

Corporate governance

1. Implementation and reporting on Corporate Governance

Kyoto Group's corporate governance principles clarify the division of roles between shareholders, the board of directors and the corporate management. The principles are also intended to help safeguard the interests of shareholders, employees and other stakeholders, such as customers and suppliers, as well as society at large. The primary intention is to increase predictability and transparency, and thereby reduce uncertainties associated with the business.

It is Kyoto Group's intent to practice good corporate governance in accordance with laws and regulations and the recommendations of Oslo Børs under the "comply or explain" concept.

This review has been prepared by the board of directors of Kyoto Group based on the Norwegian Code of Practice for Corporate Governance dated 14 October 2021 ("the code"). The code is available at www.nues.no.

According to the Kyoto Group's own evaluation, Kyoto Group deviates from the code on the following points:

- Chapter 3: Mandates granted to the board of directors to increase the company's share capital or to purchase own shares are not restricted to defined purposes.
- Chapter 7: Kyoto Group does not currently have a nomination committee.
- Chapter 8: The chairman is elected by the board.

The Corporate Governance report is subject to annual evaluation and discussion by the board. This report was issued at the board meeting on 18 May 2022.

2. Business

Kyoto Group's business purpose clause is stated in the company's articles of association: The company's business is to conduct international development, production, operation, licensing and sale of all or parts of facilities within renewable energy, primarily within solar heat and thermal energy storage, as well as what is naturally related thereto, including investments and participation in other companies.

The company's main goals, strategies and risk profiles are presented in the annual report. It is the board's opinion that these objectives, strategies and risk profiles are within the scope of the business purpose clause. The objectives for the business are set with a view to creating value for shareholders.

Long term objectives, strategies and the risk profile are evaluated once a year in connection with the work on strategy, or as necessary in connection with major events or structural changes.

Kyoto Group's vision is to make renewable energy available for everyone. Kyoto Group's core values to support the vision are enthusiastic, determined and caring.

The group's current Code of Conduct (Ethical Guidelines, Supplier Guidelines and Anti-Bribery policy) was approved by the board 12 April 2021. It is based largely on international initiatives and guidelines related to social responsibility, including the ILO conventions.

The Code includes topics such as human rights, environment, relations with our customers and suppliers, corruption and confidentiality.

The Code applies to all Kyoto Group board members, elected officers, permanent and temporary employees, hired staff, consultants and agents acting in or on behalf of Kyoto Group. The Code also applies to all contractors, sub-contractors, suppliers and sub-suppliers.

3. Equity and dividends

Kyoto Group's registered share capital as of 31 December 2021 amounted to NOK 252 617 divided between 8 420 560 shares with a nominal value of NOK 0.03 each.

Total equity for the group as of 31 December 2021 was NOK 138 940 482, corresponding to an equity ratio of 90 percent. Considering the nature and scope of Kyoto Group's business, the board considers that the company has an adequate equity and capital structure.

Existing mandates granted to the board, to issue shares and to purchase its own shares, are presented in the shareholder information section of the annual report. The mandates are limited in time to no later than the date of the next Annual General Meeting.

Kyoto Group AS is in a growth phase and does not expect to pay any dividends in the near future. Any future decision to pay a dividend will depend on the company's financial position, operating profit and capital requirements.

4. Equal treatment of shareholders

There is only one class of shares, and all shares have equal voting rights. The nominal amount per share is NOK 0.03. The articles of association place no restriction on voting rights.

If the board decides to increase the share capital based on a mandate granted to the board and waives the pre-emption rights of existing shareholders to subscribe for shares, the board will explain its justification in a stock exchange announcement issued in connection with the increase in share capital.

Any transactions the company carries out in its own shares will be carried out in accordance with the relevant recommendations in the code.

5. Shares and negotiability

There are no provisions in the company's Articles of Association that limit the right to own or trade shares in the company.

6. General meetings

Shareholders exercise the ultimate authority in Kyoto Group through the Annual General Meeting. All shareholders are entitled to attend a general meeting as long as they are recorded in the company's share register no later than a week before the date of the general meeting. Representatives of the board and the executive management team are present.

The annual general meeting shall address and decide upon the following matters:

1. Approval of the annual accounts and the annual report, including distribution of dividends.
2. Election of board members, if applicable.
3. Remuneration to the board of directors.
4. Election of new auditor if relevant, as well as approval of the auditor's remuneration.
5. Any other matters which are referred to the general meeting by law or the articles of association.

