Klima

PAN-EUROPEAN ENERGY TRANSITION TECH FUND

Annual Sustainability Report 2021

ALANTRA

Index

1

Introduction to Klima and our sustainability highlights in 2021

Klima invests in innovative companies accelerating the energy transition

Who we are

Our mission To support **innovative companies** accelerating the **energy transition** with **capital**, **network** and **knowledge**.

Our purpose To invest in **fast-growing companies** enabling the transition to a **decarbonised energy system**.

Our values We believe in collective **intelligence**, **diversity**, **long-term value creation** and **investee-centricity**.

Our contribution to the UN SDGs

Fund Characteristics

- **Fund size**: 200 M€ hard-cap
- **Team:** 60 years of combined investment experience and proven track record in the energy sector
- In the process of classifying the fund as **art. 9.2**

Investment strategy

- **Sectors**: Hardware and software products enabling the energy transition, with a focus on B2B business models
- **Maturity**: Late-stage venture / Early growth
- **Ticket size:** 5-10M€ initially, up to 20M€
- **Market conditions:** +10% annual growth & 1+Bn€ addressable market
- **Geographies**: Mainly Europe - up to 20% in North America

In 2021, we launched **Klima** and set the foundation for ESG and sustainable impact investments

Klima 1st Closing
in May 2021

Klima fund and team structuring (including ESG positioning and processes)

Definition of the ESG Due Diligence framework with Enea Consulting and Neofin Advisory – expert in climate transition and sustainable finance

ESG due diligence of Mainspring (including, improvement plan and selected KPIs) and definition of the first environmental impact KPI conditional for carried-interest

Investment in Mainspring, manufacturer of flexible linear power generator fuelled by low-carbon gases (biogas, hydrogen, nat. gas and mixed)

Development of the Article 9 Methodology to answer the Sustainable Finance Disclosure Regulation requirements

2nd ESG due diligence and preparation of 2nd investment closed beginning of 2022

Bastien Gambini
Managing Partner

Individually, we have been **early bird investors in the energy transition**, some of us since 2005. Our team decided to join forces under the Klima flag back in 2020 to **dedicate ourselves fully on slowing down the pace of climate change** and supporting the management teams who scale the necessary enabling technologies.

Lucille Bonnet
Managing Partner

The energy transition does not only require large amounts of capital flowing into the green energy infrastructure world. It also **requires the implementation at scale of existing technologies solving for the bottlenecks of the infrastructure world**. Most of what we need in terms of technology to achieve a successful transition is available today and simply needs to be rolled out faster.

2

Our commitment to accelerate the energy transition and contribute positively to climate change

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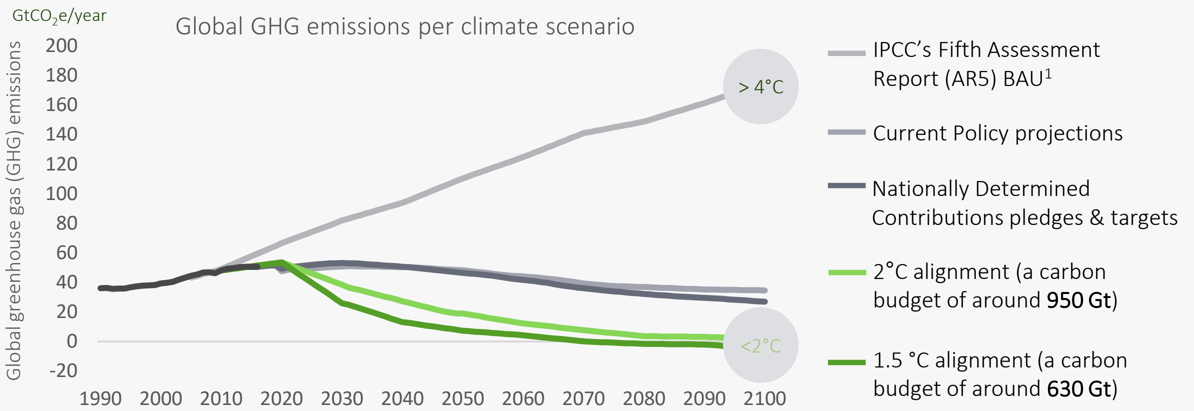
A swift response to climate change is critical to ensure our future

