

Task Force on Climate Related Financial Disclosures



KODIAK 
GAS SERVICES™

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Letter From The CEO

Kodiak (Kodiak or “the Company”) is proud to announce the release of our inaugural Task Force on Climate Related Financial Disclosures (“TCFD”) report. We believe that the rapidly evolving confluence of climate discussion, capital markets and sustainability disclosure warrants a robust and clear Company framework surrounding governance, strategic alignment, risk management and metrics topics. These four areas, the principles of TCFD, will play an important role in driving our success over the long term.



Mickey McKee
President & Chief Executive Officer

About This Report

Kodiak Gas Services is a leading provider of natural gas contract compression services in the United States, bringing efficiency and reliability to all the major basins. An innovator of gas compression technology, we leverage decades of experience and expertise to offer customers a high bandwidth of turnkey and operations services. From design and engineering to installation and maintenance, we optimize our customers' operations and maximize their profitability, all while providing innovative solutions to meet the unique needs of their projects and job sites.

At Kodiak, our key stakeholders are our employees, customers, investors, regulators, and members of the communities in which we operate. As the landscape around climate discussion, capital markets, and sustainability disclosure changes so do the potential positive and negative impacts for each of these stakeholder groups change too. In this report we discuss risks and opportunities and how they relate to our Company and our stakeholders.

As we continue to deepen and enhance our sustainability profile through the publication of our inaugural TCFD report, we plan to consider and include an expanded view on our metrics as they relate to climate. We currently issue a fuller suite of sustainability metrics covering areas in Environmental, Social & Governance ("ESG") which can be found in our latest Sustainability report on our website.

This report seeks alignment with the recommendations of the TCFD, both the general disclosure guidelines as well as select metrics recommended by the Sustainability Accounting Standards Board ("SASB") standards where applicable. These SASB recommended standards can also be found in our latest sustainability report on our website.

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Governance

Governance

Board Oversight of Climate-Related Risks & Opportunities

Our Board of Directors (“Board”) consists of nine members, eight of whom are independent under SEC rules and NYSE listing standards. Our board and its three standing committees—the Audit & Risk Committee, the Nominating, Governance & Sustainability Committee, and the Personnel & Compensation Committee—oversee and advise Kodiak’s strategic direction, working to create long-term value for shareholders.

The Audit & Risk Committee is responsible for the oversight of principal risks, including climate-related risks, associated with Kodiak’s business. Additionally, the committee oversees legal and regulatory compliance, including environmental regulation, pertinent to Kodiak’s business.

The Nominating, Governance & Sustainability Committee identifies and selects qualified nominees for the Board of Directors and oversees Kodiak’s governance processes and sustainability objectives. The Nominating, Governance & Sustainability Committee works closely with the Executive Leadership Team, providing guidance on, reviewing, and monitoring the development and implementation of sustainability programs for Kodiak’s business.

Both the Audit & Risk Committee and Nominating, Governance & Sustainability Committee regularly report to the Board regarding climate-related matters under their scope. Understanding the evolving impact of climate on business considerations, the entirety of the Board participates in frequent discussions on relevant climate-related matters.

Management’s Role in Assessing & Managing Climate-Related Risks & Opportunities

Kodiak’s Executive Leadership Team is responsible for assessing and managing climate-related risks at the operational level, striving for continual improvement to mitigate and adapt to these risks and seize opportunities that may arise. Among its members, the Chief Operations Officer ensures the implementation of climate-related programs, overseeing each business unit’s various climate-related activities and managing climate-related data tracking and collection processes. Our Chief Legal and Compliance Officer oversees compliance with environmental legal and regulatory requirements associated with Kodiak’s operational activities.

Executive Leadership collaborates closely with the Environment, Health and Safety Team, including the Vice President of Sustainability & Regulatory Relations, to implement and promote continual improvement of climate-related programs across business units. The Executive Leadership Team regularly reports to the Board on these activities, providing updates on the implementation of climate-related programs and climate-related risk mitigation and adaptation activities for the business.