The board of directors may resolve that the shareholders may cast their votes in writing, including by electronic communication, in a period prior to the general meeting. The board of directors may establish specific guidelines for such advance voting. It must be stated in the notice of the general meeting which guidelines have been set.

Notice of general meetings shall be sent at least one week in advance by e-mail or mail to all shareholders with known addresses. Documents relating to matters to be dealt with by the company's general meeting, including documents which by law shall be included in or attached to the notice of the general meeting, do not need to be sent to the shareholders if such documents have been made available on the company's website. A shareholder may nevertheless request that documents relating to matters to be dealt with at the general meeting are sent to him or her.

Shareholders who cannot attend the meeting in person can vote by proxy, and voting instructions can be given on each item on the agenda. In addition, shareholders may vote in advance, either in writing or by electronic means, up to 1 day prior to the general meeting.

The general meetings are opened by the chair of the board. Normally, the board proposes that the chair of the board shall also chair the general meetings, but the general meeting is also able to elect an independent chairman should it so wish. The board will propose an independent chair for the general meeting if any of the matters to be considered call for such an arrangement. The notices and minutes of the general meetings are published in Euronext Oslo Børs' information system (www.newsweb.oslobors.no, ticker: KYOTO) and on Kyoto Group's website.

7. Nomination committee

Kyoto Group does not currently have a nomination committee.

8. Board of directors: composition and independence

The board's composition shall ensure that it can effectively and proactively perform its supervisory and strategic functions. Furthermore, the board is composed to enable it to always act independently of special interests.

According to the articles of association, the board shall consist of 4 to 6 shareholder elected members as resolved by the general meeting. Board members are elected for a period of up to two years. The chairman is elected by the board.

The board of directors currently consists of six members and has the following composition:

- Eivind Reiten, Chairman, elected until Annual General Meeting 2023.
- Thorleif Enger, elected until Annual General Meeting 2023.
- Arne Erik Kristiansen, elected until Annual General Meeting 2023.
- Pål Selboe Valseth, elected until Annual General Meeting 2023.
- Ivar Valstad, elected until Annual General Meeting 2023.
- Hans Olav Kvalvaag, elected until Annual General Meeting 2023.

All shareholder-elected directors are considered independent of the management. The majority are independent of major business connections. The following board members are associated with major shareholders:

- Mr Arne Erik Kristiansen (Asiju Invest AS)
- Mr Pål Selbo Valseth (Valinor AS)
- Mr Ivar Valstad (Hydro Energi Invest AS)

The CEO or other executives of the company do not serve on the board.

Members of the board are encouraged to own shares in Kyoto Group. Board members who own shares:

As of 31 December 2021, Mr Eivind Reiten owned 8 000 shares in Kyoto Group AS through Mocca Invest AS.

As of 31 December 2021, Mr Arne Erik Kristiansen owned 431 750 shares in Kyoto Group AS through Asiju Invest AS.

As of 31 December 2021, Mr Thorleif Enger owned 24 000 shares in Kyoto Group AS through Thoeng AS.

9. The work of the board of directors

The board has overall responsibility for safeguarding the interests of all shareholders and other stakeholders. Furthermore, it is the board's duty and responsibility to exercise overall control of the company, and to supervise the management and the company's operations. The division of roles between board and management is specified in Kyoto Group's rules of procedure for the board. The board has approved an annual meeting plan for its work, which includes meetings with a special focus on strategy and budgeting. The board conducts a self-evaluation once a year.

Kyoto Group's board shall also serve as a constructive and qualified discussion partner for the executive management. One of the board's key duties is to establish appropriate strategies for the group. It is important in this context that the board, in cooperation with the management, ensures that the strategies are implemented, that the results are measured and evaluated and that the strategies are developed in the most appropriate way. Kyoto Group has defined performance parameters for the strategies and can thus measure its performance.

The board receives financial reports from the administration in every board meeting, which is held at a frequency of every six weeks. The information is checked, consolidated, and processed by the group's corporate financial staff to produce the consolidated reports that are submitted to the board. The reports also include relevant operational matters. The group does not have a separate internal audit function. Account controls are exercised through segregation of duties, guidelines and approval procedures. The corporate financial staff is responsible for establishing guidelines and principles. The corporate financial staff handles the group's financial transactions. Responsibility for the commercial content of significant procurement contracts rests with the corporate sourcing organisation. The board conducts annual evaluations of the executive managers and their performance. These evaluations also cover an assessment of cooperation between the board and the management.

