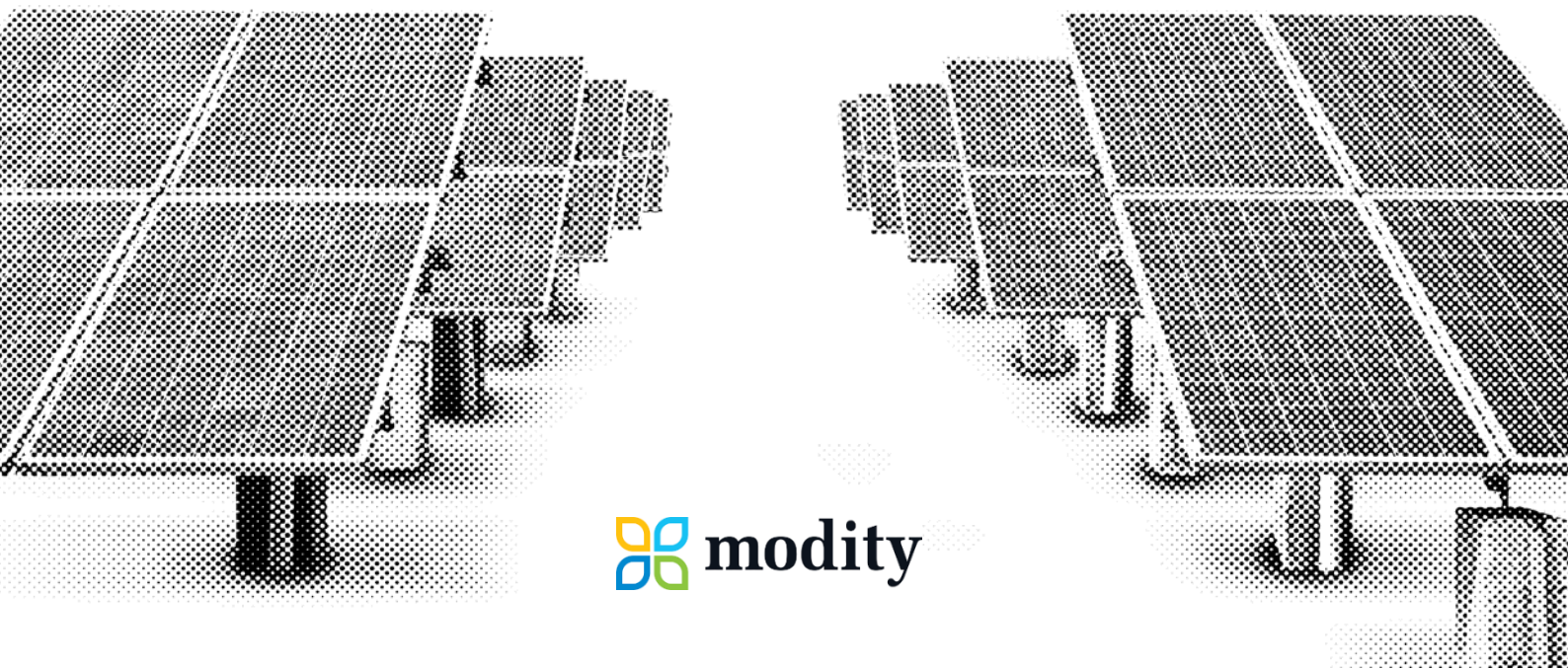


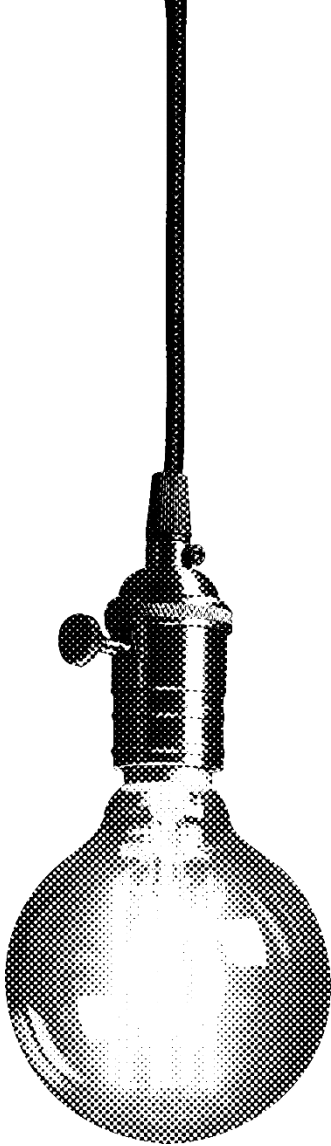
Sustainability Report 2020

Modity Energy Trading AB



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About Modity

Modity is an energy trading company with headquarters in Lund and a smaller office in Gothenburg. We provide balancing services and help our customers manage the risks associated with energy trading. We also trade in environmental instruments such as electricity certificates and guarantees of origin. Our customers are mainly energy companies, wind energy companies and other companies for which the energy trade is of major importance.