Strategy

Strategy

As Kodiak continues to proactively prepare for the evolving landscape regarding climate-related matters, we are working to identify potential climate-related risks and opportunities that may have a material impact on our business strategy, results of operations, or our financial condition.

In identifying these risks and opportunities, we use the TCFD framework and structure set out by the SEC Climate Disclosure Rule to guide our approach. Risks are broken out into physical and transition risks. Physical risks are those related to the physical impact of climate change. They include both acute risks, such as those arising from specific events like weather events, and chronic risks, such as those resulting from longer-term shifts in climate patterns that evolve over time. Transition risks are risks associated with the transition to a lower-carbon economy, including policy and legal changes, technological advancements, market shifts, and reputational impacts.

Risks and opportunities are further categorized to indicate the immediate and long-range implications of climate change for Kodiak. Risks and opportunities are categorized as short-term, climate-related risks and opportunities that are reasonably likely to manifest within the next 12 months, and long-term, climate-related risks and opportunities that are expected to have an impact beyond the next 12 months.

Identified Climate Risks

Physical Risks:

Severe Wind, Tornadoes & Hurricanes (Short-Term)

Given the geographic regions of our operations, Kodiak understands that extreme weather events, such as severe winds, tornadoes, and hurricanes can significantly impact our business and its operations. The majority of Kodiak's operations, are located in the Permian Basin and Eagle Ford Shale, areas known for their susceptibility to high winds. These winds, if severe enough, can escalate into tornadoes, and the region's proximity to coastal areas increases the risk of hurricanes. Such extreme weather conditions have the potential to disrupt our operations, cause physical damage to our operating equipment, and impact the safety and well-being of our personnel in these regions.

Severe Rain, Thunderstorms, Hail & Flash Floods (Short-Term)

Kodiak's areas of operations are susceptible to a range of severe weather conditions, including heavy rain, thunderstorms, hail, and flash floods. These weather events have the potential to significantly disrupt operations by causing delays and damaging both customer equipment and sites, as well as Kodiak's own equipment and vehicle fleets. Additionally, such weather conditions can pose serious risks to the safety and well-being of our personnel working in these regions. The impact of severe rain and thunderstorms can be particularly detrimental, leading to operational inefficiencies and increased costs for repairs and maintenance.

Chronic Risks:

Air Temperature Variation (Long-Term)

The engines employed in Kodiak's compression operations are engineered to function effectively under high-temperature conditions. Nonetheless, exposure to extreme heat can reduce their efficiency. Over the long term, warming air temperatures could further decrease the efficiency of our equipment. This potential reduction may necessitate additional investments to maintain the optimal operation of our equipment, ensuring that our equipment continues to perform at peak levels despite the challenges posed by increasing temperatures in the future.

Water Availability (Long-Term)

Over the long term, increased heat and rising air temperatures could strain water resources in the areas where Kodiak and our customers operate. This strain has the potential to limit both our customers' and our own access to water necessary for operational use. Although our operations require minimal water, many of our customers rely heavily on water for their processes. Should access to water become restricted, our customers may face reduced efficiency and operational challenges leading to decreased production. This, in turn, could impact Kodiak's ability to provide services effectively, ultimately affecting our overall business performance.

Transition Risks

Regulatory Risks:

Evolving Current & Emerging Climate-Related Regulation (Short & Long-Term)

Environmental laws and regulations are continually evolving and may become increasingly complex and stringent over time. Over the short term, Kodiak and its customers are currently affected by and, in some cases, subject to stringent climate-related regulations at the national, federal, and state-level, including laws such as the Clean Air Act, Inflation Reduction Act and the SEC's Climate Disclosure Rule. These existing regulations, along with any new or emerging regulations, could negatively impact natural gas and oil exploration, production, and gathering and pipeline operations, potentially affecting Kodiak's customers. This, in turn, could have a material adverse impact on Kodiak's business, financial condition, and operational results. Additionally, increased compliance costs and shifts in customer demand and preferred suppliers could further affect our business.