The board had 8 meetings in 2021.

The board does not have a separate Audit Committee or Remuneration Committee. Such committees may be established as the company and its business grow more complex.

10. Risk management and internal control

Kyoto Group is in a scale-up stage. While the Heatcube technology is proven through the successful operation of the pilot installation, the company has yet to install and operate the technology at a commercial scale.

The first Heatcube thermal battery is ordered, with operation expected to start in 2022. There are inherent technical risks connected to the installation and start-up of any such installation which may affect timing and costs, as well as operations and cash flow generation under a battery leasing revenue model. The company is also subject to various risks, including long lead times, related to securing potential additional commercial contracts which are required to build a profitable business over time.

Kyoto Group is a growth company. The company will likely require additional equity capital in the future to finance execution of its long-term growth strategy. With the capital raised in 2021 and ongoing activities, the Board of Directors expects the current business to be funded into 2023.

Kyoto Group's structure is intended to facilitate closeness between management and the operation, which in turn provides overview and internal business control that are appropriate in relation to the extent and nature of the company's activities.

Governing management documents have been adopted, describing the group's requirements for responsible internal control.

Management prepares monthly financial reports that are sent to the Board of Directors.

The board annually reviews the strategic plan. In addition, as part of the preparation for the strategic discussion, the board also annually review the group risks. The group's financial position and risks are described in the Board of Directors' Report.

The health, safety, and environmental risks are limited and managed in accordance with the Code of Conduct, and Kyoto Group's ISO quality systems are in the process of becoming certified by certification agencies.

11. Remuneration of the board of directors

The Annual General Meeting approves the remuneration paid to the board of directors each year. The remuneration of the board members reflects responsibility, expertise, time spent and the character of Kyoto Group's business. The remuneration is not linked to the company's performance or share price, and the company does not grant share options to members of its board.

Board members are not encouraged to perform special assignments for the company in addition to their directorship. Such assignments, if any, are reported to the full board and disclosed in the annual report.

Information about each director's remuneration, including shares and subscription rights, is provided in the notes to the annual financial statements.

12. Remuneration of senior executives

The board has resolved guidelines for the CEO for remuneration to executive management. The terms are determined by the CEO in consultation with the Chairman of the board. The guidelines are communicated to the Annual General Meeting.

The salary and other remuneration of the CEO shall be decided by the board.

Performance-related remuneration is subject to an absolute limit.

Details of the remuneration of the CEO and other senior executives are set out in the notes to the annual accounts.

13. Information and communication

The company's information practice should ensure that Kyoto Group's shareholders and other stakeholders are able to make a realistic assessment of the company's prospects.

The board of directors has established guidelines for the company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market.

The board of directors has established guidelines for the company's contact with shareholders other than through general meetings.

Kyoto Group releases interim financial reports and hosts webcasts related to the reports. The company publishes a financial calendar on an annual basis, which includes the dates of general meetings and dates for the presentation of interim reports. The company will also, when appropriate, present at conferences and other events. All stock exchange notices are available both through Newsweb.no and the company's website.

14. Takeovers

There are no defence mechanisms against takeover bids in the company's Articles of Association, nor have other measures been implemented to specifically hinder acquisitions of shares in the company.

In the event of a takeover situation, the company's board and management will act based on ensuring the equal treatment of shareholders. The board will ensure that shareholders are given information and time to evaluate any realistic bid and will, when appropriate, provide a recommendation to shareholders as to whether or not the bid should be accepted. Further, the board will ensure that the company's business activities are not disrupted unnecessarily.

Any transaction that is in effect a disposal of the company's activities will be decided by a general meeting.

15. Auditor

The group's auditor is elected by the general meeting.

The auditor always participates in the meeting of the board that deals with the annual financial statements. In this meeting, the auditor discusses any changes to the accounting principles, comments on any material estimated figures and reports any material matters where there has been a disagreement between the auditors and the executive management.

The board of directors will at least once a year review the company's internal control procedures with the auditor, including weaknesses identified by the auditor and proposals for improvement.

The board of directors has established guidelines for the use of the auditor by the company's executive management for services other than the audit.