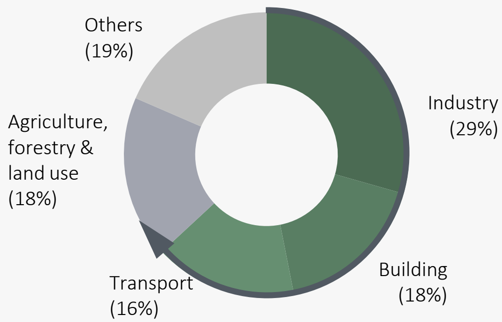
An urgent shift is needed to limit client change to <2°C [a]

Global GHG emissions per climate scenario



Energy decarbonation is key

Global GHG emissions by sector [b]



Energy-related GHG emissions ~75%

Social and technical challenges rise

Social challenges

- Growing population (10 bn in 2050)
- Increasing GDP[1] per person
- Just transition

Technical challenges

- 'Replace' is not 'add'
- Electricity is not the only problem

The climate change challenge

Conditions to limit climate change

- Reaching Net Zero emissions by 2050 is the only condition to limit global warming <2°C by 2100.
- Respecting a carbon budget of 235 – 400 Gt to stay below 1.5 °C or 950-1 000 Gt to stay below 2°C by 2100.

Current status

- Our current trajectory corresponds to +4 °C by 2100 according to the IPCC[2].
- Due to past emissions, we will experience a +1.1 – 1.3 °C temperature increase by 2100 and we keep emitting ~50 Gt/year of emissions.
- At the current rate, we will spend the 2100 budget to limit climate change to 1.5 °C before 2030.

*The energy transition is ongoing but should **accelerate** to limit climate change and keep global warming below 1.5 °C*

Notes: (1) Business As Usual; (2) Gross Domestic Product ; (3) Intergovernmental Panel on Climate Change ;
Sources: (a) IEA, IPCC, Enea analysis; (b) World in data

Accelerating the energy transition is key to positively impact climate change

Contribution to energy transition and climate change

The energy transition is an unstoppable macro trend with Europe at the forefront

1

Renewable energies are increasingly competitive with conventional energies

- **Renewable** energy are already cost competitive, while incremental technologies will improve efficiencies and further decrease OPEX[1].
- **Mainly** intermittent, higher renewable penetration will increase the need for storage and flexibility.

2

Low carbon gases are key enablers of the energy transition

- **Low carbon gases** are key to decarbonising 75% of the energy demand currently not electrified.
- **The mix** of renewable electricity and low carbon gases is required to fully decarbonise the industrial, buildings, and transport sectors.

3

Demand is shifting towards more efficient and carbon neutral consumption

- **Governments**, corporates and individuals require more efficient and cleaner energy: electric vehicles, clean fuels, smart meters, green buildings, energy efficient manufacturing tools, etc.

4

Digital solutions unlock higher efficiency on demand & supply

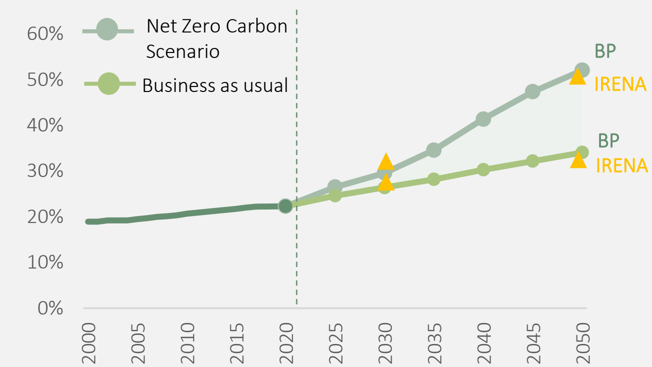
- **Software** solutions, data analytics and machine learning are driving higher performance throughout the entire value chain (i.e.: real time remote control, forecasting, peer-to-peer trading or automated operation and maintenance).

5

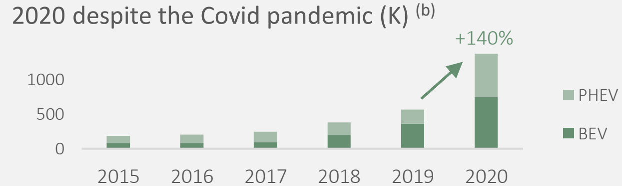
Europe will increase efforts towards energy independence

- **Efforts** are being sped up towards a better use of the energy, more renewable and nuclear as primary energy sources, improving resilience and flexibility of energy infrastructure and lowering transportation and heat dependence on fossil fuels

