfolio companies. Since the investment strategy for Investor is to own companies which are leaders in their industries, we continuously focus on their performance, their technology position and R&D strategy to develop new innovative products. We annually monitor the companies' investments in research and development. In 2020, R&D expenses in our companies totaled SEK 122bn.

Technology - Technology is regarded as an opportunity for Investor and our portfolio companies as they are on the frontline of technological development. The main opportunity relates to being consumers' preferred choice by leveraging new technology to take the lead in developing products and services with a low or positive climate impact. However, there is always a risk that our companies do not adopt quick enough. If such technological innovations or methods are not identified, it could lead to significant financial impact for that specific company in reduced profit. For Investor AB, however, the impact would be limited as it is mitigated by our diverse portfolio mix with companies active in different industries.

Current and emerging regulation – In order to implement the Paris Agreement, it is likely that governments and international bodies such as EU will introduce various regulatory measures, which will increase the price of GHG emissions. Companies would likely also be indirectly impacted by a rise in energy costs, for example in the purchase of energy-intensive materials. Most of our holdings have a comparably low fossil dependency and due to the spread of sectors (telecommunications, manufacturing, pharmaceuticals, banking) and geographical presence it's unlikely that all Investor's portfolio companies would be affected by increased price at the same time. It is likely that a few larger manufacturing plants of some of our companies could be affected within a five-year horizon, depending on national policies. Although unlikely, we have estimated the financial effect if all portfolio companies within Patricia Industries would be affected and calculated the financial impacts of that scenario. In 2020, the scope 1 & 2 emissions from our companies in Patricia Industries were approx. 136 800 tonnes. If all companies were affected by a carbon cost of SEK 100-539 we estimate it would lead to a total cost for the companies of between 14 - 74 MSEK. This will have low financial impact on Investor. The estimated highest carbon cost has a 0.2 percentage point impact on Investor AB's consolidated EBIT margin. In 2020, the base margin was 21.6%.

The process of managing this risk involves fostering a commitment from our companies to continue to mitigate carbon emissions and adapt to a low carbon economy, e.g. by developing climate strategies, committing to reduce their emissions in line with the Paris Agreement. Within the portfolio, the Listed Companies have higher GHG emissions due to their size. However, many of them are already climate leaders when it comes to decoupling carbon emissions and economic growth. One concrete example is that at the end of 2020, 57% of all our portfolio companies had aligned their climate strategies to the Paris Agreement and set measurable targets to decrease greenhouse gas emissions by 50% or more by 2030. At the end of 2020, the portfolio companies that represent more than 77% of the total emissions from the portfolio had set reduction targets that were aligned with the Paris Agreement.

Reputational - Investor AB has high quality companies in its portfolio and a long-term investment horizon. High credibility for our ownership model is crucial for Investor and we take care to cater for our high reputation. A sudden incident for a portfolio company, such as hazardous materials spills or leaks, could affect the specific company's reputation and demand, and indirectly Investor's reputation. The risk of a changed investor perception of Investor AB's portfolio or our ability to build strong and sustainable business is of high relevance to us. If the trust for Investor AB decline, it would have major implications for our business relations and the share value of Investor AB.

Acute and chronic physical risks – Some of our companies are to a larger degree reliant on physical assets and facilities for their production, and they have more complex supply chains. Severe weather events such as heat waves, floods and forest fires could affect their production or delivery capacity, as they are dependent on global supply chains. Typically, such events cannot be forecasted and dealt with other than generally such as creating a stronger resilience in the supply and logistic chains so that alternatives are available. It's most certain that different chronic physical risks will affect some of our portfolio companies. A physical risk for a bank would instead be connected to its investment and loan portfolio. Chronic and acute physical risks could lead to destruction of property through flooding and heavy storms that may result in difficulties for borrowers to pay interest and amortize, which could affect the banks profit.

Climate-related opportunities

The transition to a low carbon society also means investment opportunities. Climate-related opportunities exist both in the short- and long-term perspective.

Opportunity	Primary driver	Impact	Time	Likelihood	Magnitude
Products and Services	Shift in consumer preferences	Increased revenues (increased demand for products and services)	Short term	More likely than not	Low
Products and services	Development of new products or services through R&D and innovation	Increased revenues (increased demand for products and services)	Short term	Very likely	Medium-low
Resource efficiency	Use of more efficient product and distribution processes	Reduced indirect (operating) costs	Short term	Virtually certain	Medium-low

For more details on the main climate-related risks and opportunities, see Investor's CDP response on our webpage.