We are equally owned by the municipal energy companies Krafringen and Öresundskraft. Ultimately, we work for everyone who lives and stays in Eslöv, Helsingborg, Hörby, Lomma and Lund.

This report constitutes the company's statutory sustainability report and is part of the management report for Modity Energy Trading AB with registration number 556643-4410. This year's sustainability report refers to the 2020 financial year.

Sustainability for Modyty

From being an issue for activists and enthusiasts, climate change is finally being taken for the critical business issue it actually is for most (or all?) industries, especially the energy sector. This involves both adjusting operations to cut emissions and reduce other environmental impacts, and adapting to actual climate change, which is already evident. 2020 was another record-warm year, and not least a record-wet year in the Nordic region. The result was that the system price for electricity was record low, while the price difference with price areas SE3 and SE4 was record high. While it is always difficult to say that a particular weather phenomenon has been caused by climate change, it is clear that it also affects a company that trades in energy.

Environmental and climate efforts for a company like Modyty must take on a value chain perspective. Our operations are run from our offices and employees' homes, and we own no hardware other than IT equipment, so our direct environmental and climate impact is limited. Naturally, it's important and we're constantly working to limit our negative impact, but to achieve greater impact we need to work with our partners, who also often ask for our assistance.

Ongoing dialogue and cooperation with owners, customers and suppliers will therefore play a key role in Modyty's sustainability work.

Sustainability for Modyty also includes social and economic sustainability, such as work environment and employee health, as well as business ethics and regulatory compliance at all levels. Active and systematic work in these areas is important both from a purely business perspective and for the confidence of our employees and the outside world in us as a social player.

In order to systematise our sustainability work and obtain external support and confirmation that we are working in the right way, we are certified according to ISO 14 001 for environmental management systems and ISO 45 001 for occupational health and safety.

Although we are already working on a number of sustainability issues, in 2020 we decided it was time to take it to the next level. In 2021, we will work to develop more comprehensive sustainability targets, indicators for monitoring, and a strategy for achieving them. The work involves the whole company, and the ambition is to be able to better support our partners and contribute to even more benefits for our society.

Klas Liljegren

CEO, Modyty



The world in 2020

Naturally, the pandemic is the overriding global event of 2020. It has had many tragic consequences, but the impact on the Nordic energy sector has been less than many might have expected. Some repair and maintenance work, including in nuclear power, has been delayed, but the big events in the Nordic energy sector in 2020 are about much more than COVID-19.

Enormous rainfall levels, lack of transmission capacity from the production areas in the north to the consumption areas in the south, and large production losses in nuclear power resulted in unprecedented differences between the system price and the price of electricity in SE3 and especially SE4. Consumers in southern Sweden have periodically had to pay several times more for their electricity than consumers in the north. Producers are also affected and in the long term, wind power expansion in Sweden risks coming to a halt if prices, and thus producers' revenues, become too low.

Despite all the human suffering, 2020 brought some positive changes. Several countries and regions tightened their climate targets. China has adopted the goal of being carbon neutral by 2060.

The EU has tightened its emissions targets, pledging at least a 55% reduction by 2030, and the incoming Biden administration promised to re-enter the Paris Agreement and reach net zero emissions by 2050. Strong climate targets are a first step for change. But the targets need to be complemented by policy proposals and actions to drive the change, if it is to happen.

Because of the pandemic, solar and wind power, which have no fuel costs and low operating costs otherwise, were the only energy sources to grow globally in 2020. The International Energy Agency (IEA) estimates that the total installed capacity of solar and wind power will be greater than all other generation categories by 2025¹. Energy-related global emissions fell by 7% in 2020, the largest reduction ever recorded. However, it is very likely, according to the IEA, that emissions will very soon be back to previous levels and more, unless the huge support packages that have been launched and continue to be launched have a clear focus on **sustainable** growth.

¹ Iea, Renewables 2020, (2020-11-01).
<https://www.iea.org/reports/renewables-2020>



Photo: Shutterstock.com

Health and safety at work is another sustainability issue that has come into focus in 2020, as remote working has become so widespread. Both positive and negative effects of working from home have been reported over the year. While some employees find it easier when they don't have to commute, others find it difficult to feel motivated for work, and many report increased feelings of loneliness. It has also been reported that creativity declines when people don't get together².

For many, one of the most striking insights of the pandemic has been our human ability to reset our lives from one day to the next. And when it was really needed, we managed to develop tested and approved vaccines in less than a year. The climate crisis needs the same dynamic action. Through long-term sustainability efforts, we can hopefully avoid future crises going as far.