Market Risks:

Changes in Demand for Natural Gas and Oil (Long-Term)

Kodiak's business directly complements the production of natural gas and oil, playing a crucial role in serving the fossil fuel industry. We believe that the fossil fuel industry will continue to be essential in providing reliable energy through the future. However, as climate-related factors, such as changing weather patterns and varying temperatures, become more severe, there is a potential risk of reduced demand for natural gas and oil. Over the long term, this shift could lead to an increased desire for alternative energy sources. Such a scenario may negatively impact the demand for Kodiak's compression operations and the prices for these services. Consequently, this could result in a potential decrease in Kodiak's revenue.

Limitation of Investments in and Financing for Energy Companies (Long-Term)

We acknowledge that companies in the energy sector face increasing financial risks as shareholders may choose to shift some or all of their investments toward non-fossil fuel energy sources. A growing number of shareholders are concerned about climate-related issues, prompting energy companies to place greater emphasis on these factors. This trend may also influence other members of the investment community, such as investment advisers, sovereign wealth funds, public pension funds, insurance companies and other groups, potentially leading to their divestment from energy-related equities or reducing their willingness to finance Kodiak's or its customers' operations. These limitations on investment and financing for energy companies could result in the restriction, delay or cancellation of infrastructure projects and energy production activities. This potential reduction in access to capital and financial markets, affecting either Kodiak's customers or Kodiak's own business, may further negatively impact the demand for and price of Kodiak's securities.



Reputation Risks:

Changes in Stakeholder Expectations in Respect to Sustainability Practices (Long-Term)

Many companies across industry groups are facing increased scrutiny from stakeholders related to their sustainability practices. Advocacy groups, domestically and internationally, have campaigned for public companies to increase their attention and actions toward climate-related efforts. This includes the promotion of fossil fuel substitutes and divestment of companies in the fossil fuel industry. There has been a push for further voluntary climate-related disclosure by some investor advocacy groups, proxy advisor firms, and other stakeholders. Over the long term, if Kodiak does not comply with investor or other stakeholder expectations and standards on climate-related matter as they evolve, or if Kodiak is not perceived as responding appropriately or quickly enough to growing climate-related issues, irrespective of whether there is a legal requirement to do so, Kodiak may potentially suffer from reputational damage and its business, financial condition could be materially and adversely affected.

Many companies across various industries are facing increased scrutiny from stakeholders regarding their sustainability practices. Advocacy groups, both domestically and internationally, are campaigning for public companies to enhance their climate-related efforts. This includes promoting fossil fuel alternatives and divesting from fossil fuel-related companies. Additionally, there is a growing push from investor advocacy groups, proxy adviser firms and other stakeholders for more voluntary climate-related disclosures. Over the long term, if Kodiak does not meet evolving investor and stakeholder expectations and standards on climate-related matters or if Kodiak is perceived as not responding appropriately or quickly enough to these issues, regardless of legal requirement to do so, our company could suffer reputational damage. This could adversely affect Kodiak's business, financial condition and stock price.

Opportunities

Emerging Emissions Detection & Reduction Technologies (Medium-Term)

As the regulatory and market landscapes increasingly require the oil and gas industry to track emissions more frequently, many of our customers, particularly in the upstream and midstream sectors, are looking to monitor their emissions more closely and are setting ambitious emissions reduction targets. This shift has created significant opportunities for Kodiak to invest in and advance emissions detection and monitoring technologies to meet evolving customer needs. We have begun research, development, and investment in several innovative technologies aimed at driving further emissions reductions and operational efficiencies for our customers. We believe this forward-thinking approach will not only keep us competitive in the market but also help our customers achieve their emissions reduction goals.

Risk Management

Electric Motor-Driven Compression Expansion (Long-Term)

As the energy industry evolves, operators are seeking to find innovative ways to provide reliable, affordable, and low-emissions energy to their customers. Kodiak remains committed to assisting customers in producing reliable and affordable energy while ensuring sustainability and responsibility in our business practices. Committed to continuous improvement and emissions reduction, our long-term strategy focuses on reducing emissions across our fleet through the use of electric motor-driven compression. We have already begun deploying electric motor-driven compression with select customers and see increased opportunities in scaling the electrification of Kodiak's compression operations. Through the wide-scale expansion of electrified compression operations, we can strengthen our market position and help our customers achieve their emissions reduction goals.