Risk management

The section on risk management includes disclosure on how the organization identifies, assesses, and manages climate-related risks.

Risk assessment process
As an industrial holding company, a material level of Investor's risk exposure sits within our portfolio, which is why the risk assessment process is performed at both the Investor and portfolio levels. Identifying and assessing sustainability-related risks falls within a wider risk and internal control framework at Investor. This company's risk assessment encompasses all categories of risks, the entire organization and all processes. All substantial risks are grouped in terms of likelihood and financial impact. Representatives from the Management Group, the investment organization and the corporate functions assess the risks together. The identified risks are compiled in a company-wide risk map.

At Investor, climate-related issues are monitored continuously during the year and once a year a more comprehensive analysis is conducted on all portfolio companies. As an owner we assess our portfolio's overall exposure to climate-related risks and opportunities. All 24 portfolio companies report their yearly sustainability performance to Investor. The collection of information is both through a sustainability system and through follow-up dialogues/meetings with each company. Climate calculations and analyses are done for Investor's portfolio companies in order to identify companies' fossil fuel dependency and negative trends for carbon emissions. We analyze our portfolio of 24 companies' transition to a low-carbon economy and their strategy to mitigate risks and exploit opportunities. The analysis is presented by the CEO and discussed by the Board.

Risk management
The company-wide risk map is reported to the Board. Action plans are established to mitigate and minimize the probability and impact of identified risks. The CEO and Management Group follow up on the implementation of action plans and decides on the development and execution of the sustainability approach.

One example of how Investor has responded to transition risks are the adopted climate targets for Investor's overall portfolio and which are in line with the Paris Agreement. The aim is to future-proof our operations and ensure we drive our portfolio companies to be best-in-class. Investor drives the climate strategy through our board representatives by engagement and make sure to follow up our companies' targets and measures to reduce their climate impact. Investor also monitors and follows our companies progress through dialogue and reporting.

Company engagement

Investor AB's investment strategy is based on the conviction that sustainability strategies are fundamental for the long-term growth of our asset value. Investor create unique value creation plans for each portfolio company. The business teams and sustainability team engage with our portfolio companies on a regular basis. In 2020, Investor engaged with our 24 companies regarding sustainability. One way we engage is through Investor's Sustainability Network, where we meet the portfolio companies' Heads of Sustainability three to four times per year to discuss different sustainability challenges and opportunities. In 2020, Investor Sustainability Network met three times, and all three meetings focused specific on environment and climate, two related to circular economy and one regarding EU Taxonomy and Sustainable Finance.

Our listed companies are reducing their climate impact, both in absolute terms and in relation to revenue, i.e. decoupling (lower carbon impact and higher revenues and economic results). To a large extent, our holdings have low carbon impact in relation to their respective industry, and many of them are sustainability leaders, such as Electrolux, ABB and Husqvarna. In addition, these companies have since many years developed products demanded by customers who require low carbon solutions.

Three of our 24 companies have formally supported TCFD and many are working to improve climate related analysis and disclosures. We expect several listed companies to start implementing the TCFD reporting recommendations during the year. In 2021, Investor will also arrange training sessions and support for companies within Patricia Industries. The portfolio companies' reported climate risks and opportunities will be key input for Investor to perform a climate-related scenario-analysis on portfolio level.

Metrics and targets

This section includes the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

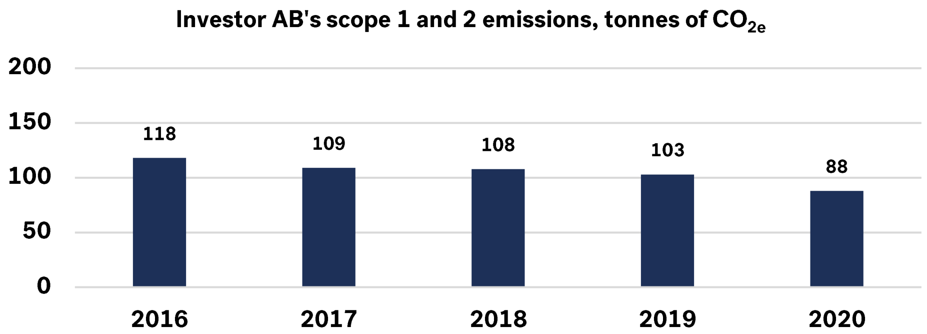
Climate targets

Investor has committed to climate targets aligned with the Paris Agreement's aim of limiting global temperature rise to 2 degrees above pre-industrial levels, while trying to limit the temperature increase to 1.5 degrees. The climate targets are:

- Reduce absolute greenhouse gas (GHG) emissions from Investor AB's scope 1 and 2 with 50% by 2030 compared with 2016.
- Reduce absolute GHG emissions from portfolio companies by 50% by 2030 compared to 2016 (the portfolio companies' scope 1 and 2 emissions).
- Accelerate the portfolio companies' climate strategies beyond their basic footprint, ensuring that all portfolio companies set relevant reduction targets related to their products, services or value chain (the portfolio companies' scope 3 emissions).

Investor AB: Scope 1 and 2 emissions

Investor has committed to reduce absolute GHG emissions from Investor AB's scope 1 and 2 with 50% by 2030 compared with 2016.



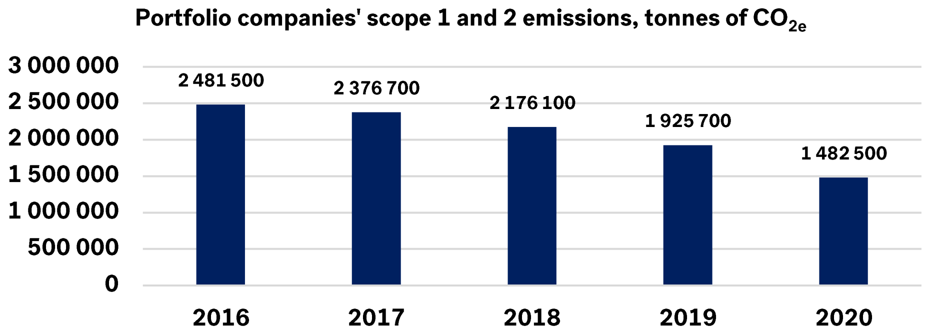
In 2020, the scope 1 and 2 emissions for Investor AB equaled 88 tonnes, a reduction of 26% compared to 2016. The reduction compared to 2016 is mainly due to energy efficiency in offices and in 2020, the energy consumption in offices was also impacted by increased remote working due to covid-19 pandemic. The emissions from scope 1 consists of company cars and the scope 2 emissions include purchased electricity and district heating for our offices in Stockholm, New York, Amsterdam and Palo Alto.

Investor actively works to reduce the environmental impact of our operations. In 2020, the total energy consumption in our offices amounted to 1,102 MWh compared to 1,291 MWh in 2019. The energy consumption at our head office represents more than 65% of Investor's total consumption. The target is to reduce consumption with three percent yearly. During the last three years Vectura, our portfolio company, from whom we rent our head office, has implemented a number of emission reduction initiatives, e.g. installed motion lighting, solar panels and charging posts for electric vehicles. At our main premises in Stockholm we use 100% renewable electricity.

Even though Investor's direct environmental impact is limited, we want to do our share and minimize our negative impact and carbon footprint. To reach our target to reduce emissions by 50% by 2030, Investor will continue to minimize carbon emissions from our offices and company cars.

Investments: Portfolio companies' scope 1 and 2 emissions

As an owner, we acknowledge our broader role to accelerate the transition to a sustainable low carbon economy. It is Investor's ambition to reduce the portfolio's carbon footprint by impacting companies to reduce their carbon emissions in line with the Paris Agreement. Investor aims to strengthen the portfolio's resilience and have committed to reduce absolute GHG emissions from portfolio companies by 50% between 2016 and 2030. The target includes the portfolio companies' total scope 1 and 2 emissions and is set for the overall portfolio (not an equity approach).



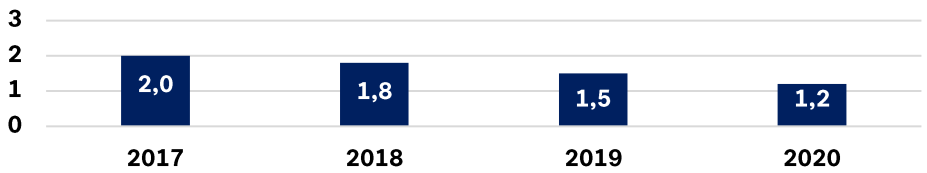
In 2020, the emissions from the portfolio companies equaled 1,482,500 tonnes of CO_{2e}, a reduction of 40% compared to 2016. Investor works through its representation on the boards to drive the companies to set targets and strategies to develop resource efficient processes and to reduce their greenhouse gas emissions. In the yearly sustainability questionnaire Investor tracked that 78% of our companies had targets to reduce its scope 1 and 2 emissions compared with 50% 2019.