² Arbetsliv, Extroverta trivs bättre med distansarbete, (2020-11-03).

<https://www.prevent.se/arbetsliv/ovrigt/20202/extra-overta-trivs-battre-med-distansarbete/>

Modity's sustainability work

Together with our stakeholders, we make a bigger difference

Globally, three quarters of all emissions are energy-related, according to the International Energy Agency (IEA). Everyone in the energy sector therefore has a shared responsibility to reduce emissions, and to do so in a way that doesn't create problems elsewhere.

Collaboration is also important on other sustainability issues, such as health and safety, diversity and anti-corruption.

Modity has no direct emissions of its own from the production or use of electricity or gas, but the products we trade cause emissions elsewhere in the value chain. We trade in natural gas, which is a fossil fuel and which causes emissions mainly when it is burned, for example to provide heat in industrial processes that require very high temperatures. In order to reduce emissions, we have helped several customers switch to biogas, and we'd like to help even more. Challenges we face are the limited availability of biogas, but above all the lack of financial incentives, especially for customers who

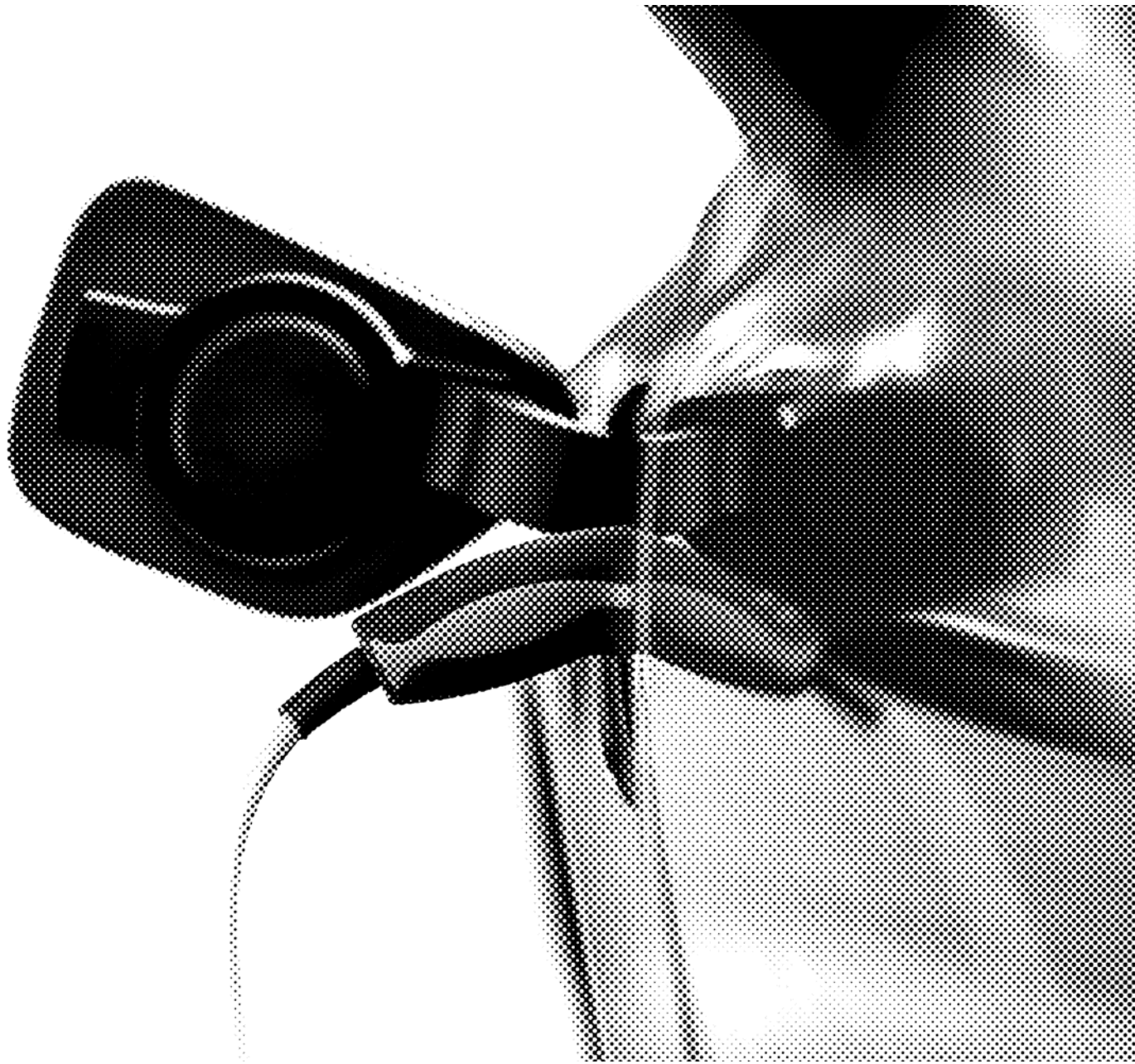
use the gas as an input in industrial processes. It will simply be too expensive for them to switch to biogas. But political assistance is needed here – producing and using biogas must be economically sustainable. Modity is helping to make the market work, by helping customers develop their biogas businesses and access new markets, and by broadening our scope and finding new products in renewable energy gases. The share of biogas in our gas portfolio was around 15% in 2020, the same as in 2019.