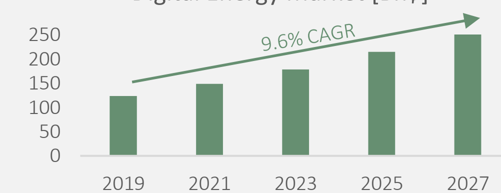
Global share of electricity in total final consumption [%] [(a)]



Electric car registrations increased in major markets in 2020 despite the Covid pandemic (K) [(b)]



Digital Energy Market [Bn$] [(c)]



Notes: (1) Operational expenditures
Sources: (a) BP Outlook 2020 & IRENA (International Renewable Energy Agency); (b) IEA (International Energy Agency): Global EV Outlook 2021; (c) Smart Energy Market by Product: Global Opportunity Analysis and Industry Forecast, 2020–2027

As clean energy infrastructure penetrates the energy mix, new business models and technologies are needed

Contribution to energy transition and climate change

Clean energy infrastructure keeps growing…

Investments perspective [a] of the SDS[1] scenario (IEA[2])

	2019	2040
Energy Transition	$1.1 tn	$3.3 tn
Conventional Energies	$0.7 tn	$0.6 tn

Note: Gas and Power T&D is omitted from these figures

Energy infrastructure growth in 2021 vs 2020 in Europe [b]

- **+ 17.4 GW** of wind power capacity installed in 2021 (+18% vs 2020)
- **+ 25.9 GW** of solar power capacity installed in 2021 (+34% vs 2020)
- **> 2.2 m** electric vehicles sold in 2021 (+66% increase vs 2020)
- **+ 40%** biomethane plants in 2021 in Europe versus 2020
- **> 5 GWh** of battery capacity installed in 2021 (2x vs 2020)

… and requires more technologies and innovations

Solving the bottlenecks of a clean energy infrastructure

Energy infrastructure

New Business Models & Services
Operation, maintenance, Energy as a service, end of life management, etc.

Hardware Technologies
Sensors, generation and storage technologies, Materials & composites, etc.

Digitalisation & Software
Optimisation, automation, market place, energy trading platforms & tool, etc.

Technology and innovative services are playing a significant role for energy infrastructure owners. Their role in the climate transition is essential and the opportunity for **Klima** as an investor has been growing significantly:

	EU	US
M&A [c] transactions 2021 vs 2017	+138%	+48%
IPO [c] volume 2021 vs 2017	4.6x	10.4x

Notes: (1) Sustainable Development Scenario; (2) International Energy Agency; (3) Transmission and Distribution; (3) Compound Annual Growth Rate; (4) Merger & Acquisition; (5) Initial Public Offering
Sources: (a) BNEF; (b) IEA, IPCC, Morningstar (c) Cleantech Group

Klima invests in technologies and innovative business models supporting the energy transition

Contribution to energy transition and climate change

Sectors

Low Carbon Solutions

Biogas, hydrogen and Carbon Capture, Usage & Storage (CCUS)

Facilitating the decarbonation of hard to abate and non-electrifiable sectors

Storage

Integrated solutions, developers and energy storage technologies

Improving integration of renewable energy in the energy mix

Renewables & Generation

Sensors, drones, robotics, O&M automation and data driven models

Improving the flexibility and competitiveness of renewable energies

Smart Grid

Metering solutions, grid service providers, analytics and automation

Gaining efficiency and flexibility in grid operations to enable higher renewables penetration

Powering the Mobility

Green gases for heavy transportation, EV smart charging and Vehicle to Grid applications

Reducing the emissions of the transport sector

Power Markets

Trading platforms, ETRM add-ons, green PPAs, automated trading services, P2P, VPP

Optimising monetisation of renewables and storage, increase flexibility of the system.

Transversal topics

Digital Energy

Software, data analytics and machine learning solutions applied across the energy sector

Increasing efficiency in the energy system and the penetration of renewable energy

Energy Efficiency

IoT for industry energy savings, energy services and green buildings

Improving the energy efficiency in the industrial, commercial and residential sectors

Our first investment Mainspring Energy is an innovative generator accelerating the energy transition in the US

Contribution to energy transition and climate change

Company summary

- Mainspring is a **US-based** equipment **developer and manufacturer** who developed the **first linear power generator** in the market, the MSE-3.
- Linear generators, compared to conventional engines, are **much simpler** in their **design**.
- Mainspring's linear generator provides **cheap**, **reliable**, and **clean power** while being designed to incorporate **flexible mix of low carbon gases** (hydrogen and biogas).