Companies' emissions, tCO_{2e}	2020	2019	2018	2017	2016
Listed Companies	1,345,400	1,786,300	2,043,200	2,256,200	2,360,300
Patricia Industries	136,800	139,000	132,500	120,200	121,000
EQT AB	300	400	400	300	200
Total GHG emissions	**1,482,500**	**1,925,700**	**2,176,100**	**2,376,700**	**2,481,500**

At the end of 2020, 57% of our portfolio companies had aligned their climate strategies to the Paris Agreement and set measurable targets to decrease greenhouse gas emissions by 50% or more by 2030 compared to 23% in 2019. In end of 2020, the portfolio companies that represent more than 77% of the total emissions from the portfolio had set reduction targets that were aligned with the Paris Agreement.

The reduction of emissions is both in absolute terms and in relation to revenues, i.e. decoupling (lower carbon impact and higher revenues and economic results). Our portfolio companies are generally found within Engineering, Technology, Healthcare and Financial Services. To a large extent, our holdings have low carbon impact in relation to their respective industry. The diagram below shows the emissions from the total portfolio in relations to the revenue from all the portfolio companies.

Emissions in relation to revenue, tonnes of CO_{2e} / SEK m.



Investments: Portfolio companies' indirect emissions

Investor has set this additional portfolio target to ensure that all of our companies have relevant reduction targets for their scope 3 emissions. The portfolio companies' scope 3 emissions are material. It's challenging to set an overall reduction target due to the complexity of the different business models and industries, Investor has therefore set this target to ensure our companies integrate climate mitigation in their business strategies where most relevant to them, and to ensure that also emissions upstream and downstream in the value chain are taken into consideration. In 2020, 74% of our companies measured scope 3 emissions and 43% had reduction targets related to their products, services or value chain (the portfolio companies' scope 3 emissions). This is an increase compared to 2019 when 36% of the companies had reduction targets for scope 3 emissions. In terms of resource efficiency, 57%of our companies had targets regarding resource efficiency compared with 50% 2019.

Portfolio companies' indirect emissions	2020	2019
Share of our companies that measured scope 3 emissions	74%	73%
Share of our companies that have reduction target for scope 3	43%	36%
Share of our companies that have resource efficiency targets	57%	50%

Terminology and calculation methods

Greenhouse Gas Protocol

Emissions are expressed in CO_{2e}, carbon dioxide equivalents, which means all relevant greenhouse gases are included. Emissions are reported in accordance with the Greenhouse Gas Protocol. The GHG Protocol classifies a company's GHG emissions into three scopes.

Scope 1 emissions

Scope 1 emissions results from direct GHG emissions from sources that are owned or controlled by the organization.

Scope 2 emissions

Scope 2 emissions result from the generation of purchased or acquired electricity, heating, cooling and steam consumed by the organization.

- A market-based method reflects emissions from electricity that companies have purposefully chosen. It derives emission factors from contractual instruments. Method for calculating scope 2 emissions used is market-based method.
- A location-based method reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data).

GHG emissions, tCO_{2e}	2020	2019	2018	2017	2016
Scope 1	16	18	18	22	22
Scope 2 market based method	72	86	90	87	96
(Scope 2 location based method)	(91)	(98)	(103)	(101)	(112)
Investor's scope 1 and 2	**88**	**103**	**108**	**109**	**118**

Scope 3 emissions

Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

- **Equity share of portfolio emissions -** Total of owned share of portfolio companies' individual carbon emissions. Equity share includes the emissions from our portfolio companies' scope 1 and 2 emissions equal to the owned share of the companies.
- **Total emissions from portfolio -** Total of portfolio companies' individual carbon emissions (portfolio companies' scope 1 and 2 emissions).