Electricity production in Sweden has very low CO₂ emissions, especially from an international perspective, but in 2020 we saw an example of how it is still not fossil-free. The oil-fired backup power plant Karlshamn started up in the middle of summer to provide electricity when nuclear power had problems and transmission capacity from north to south was limited.

Several of our customers on the utility side have high sustainability ambitions and we are working with them to get the most sustainable products possible. We appreciate customers who challenge us and make demands on us – it makes us better. We have renewed contracts with high-profile

customers in 2020, which creates good opportunities to continue developing together.

We also work on sustainability issues with our critical suppliers, such as IT and cleaning companies, and in 2020 we updated our car policy so that only fully electric or fuel cell cars can be ordered. Sustainability criteria have been part of the procurement process when selecting our critical suppliers, and over time we have developed our collaboration. We set requirements for the equipment used, but we also get ideas from the suppliers on how we can do more. It becomes an interaction where we learn from each other.



Environmental instruments - tools for change

Modity trades in environmental instruments such as emission allowances, guarantees of origin and electricity certificates. What these have in common is that they require functioning markets to be effective.

The European emissions market has been extremely volatile in 2020, heavily influenced by events such as the Brexit negotiations, the pandemic (with reduced industrial production and demand for allowances) and the European Commission's announcement in the autumn of more ambitious emissions requirements within the EU. The Market Stability Reserve (MSR) has also contributed to a reduction in supply in the market, and towards the end of the year, allowances were trading at over €30/tonne.

The rate of expansion of renewable electricity generation continues to grow strongly across Europe. As the production of renewable electricity grows, the supply of solar and wind power guarantees of origin on the market also increases. Demand has not increased at the same pace, resulting in a sharp fall in prices.

The electricity certificate market has stagnated in 2020. By November 2020, plants with a normal

annual production of 43.2 TWh had been commissioned, which can be compared to the 46.4 TWh target within the system. The supply of electricity certificates is therefore very good and it is not surprising that prices have fallen and that wind power operators now generally do not expect any revenue from the sale of certificates. The electricity certificate system has thus basically fulfilled its purpose, almost ten years ahead of schedule.

Modity helps our partners trade in these environmental instruments, for example by helping a wind power producer to obtain a good price for their Guarantees of Origin. We thus contribute to the functioning of the markets and to strengthening the competitiveness of renewable electricity generation and the phasing out of emission-intensive energy sources such as coal power.



Continued growth for wind power

Sweden has very good conditions for wind power in many parts of the country. In 2020, wind power has continued to grow, contributing an estimated 28 TWh of renewable electricity production³ – a new record. Wind power is expected to continue to grow and is widely seen as the major potential for new electricity generation in Sweden. In some analyses, wind is expected to cover both the shutdown of nuclear power, and the increased electricity demand expected in the wake of increased electrification in industry and transport. Just a year ago, many analysts thought that projections of 200 TWh of electricity use in Sweden were too high, but now even as much as 500 TWh is mentioned as possible by 2050⁴. According to preliminary figures, electricity consumption in 2020 amounted to 136 TWh⁵, and has not changed much since the mid-1980s.

Much of the wind power is being built in northern Sweden, where there are large areas of land with good wind resources that have not yet been exploited. However, the need is currently greater in the south, as the extreme price differences in 2020 have highlighted. The development of offshore wind power could make a big difference to the electricity system in south

Sweden, as the offshore wind resource is good and offshore wind also has a more consistent production profile. Cooperation with the Swedish Armed Forces and the abolition of connection fees are two factors that must be in place for the expansion of offshore wind power in Sweden to gain momentum.

Solar power production in Sweden is now also starting to make an impact at system level, and is estimated to reach around 1 TWh in 2020⁶. The rules have changed somewhat during the year, and the larger solar parks that are now being built will no longer receive any support. The trend looks set to continue anyway. The large price differences between north and south could drive the expansion of solar power generation in southern Sweden.

Modity plays a role in the expansion of renewables in Sweden, as a supplier and as a partner to several wind power owners, and our wind portfolio has continued to grow in 2020 in line with our strategy. We also have a small share of solar in our portfolio. Electricity generation is always associated with a price risk, and by being able to take over the risk from wind power owners, we are providing an important service that is necessary for wind power development.