Mainspring

Mainspring provides an enabling technical solution for the Energy Transition

Benefits of the solution for the climate transition

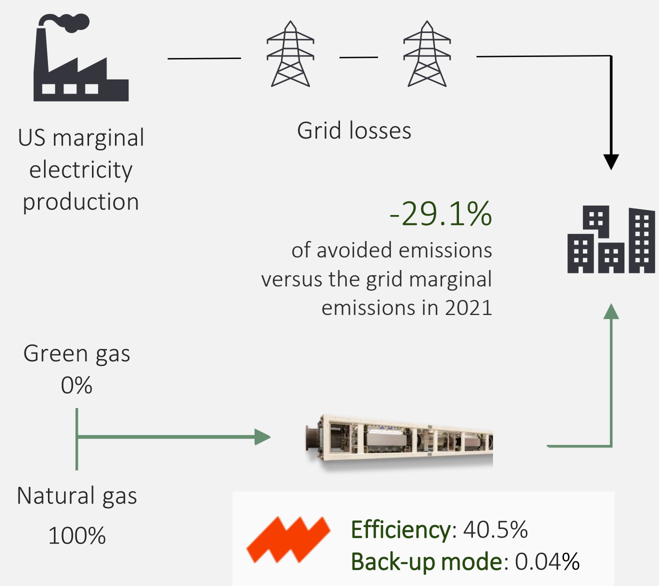
- **Transitioning power production** system in high-carbonated electricity such as the US
- **Flexible power production** solution enabling the **integration** of intermittent **renewable** energy
- Low carbon **back-up** in countries with high amounts of electricity curtailment and blackouts **replacing diesel engines**
- Innovative engine enabling the use of **blended low carbon gases** (biogas, biomethane, hydrogen)

Measures for environmental impact and Principle Adverse Impact indicators (PAI)[2]

In the future, Mainspring aims at improving its climate performance by:

- Improving **energy efficiency** of the generator
- Lowering **non-CO_2 emissions**
- Working with clients aiming at **valorising renewable gases** (notably biogas and green hydrogen produced from wind and solar energy)

Impact KPI monitored by Klima[1]



Notes: (1) See detailed calculations an assumptions in appendix (2) See detailed reporting of Mainspring Energy in appendix on the 14 Principal Adverse Impact indicators (PAI)

3

How we ensure responsible and sustainable investments

Our team is committed to strong governance practices and incentivised to deliver on climate contribution

At the fund level, the ESG responsibilities are embodied by Klima's team and supported by the Supervisory committee

Klima's good governance is ensured by the **embodiment of ESG responsibilities** by **Lucille Bonnet** and **Manuel Alamillo** while the whole investment committee accounts for ESG risk in its investment decision.

Independent Investment Committee	*Decide on investments and divestments–and account for ESG risks and climate performance*
ESG Responsible team (*Lucille Bonnet*, *Manuel Alamillo*)	*Implementation of the responsible investment guidelines and coordination with investee companies*
Strategic committee	*Advisory on market trends and technologies*
Supervisory committee	*Governance body in case of conflict of interest and validation of the Impact KPI*

Klima's team is incentivised to support the companies to improve their climate contribution

- 30% of the **Klima** investment team's **Carried Interest** is linked to the overall fulfilment of the climate change KPIs in the portfolio.
- During the analysis phase, **Klima** defines **one or more KPIs ('*Impact KPIs*')** in collaboration with a third party and the portfolio companies, to be improved during holding period.
- **Supervisory Committee** validates the Impact KPIs and targets, for each investment during the full investment cycle at the first Supervisory Committee meeting following the investment.
- Once the fund is completely liquidated, the **percentage of Impact KPIs achievement** will be calculated to determine if and how much of the carried interest conditional to the Impact KPIs shall be paid out.
- If given the performance on the Impact KPIs the team would not be entitled to 100% of the carried interest, and the **difference** shall be invested in **NGOs and projects** linked to climate change related issues[1].

Klima is an active investor defining an ESG governance for its investees

In shareholder agreement	**Klima** includes **systematic conditions** within the shareholder agreement: ▸ **Reserved matters** included at Board and AGM level, which **Klima** and its co-investors should approve (*according to a qualified majority of investors*), for instance annual budget, strategic change, management dismissal and appointment ▸ **Information rights** including ESG topics and Impact KPIs ▸ **Covenants** regarding sound governance
Engagement	**Klima** team support the **definition of ESG strategies** and processes at board level to strengthen the investee's climate and environmental performance. **Klima** supports the implementation of standard policies for good governance and promotes **diversity** in management teams and boards.