Risk Management

At Kodiak, our commitment to sustainability is underscored by our proactive approach to identifying and managing climate-related risks and opportunities, as outlined in the Identified Climate Risks section of this report. We prioritize understanding and addressing these issues to ensure long-term success and environmental stewardship.

Central to our approach is our Enterprise Risk Management ("ERM") process, which provides a comprehensive framework for identifying, assessing, responding to, and monitoring risks across our business. This process is integral to our operations, enabling us to systematically address a wide array of risks, including climate-related risks. By embedding this process into our organizational structure, we ensure that risk management is a continuous and dynamic activity, integral to our decision-making processes.

The Executive Leadership Team plays a pivotal role in our ERM framework, assuming responsibility for the day-to-day management of risks. Their role includes identifying where risks exist within the enterprise, ensuring that potential issues are recognized and addressed promptly. To maintain a thorough understanding of our risk landscape, the Executive Leadership Team periodically updates a detailed enterprise risk matrix. This matrix is a comprehensive document that outlines all significant risks affecting the company, accompanied by specific mitigation plans designed to address these risks effectively.

When updates are made, the enterprise risk matrix is presented to the Audit & Risk Committee. The committee meets regularly to review, update, and discuss the progress made in mitigating the most material and potentially impactful risks to the company. Their oversight and strategic guidance are crucial in ensuring that our risk management practices remain robust, adaptive, and aligned with our long-term objectives. Through these concerted efforts, Kodiak is committed to effectively navigating climate-related risks and capitalizing on opportunities to drive innovation and sustainable growth.

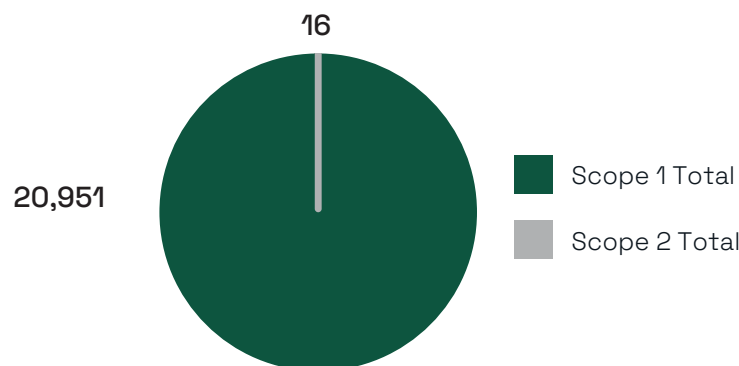
Metrics

Metrics

GHG Emissions

At Kodiak, we diligently monitor and report our Scope 1 and Scope 2 emissions, in alignment with the evolving expectations of our customers and stakeholders. Our emissions management system is aligned with the Greenhouse Gas Protocol and adheres to all applicable regulatory requirements, ensuring that we maintain high standards of accuracy and accountability in our reporting¹. Scope 1 emissions are defined as direct greenhouse gas emissions under the organization’s control or ownership. Our Scope 1 emissions primarily result from the consumption of gasoline and diesel fuel by our vehicle fleet, while a smaller portion is attributed to natural gas usage in our offices and other buildings. Scope 2 emissions, representing indirect emissions, are predominantly linked to the electricity we source from U.S. grids for our office operations.

2023 Emissions (Metric Tons CO₂e)



Appendix

Metric	Unit	2021	2022	2023
Scope 1				
Gross Global	Metric Tons CO ₂ e	14,504	15,497	20,951
Intensity	(MT CO ₂ e/\$M Revenue)	0.02	0.02	0.03
Scope 2				
Gross Global	Metric Tons CO ₂ e	9	8	16
Intensity	(MT CO ₂ e/\$M Revenue)	0.00	0.00	0.00
Total				
Gross Global	Metric Tons CO ₂ e	14,513	15,505	20,967
Intensity	(MT CO ₂ e/\$M Revenue)	0.02	0.02	0.03

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