³ Energiföretagen, Rekordlåga elpriser sammanfattar elåret 2020, (2020-12-31).
<https://www.energiforetagen.se/pressrum/pressmeddelanden/2020/rekordlaga-elpriser-sammanfattar-elaret-2020/>

⁴ Dagens Nyheter, Regeringen måste planera för fyrfaldig elanvändning, (2021-01-13).

<https://www.dn.se/debatt/regeringen-maste-planera-for-fyrfaldigad-elanvandning/>

⁵ Energiföretagen, Rekordlåga elpriser sammanfattar elåret 2020, (2020-12-31).
<https://www.energiforetagen.se/pressrum/pressmeddelanden/2020/rekordlaga-elpriser-sammanfattar-elaret-2020/>

⁶ Ibid.

Wind power owners often need long-term conditions and long-term agreements in order to invest, and by offering that, Modity can help make investments happen. We simply help wind power owners to get a good long-term price for their production and strengthen their profitability. We can also help reduce the cost of balancing management for wind power owners in an increasingly fast-moving market, by offering algorithmic trading.

As wind power becomes increasingly important in market pricing, so does forecasting. Modity has its own meteorologist, whose expertise is important for us to offer competitive conditions for wind power operators.

In 2020, Sweden has experienced negative electricity prices for the first time. This has happened on a handful

of occasions when electricity production has been high and consumption low. Modity's system for alerting our wind customers to negative prices came into use for the first time. Our customers could control their production and not have to pay for someone to receive it. This type of ancillary service needs to continue to be developed in order for wind power to be sufficiently profitable, so that the expansion of renewables can continue.

Modity's ambition is to enable both wind and solar power to continue to grow in Sweden, and we are therefore working to become an even better partner in wind and solar power, both by managing risk and providing favourable terms for our partners, and by continuing to develop additional services that enable the smooth integration of an increased share of renewables in Sweden.



Digital transition

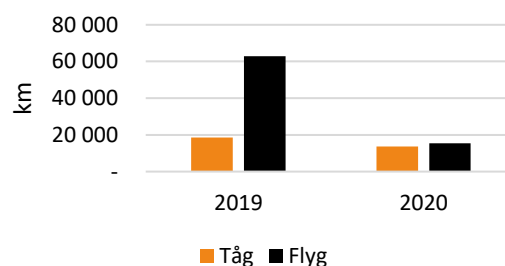
2020 has changed the circumstances for physical meetings. At the same time, digital accessibility has increased significantly. We can meet customers and stakeholders from our office or home instead of taking a train, car or plane to a meeting. This change is clearly visible in the statistics for business trips booked through our travel agency. In terms of kilometres, only a quarter of the distance was flown in 2020 compared to 2019. Interestingly, the difference is not as large for rail travel. Rail travel measured in kilometres amounted to 70% of rail travel in 2019. Travel occurred almost exclusively in the first 2-3 months of the year. The high proportion of rail travel is a pleasing trend and part of a wider cultural change. For example, we are seeing staff choosing night trains over flights even for some longer journeys.

The pandemic year of 2020 has of course been extreme, but it has forced us to finally take full advantage of the opportunities that digitalisation has offered for some time. Some of this will certainly live on after the pandemic, and it is important that we take with us what has been positive about the forced acceleration of digital transformation.

As well as not travelling to meet customers ourselves, we have also had to reschedule the times

when visitors normally come to us. Instead of physical events, we have held digital events, which has had both advantages and disadvantages. There are fewer opportunities for spontaneous contact and dialogue, of course, but we have reached more people, because the threshold for participation is lower in a digital event.

Employee business trips booked through a travel agency



In 2020, Modity continued the development of our digital customer portal, where we can easily meet customers and stakeholders and exchange information. The customer portal can eventually reduce the need for physical post and provide increased interaction without the need to increase travel



Photo: Sophie Håkansson

Reuse in our premises

Modity has its headquarters in central Lund and a smaller office in Gothenburg. We already have renewable electricity and heating in the premises in Lund, and in 2020 we replaced lighting to improve the working environment. We have also reviewed and improved our recycling and waste management, switched to organic fruit and coffee, and reviewed some consumables. Modity has continued to grow, so during the year we have renovated and opened a new office space, which has been furnished mostly with second-hand furniture and energy-efficient lighting controlled by motion sensors or timers. The ventilation in our premises is timer-controlled and is shut down after office hours.

In Gothenburg we rent in an office hotel. Electricity and heating come from renewable sources, but there are other measures that could be taken and we have started a dialogue with the landlord.