Note: (1) To be agreed with the LPs, for instance (i) professional scholarships related to climate change, (ii) access to energy, (iii) carbon footprint offsetting, (iv) reforestation, (v) carbon capture and storage, …

We have established well-defined and strong ESG standards within the ecosystem we operate in

How we ensure responsible and sustainable investments

We want to guarantee our impact and the ESG performance of our investees through best-in-class management practices

Our contribution	Klima Fund is an **impact fund by nature** since it invests in Energy Transition start-ups across eight different sectors

Our practices

Klima's **governance** arrangements enable to manage ESG challenges and amplify the ESG performance of its investees

- ESG responsibilities are distributed within the team.
- Klima Team committed to responsible investing by linking a percentage of the carried interest based on an improvement KPI[1] linked to the company's contribution to climate change mitigation.
- Klima's team support the definition of a relevant ESG governance within its investees.

Our sponsors, **Alantra** and **Enagas** are strongly committed to ESG matters

- Alantra is a signatory of the UN PRI[2] – A Rating in 2020.
- Enagas is a member of the main sustainability indices (DJSI5[3]) and has reduced its carbon footprint more than 45%.

PRI Principles for Responsible Investment

SAM Sustainability Award Gold Class 2019

SAM Sustainability Award Industry mover 2019

Klima Fund is **ESG by design** as **Klima** integrates ESG across the investment cycle

- At screening stage with a systematic internal assessment of the environmental impact.
- At due diligence stage, with a systematic ESG evaluation led by Enea Consulting and Neofin Advisory.
- During asset management activities with active management practices (voting at board level, ESG reporting and information rights).

Notes: (1) Key Performance Indicator; (2) United Nations Principles for Responsible Investment; (3) Dow Jones Sustainability Indices;
Sources: Alantra website, PRI, Enagas

Klima integrates ESG at all stages of its investment cycle

ESG integration across Klima's investment cycle

Pre-investment

- **Screening**: Klima ensures all investments of the fund (and screening thereof) are technologies aiming at tackling climate change and environmental issues thanks to thorough internal assessment of the environmental impact of the companies as well as launch a KYC assessment through Alantra's teams
- **Due diligence:** An independent ESG due diligence is systematically led by Enea Consulting and Neofin Advisory. It includes:
  i. The review of the investee's ESG practices leveraging the **FMO[1] ESG toolkit** and the **ESG VC[2] Measurement Framework**;
  ii. The identification and analysis of the material ESG aspects according to the **SASB[3] Materiality Map**;
  iii. The assessment of the investee's sustainability contribution according to the European taxonomy.

  The due diligence results in the definition of corrective actions and KPIs to monitor the improvement of the ESG performance of the investee as well as one or several impact KPI(s) linking the carried interest with the investee's ESG performance.
- **Investment agreement** including the obligation for portfolio companies to report on ESG topics and Impact KPIs agreed pre-investment.

Monitoring & Portfolio Management

- **Active management:** Klima leverages its board seat and/or expertise linked to climate transition to engage and support the investees' improvement of the ESG performance.
- **Monitoring of the ESG performance** through the following indicators:
  i. Principal Adverse Impact indicators (to answer the SFDR[4]);
  ii. Material ESG KPIs identified during ESG due diligence;
  iii. One or several climate-related Impact KPIs linked to the carried interest.

Divestment

- Evaluation of the **ESG value creation** at the exit.
- Internal assessment of **potential buyers** on ESG aspects.
- **Final assessment of the carried-interest Impact KPIs** over the investment cycle revealed at the exit for each portfolio company measured by a third-party consultant and reported on to the investors of Klima.

Notes: (1) Financierings-Maatschappij voor Ontwikkelingslanden; (2) Venture Capital; (3) Sustainability Accounting Standards Board; (4) Sustainable Finance Disclosure Regulation
Sources: Alantra website, PRI, Enagas

The Fund will be classified as Article 9 with a sustainable investment objective as per the SFDR

Definition of the SFDR and article 9 requirements

Objective and product categorization defined by the SFDR

In March 2021, the European Union's Sustainable Finance Disclosure Regulation (SFDR) came into force. The SFDR–together with a range of other EU sustainable finance initiatives–is **intended to support the European Green Deal**, which envisions a European economy that is both climate neutral by 2050 and positive for biodiversity.

