



Mergün Enerji

Risks and Opportunities

# 1.Governance

## Board Oversight:

Margün Enerji Üretim Tic. A.S. (“Margün Enerji” or the “Company”) Board of Directors (“BoD”) discusses climate change related risks and opportunities and sustainability on a regular basis as they sit at the center of the Company’s main strategy and business model.

The Company's targets and strategies focus on continuing the development of services, solutions and technologies that will increase renewable energy capacity and energy efficiency to help achieve net zero targets.

The BoD focuses on sustainability strategies and priorities to determine The Company's long-term goals and strategies and has made a decision to report on all the ESG related targets and performance with its stakeholders in line with The Company’s management and operating principles of transparency and accountability.

While the BoD receives quarterly reports from the **Corporate Governance Committee, Early Detection of Risk Committee and Sustainability Committee** about how the changing legislative and technological developments impact climate change risks and opportunities and accordingly review the Company’s strategy for business adaptation.

## Management Role:

The climate-related risk and opportunity analysis requested by the BoD is prepared and discussed in regular committee meetings and are carried out under the leadership of **Corporate Governance Committee, Early Detection of Risk Committee and Sustainability Committee**.

**Corporate Governance Committee** consists of four members selected by BoD. The committee chairman is elected by the independent board members. The purpose of the Corporate Governance Committee is to monitor the Company's performance and make recommendations on best practices in corporate governance and their implementation. The Corporate Governance Committee is also responsible for the preparation and monitoring of the mandatory Sustainability Principles Compliance Report prepared in line with the Capital Markets Board (CMB) communiqué. The Sustainability Principles Compliance Report, includes corporate information regarding disclosures on climate-related issues or the reasons for not making these disclosures, as well as performance related information and best ESG practices adopted by the Company.

**Early Detection of Risk Committee** consists of two members selected by BoD. The Board of Directors delegates the task of monitoring company risks and opportunities to the Early Detection of Risk Committee. The Early Detection of Risk Committee reports directly to the Board of Directors. Its responsibilities include advising the Board on identifying risks that may threaten the Company's existence and strategies, identifying opportunities to enhance the Company's operations, providing early detection of risks, implementing measures to mitigate these risks, and presenting action plans to capitalize on opportunities. Sustainability Committee consists of three members selected by BoD and ensures that sustainability policy is reviewed periodically to reflect the new developments in related agreements and policies, the targets are met and the strategy is implemented and performance is

measured in terms of ESG metrics. The Committee is directly responsible for the Company's ESG reporting and preparation of the sustainability report.

## 2. Strategy

### Impact of Climate Risks and Opportunities:

**Risk 1:** Storms, forest fires, heavy rains, blizzards, frost

**Risk Term:** Short Term

**Risk Type:** Operational Risk: EPC Services and Production

**The Financial Impact of Risk:** Rising Costs

**Definition of Risk:** Storms, heavy rains and snow cause damage to the poles that carry the power lines. Due to climate change, such extreme weather events appear more frequently and their impact is increasing.

EPC Services: During the installation of the Company's land-based solar power plants, climate-related external factors such as storms, heavy rains, snowstorms and frost that affect its operations may cause operational activities to be stopped and postponed. When extreme weather events occur, work is stopped immediately to protect employees due to our company's occupational safety standards. In this case, if there is no flexibility in the completion and delivery time of the project, additional teams may be assigned and the work may need to be completed on time. In addition, due to severe weather conditions, repair and maintenance personnel also have difficulties in providing timely access to the sites.

Energy Production: The Company is engaged in energy production through its subsidiary Margun Enerji thus monitors the climate related risks of Margun Enerji's solar energy production operations. Climate events potentially cause interruptions in the production or distribution of Margun Enerji's solar power plants, resulting in failure of electricity production or distribution via national grid, resulting in loss of revenues for the Company until the damage on national grid is fixed by Turkiye Enerji Iletim A.S. ("TEİAŞ") which carries out the maintenance and repair works.

**Business Adaptation:** With its project development and engineering experience, the Company sets and implements high standards in power plant installations to ensure that the power plant is as resilient to adverse climate events as possible. For instance, if there is a possibility of flooding, the Company plans to create a drainage system within the project and includes this cost in the project development. Or in land areas with high wind, the thickness of the poles that support the solar panels are increased and these are reflected in the project cost.