Modity has a lot of IT equipment, and we prefer to use energy-efficient equipment, such as for the screens in the new office landscape. We work with an environmentally certified IT supplier that actively pursues its own sustainability work. We also take other measures on an ongoing basis to continue to reduce our environmental impact, such as reducing unnecessary printing

Focus on employee well-being and development

Modity is a knowledge-based company and our employees are our most important resource. Making sure employees feel good at work is therefore critical for our business, but it's also part of our culture. We help each other, we support and challenge each other, and we learn from each other. Continuous and systematic work environment management makes Modity an attractive place to work for current and future employees. For example, all managers at Modity undergo health and safety training, because our approach is that this knowledge should be widely available to all managers, and not become a specialised area that only concerns a few. As a reward for our work, we have had our ISO 45 001 work environment certification renewed in 2020.

2020 has been a year characterised by working at home, which has placed some different demands on health and safety management. To ensure a good physical working environment, our employees have been able to borrow the equipment they needed

and additional equipment has been purchased when necessary. Risk analyses have been carried out in broad collaboration throughout the company, and a number of measures have been implemented based on the results. We have conducted an interview survey to ensure a good psychosocial and physical working environment at home.

Leadership and culture become even more important when working remotely, while at first glance they may seem more difficult to work with. However, we have continued to develop in these areas through various initiatives, such as learning groups where staff who do not normally work together have been able to meet (digitally) and share experiences.

Culture can also be about simply having fun together. In 2020, Modity employees started an internal sports club, and they organised an outdoor sports day with activities suitable for everyone. Another sports day planned for the autumn had to be turned into a photo competition due to the corona situation, with everyone participating from their own neighbourhoods.

Skills development

Energy markets are changing rapidly and an energy trading company needs people with both broad and detailed skill-sets. In order to develop the sharpest yet simplest offers, and to inspire and motivate our employees, we are very active in conducting training and skills development. Development should be inherent both for new employees and for those who have been with us for a long time. In 2020 we focused on project management, steering group work, work environment and leadership. It has given the whole company a major boost in knowledge in these areas.

Recruitment

Modity shall be an attractive employer with a successful and professional recruitment process that contributes to the company's skills resources. We strive to achieve fairness and equality between individuals and groups. Recruitment shall be free from any discrimination based on gender, transgender identity or expression, ethnicity, religion or belief, disability, sexual orientation or age. We engage in dialogue with our recruitment partners prior to each recruitment in order to have a wide range of possible candidates. We have made important contacts for future recruitment and expanded our networks in 2020.



Diversity and equality

The average age of our employees in December 2020 was 44 years. Many employees are in the 40-49 age range, but we also have several people under the age of 30 and one who is over 65. We made a conscious choice to recruit from different age groups.

We strive to achieve increased diversity and gender equality, because we are convinced that diversity in many aspects is good for Modity. However, measuring diversity on the basis of some of the grounds of discrimination, such as ethnicity or sexual orientation, is associated with ethical

dilemmas, and we refrain from such investigations. However, we monitor the number of women and men, and in December 2020 the number of women employees was 14 and the number of men 33, i.e. the proportion of women was 30%. The proportion of women has therefore not changed since 2019. The new recruitments we have made have been from male-dominated sectors, but we can see that we will need to do more and perhaps work differently if we are to achieve a better balance between the numbers of women and men in the long term.