The SFDR has **three core aims:**

- To improve disclosures so that institutional asset owners and retail clients can understand, compare, and monitor financial products' and firms' sustainability characteristics;
- To ensure a level playing field within the EU so that European firms will not be exposed to unfair competition from firms outside EU;
- To counter greenwashing.

To do so, the SFDR defines **3 types of products**: Mainstream products (article 6); Products promoting environmental or social characteristics (article 8); Products with sustainable investment objectives (article 9).

Article 9 requirements

- **Integration** of sustainability risks into the investment decision-making process for the specific fund.
- **Assessment** of the likely impacts of sustainability risks on the financial return.
- **Consideration** of the product's principal adverse impacts on sustainability factors.
- **Definition** and **disclosure** of the methodology proving the product has a sustainability objective and is able to monitor it (see principles on the right).
- **Disclosure** to investors to what extent the fund meets its sustainable objective, complies with the European taxonomy (starting in 2023).

Klima will be categorised as Article 9 as per the SFDR

Sustainability objectives

Klima contributes to the following **environmental objectives:**

Climate change **mitigation**	Climate change **adaptation**
Transition to a **circular economy**	**Pollution** prevention and control

At a portfolio level, **Klima's** team, with the review of a third party **assesses the alignment of the portfolio with the European taxonomy** against the objective stated above.

Klima defined a minimum target of alignment towards the European taxonomy and a strategy for the remaining non-aligned investments.

Limitation of the negative environmental, social impacts and governance practices

The investment team ensure the **investees do not significantly harm the other environmental objectives of the European taxonomy** and properly limit and/or manage the material ESG risk to which she is exposed thanks to a **systematic ESG due diligence led by external advisors.**

Where material ESG risks are identified, the investment team identifies measurable objectives and ensures **improvement in the medium term at the investee through active board participation**.

Exclusion of adverse impact sectors

The investment team **will not invest in companies involved in companies whose activities do not clearly contribute to the climate and energy transition** and are not aligned to our investment policy, and companies in contravention of the principles of the **UN Global Compact.**

Sources: European Commission

4

Our team contribution to ESG

The Klima investment team acts on its own scope towards ESG values

Compensate business travel-related emissions

Klima's team has evaluated their **main carbon emission in 2021** and compensated them through **renewable energy project funding** with My Climate.

Promotion of diversity

Klima's team believe in diversity and collective intelligence to act as a responsible investor – **Klima** is proud to meet:

- Parity at **partner level**
- Parity in the **investment team**

Participation in volunteering projects

Since September 2021, **two** of **Klima team members (Maria Sansigre & Maria Muro-Lara) have been volunteering for the association EOF** (Equipo de Orientación Familiar). Each team member provides school support to underprivileged children one hour per week.

Stewardship

Klima's team **sponsored and participated in the main cleantech events** in Europe to present Klima to potential investors and cleantechs while gathering knowledge on ESG practices, climate transition markets and regulations.

ECOSUMMIT BERLIN 8-9 Sep 2021: # of participants: >200

Cleantech Group: Theme: From Chaos to Transformation: Tackling the Climate Crisis Together
# of participants: >300

Klima is also an active member of the Cleantech for Europe initiative and ESG Venture Capital.

Cleantech for Europe: Facilitate innovation and the growth of Cleantech companies in Europe

ESG_VC: Steering group of funds and industry bodies helping each others to understand, measure, and improve their ESG performance.

Manuel Alamillo
Investment director

We are **aware of the importance of climate change in society**, and we are concerned about the planet we are going to leave to the next generations. For that reason, **apart from linking 30% of our remuneration to generate an impact on the companies we invest in,** we will (i) reduce, and where not possible assess and offset a broader scope of our emissions (ii) elaborate our own GP ESG policy during 2022, (iii) attend regular training on responsible investment to be up to date and apply the best practices and (iv) continue to attend and sponsor the main renewable tech energy events to be an active member of the green-ecosystem in Europe.

5

Looking ahead

Looking ahead

Our team will continue its efforts throughout 2022

1. **Fundraising**: final closing in 2022 at 200M€ total fund size
2. **Investing** in 3 to 4 impactful companies in 2022
3. **Continuing** our stewardship supporting the ESG and energy transition ecosystem
4. **Developing** Klima's own ESG policy
5. **Being** a carbon neutral investor in 2022
6. **Providing** equality, diversity and inclusion trainings for our staff