Investor AB's scope 3 emission from portfolio in accordance with equity approach and total emissions are presented in table below:

Portfolio emissions, tCO_{2e}	2020	2019	2018	2017	2016
Equity share	284,500	329,800	348,900	354,200	354,500
Total emissions	1,482,500	1,925,700	2,176,100	2,376,700	2,481,500

Absolute reduction target

Investor used the Science-based Target Setting Tool and the absolute contraction approach to identify the percentage of reduction needed to be in line with the Paris Agreement. The reduction target related to our investments is an absolute reduction target for the total portfolio emissions (not an equity approach). The reason for setting targets on the total level is to drive all our portfolio companies to reduce their emissions and not be able to divest in companies with higher emissions. Investor has gone beyond the SBTi method and has set the same reduction speed for the portfolio target as for our scope 1 and 2 emission targets. Investor uses the financial year (no average figures) and collect the GHG emissions directly from our portfolio companies. Target year is 2030 and the baseline is set to 2016 to align our strategy period with Agenda 2030 and the Global Sustainable Development Goals.

Portfolio coverage

The report includes 99% of total assets, meaning 23 of the major portfolio companies are included. Financial Investments (representing 1% of total assets) is not included in the quantitative figures since they are not material due to their size. Financial Investments include small portfolio holdings where the investment horizon has not yet been defined.

In 2020, the number of major portfolio companies increased by two, from 22 to 24 compared to 2019. Patricia Industries acquired Advanced Instruments and Listed Companies added Electrolux Professional, a spin-off from Electrolux. The new portfolio company Advanced Instruments was acquired in the fourth quarter 2020 and is therefore not included in the climate report for 2020. All 24 portfolio companies will be included in the report 2021.

Principles for data adjustments

Investor AB has set a base year to enable comparison of emissions and track development. On occasion these base year emissions may need to be recalculated to ensure meaningful and relevant comparisons over time. Investor follows the fixed base year recalculation methodology. The principles for recalculating and updating historical climate data for Investor AB and for the portfolio companies are published on www.investorab.com

Other scope 3 emissions for Investor AB

Regarding Investor AB's other emissions (not connected to portfolio companies), are limited. We are 94 employees and a proportionally large size of 'other scope 3 emissions' is connected to business travel. In 2019, initiatives were taken to improve digital meeting solutions and update travel policy to reduce the emissions from business travel. In 2020, emissions from business travel were significantly reduced due to covid-19. Long-term we will continue reduce emission from business travel by increasing digital meetings solutions and reducing travel by air.

Other scope 3 emissions, tonnes CO_{2e}	2020	2019	2018	2017	2016
Emissions from business travel [1]	65	527	601	691	614
Purchased goods and services [2]	5	51	49	52	53
Capital goods [3]	18	1	17	52	14
Fuel-and-energy-related activities [4]	27	86	95	104	100
Other scope 3 emissions	**114**	**665**	**761**	**899**	**780**

1] Emissions from business travel includes for example air, rail, hotel nights and taxi.

2] The emissions from purchased goods and services include catering food, copy paper, printed materials.

3] Capital goods refer in our case to electronic equipment like computers, screens, other office machines and furniture.

4] The emissions include upstream emissions from purchased electricity, district heating, fuel for vehicles and air travel (not included in scope 1 or 2).

Examples of climate-related risks and opportunities

In our assessment of the potential implications of climate change, we have identified short-, medium- and long-term risks and opportunities. The magnitude of impact is categorized under four levels dependent on financial impact and likelihood: low, medium, high and very high. Investor has four time horizons: 1) Short-term: 0-1 year, 2) Short to medium-term: 1-5 years, 3) Medium-term: 5-15 years, 4) Long-term: 15 years or more.

Risk Type	Primary climate-related risk driver	Financial impact	Time horizon	Likelihood	Magnitude of impact
Legal	Increased pricing of GHG emissions	Reduced profitability of portfolios companies	Short term	Likely	Low
Acute Physical	Increased severity and frequency of extreme weather events such as cyclones and floods	Reduced profitability of portfolios companies	Medium term	More likely than not	Low
Technology	Substitution of existing products and services with lower emissions options	Reduced profitability of portfolios companies	Short term	Unlikely	Low
Technology	Unsuccessful investment in new technologies	Reduced profitability of portfolios companies	Medium term	Unlikely	Low
Reputation	Increased stakeholder concern or negative stakeholder feedback	Damage to reputation and ability to attract talent and capital	Medium term	Unlikely	Medium

For more details on the main climate-related risks and opportunities, see Investor's CDP response on our webpage.