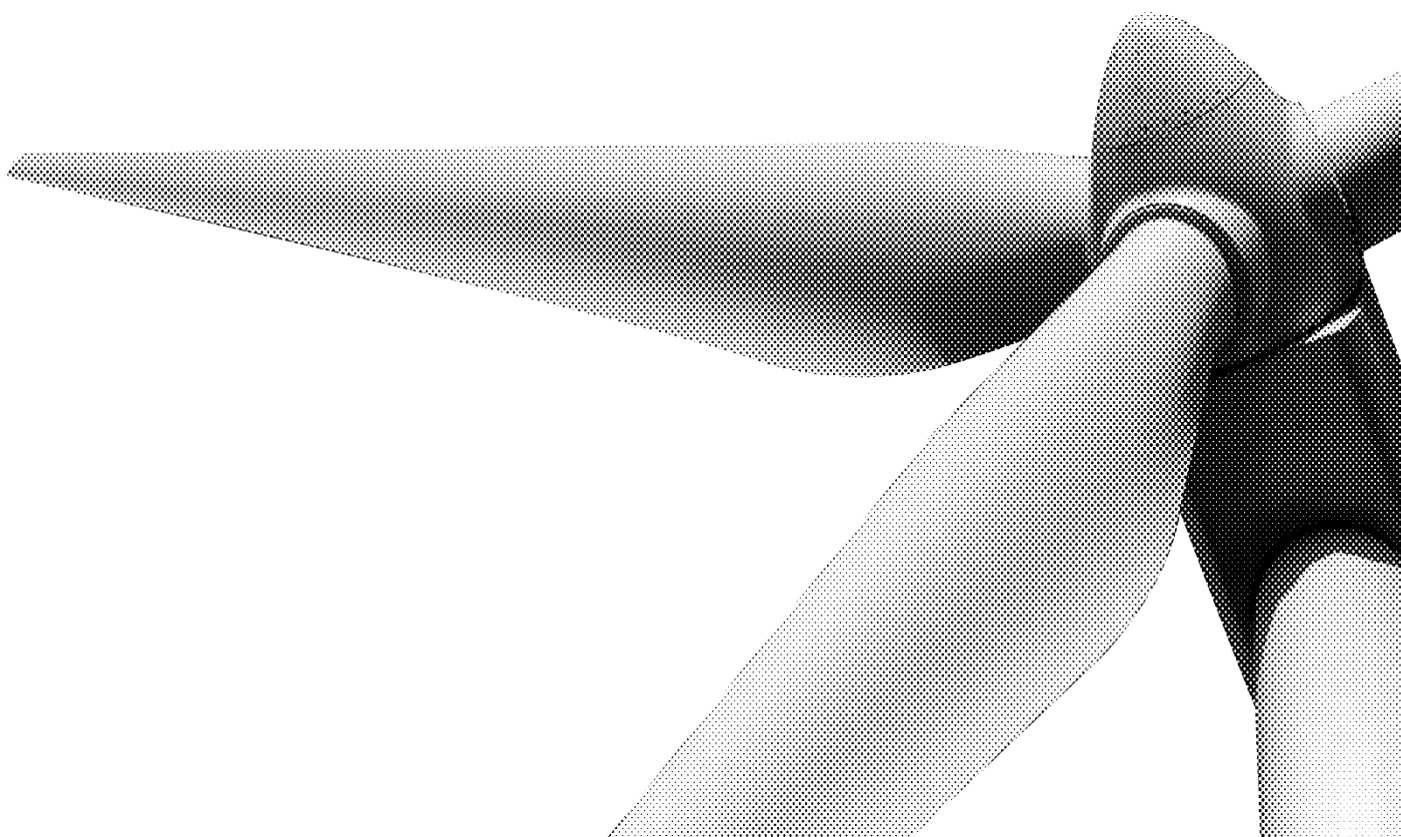




Photo: Sophie Håkansson

How we support others

People who are already vulnerable have been hit harder by the pandemic, and many children who are already struggling have had even fewer opportunities for both education and play in 2020. Modity has made a summer donation to the organisation Maskrosbarn, which works to help the children of addicts and people with mental illness. Our Christmas gift went to Save the Children's education efforts.

We have continued to sponsor three beehives, which are located in Flackarp outside Lund.

Bees perform important ecosystem services, and in return we have received honey that we share with customers and employees. Our beehives also engage many of our employees, and in 2020 Modity employees have been able to grow new queen bees, and we also organised a children's Bee Day, where employees could bring their children to the hives and receive training from our beekeeping partner, Anderssons Honung.

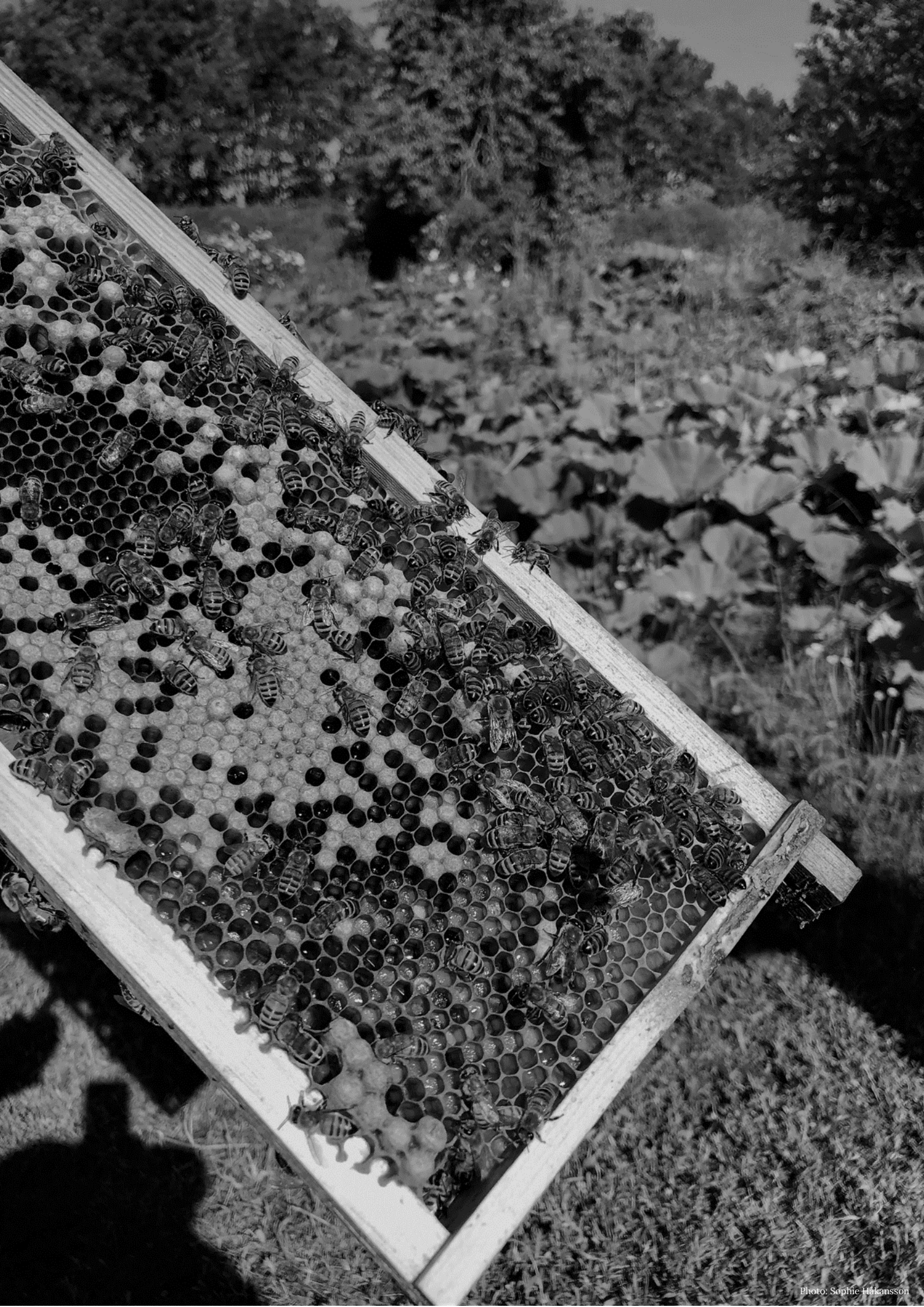


Photo: Sophie Hakansson

Compliance is a prerequisite for all our activities

Regulatory compliance and business ethics are part of our culture, as they must be for an energy trading company. The world is constantly changing, so compliance work is a continuous process where we always strive to maintain a consistent and high level of quality. Existing governance documents are reviewed on an ongoing basis and updated as necessary. When external regulations change, a review of current governance documents is carried out to ensure that we have adequate governance documents in place.

Zero tolerance of corruption and any form of irregularity is a matter of course. Our customers are in the Nordic market and the risk of corruption is considered low, but we are always alert to events or situations that could increase the risk of any type of irregularity. For example, we have clear guidelines for client entertainment, which should be moderate and judicious.

In 2020, we reviewed our anti-bribery policy documents, and this work will be completed in 2021.

Counterparty assessments are carried out to ensure that the parties with whom we do business meet our requirements for business relationships on a value-creating and ethical basis.

During the year, our incident reporting system was developed to better collect and capture risks and reported incidents. As a result of the pandemic, our business continuity plan has been tested in an emergency situation, and the results have shown that our preparedness is good and that we have been able to carry out our vital mission in a good way. Training sessions are held regularly to ensure that both new employees and other staff have up-to-date knowledge of both internal and external regulations, and several training sessions have been organised in 2020.

Towards new goals

Modity decided in 2020 to raise its sustainability ambitions for the future. There are several reasons for this. For example, we see how the demands from those around us are changing. Customers are demanding more. Our owners, i.e. ultimately the towns and residents of Eslöv, Helsingborg, Hörby, Lomma and Lund, see that we can contribute with greater social benefit. A strong sustainability performance will be a prerequisite for future business and operations. There is also a strong drive and commitment to sustainability among our employees.

At the same time, we are humbled by the difficulties we will face. How do we deal fairly with the fact that we are an intermediary, and that both emissions and many other impacts occur elsewhere? How do we set goals that are both bold and achievable, and that guide our work in the right

direction? What monitoring indicators actually show that we are on the right track, and how do we deal with areas where measurable targets and indicators are difficult to set?

We have therefore launched a project to give us enough space to deal with these challenges. Around mid-2021, we expect to have developed ambitious long- and short-term sustainability goals, the basis for an ambitious sustainability strategy, indicators for monitoring and a plan for future approaches to sustainability. We hope that this will bring us good business in the future, that we will have happier and healthier employees, but above all that we will be able to contribute to greater public benefit.



Lund 18/02/2021

Mikael Eriksson

Chairman

Micke Andersson

Hans Norberg

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CEO



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