Unforeseen climate events and their negative consequences are covered by force majeure clauses in EPC contracts. The Company purchases an All Risk insurance against all material damages that may occur during the installation of solar power plants, and a possible financial loss is covered by the insurance. Insurance premiums, which increase in scope and cost due to climatic events, are reflected in the project costs in order not to adversely affect the profitability of the Company. Damages arising

from climate events after the installation of the power plants are covered by the operational insurance purchased by the power plant owner.

The Company purchases operational insurance to cover the risk of possible climate-related damages in its own power plants.

**Risk 2:** Climate events that adversely impact supply chain

**Risk Term:** Short/Medium Term

**Risk Type:** Operational Risk

**Financial Impact of Risk:** Delay in EPC services and increased operational expenses

**Definition of Risk:** Solar panels, inverters, cables, medium voltage equipment and transformer constitute the largest cost items for solar power plants and any unexpected shift in supply and demand dynamics of these products increase the projects costs. Unexpected climate events also interrupt logistics hence the timely completion of EPC projects.

**Business Adaptation:** To cover itself against the extreme climate events that may adversely impact the supply chain, the Company maintains a large network of suppliers from different geographies. The Company occasionally purchases products in bulk to benefit from reduced costs and protection against potential price increases but does not stock products that are globally high in supply. Delays and cost increases related to supply and logistics due to adverse climate events are covered by contracts and All Risk insurance.

**Risk 3:** Compliance with New Regulations

**Risk Term:** Short to Medium and Long-Term

**Risk Type:** New Legal Regulations

**Financial Impact of Risk:** Potential penalties due to non-compliance

**Definition of Risk:** Legal regulations regarding climate change and measures taken in this regard are constantly evolving, and due to the emergence of new regulations, failure to comply with legal requirements in a timely manner carries the risk of facing punitive sanctions.

**Business Adaptation:**

The Quality Management Department tracks all international and domestic regulatory changes and shares them with all relevant units. In executive committee meetings, the impact of these updates are discussed and the management makes necessary decisions to take actions for business adaptation.

The Company is particularly diligent in managing and reducing the emission impact of hazardous substances and gases in the solar panel products it uses, in accordance with legal regulations. The Company requests assurance, certification, and test documents from suppliers to ensure their compliance with international environmental and quality standards. The Company suppliers are also required to sign the Company's sustainability policy and related declarations, committing to comply with the Company's sustainability policies. The Company also has a policy to terminate its contracts with those suppliers which fail to comply with these policies.

**Opportunity 1:** Development of the renewable energy market

**Opportunity Term:** Short to Medium Term

**Opportunity Type:** Market Growth

**Financial Impact of the Opportunity:** Increase in turnover with the development of the renewable energy market

**Definition of Opportunity:** The demand for renewable energy and thus solar energy production is expected to increase together with increased legislative environments and adoption of better sustainability strategies by companies. As a result of the decision taken at COP28 and the research of the IEA, in order to achieve the net zero targets by 2050, energy efficiency must be doubled by 2030 and renewable energy capacity must be increased 3 times.

**Business Adaptation:**

The company takes marketing actions to maintain its current position in the market and to get a share of the growing market. In 2023, the Company participated in EIF and EÜF fairs in Turkey to market its products and services, and plans to participate in Solarex Istanbul, WFI Abu Dhabi, RE+ Las Vegas, EIF and EÜF Istanbul fairs in Turkey and abroad in 2024 and beyond, and to meet its potential customers and stakeholders.

The Company improves its competitiveness by taking concrete steps in areas where it believes it has competitive advantages to its competitors. With its commitment in sustainability, accountability and transparency, the Company and management continuously report on London Stock Exchange Group's (LSEG) ESG platform, integrating all reporting metrics into policies, KPIs, day-to-day decisions and actions.

**Opportunity 2:** Electric charging stations increase demand for renewable energy

**Opportunity Term:** Short and Medium-Term

**Opportunity Type:** Market Growth

**Financial Impact of Opportunity:** Increase in turnover from a new market

**Opportunity Description:** The number of electric charging stations across Turkey is gradually increasing, as electric vehicles in Turkey are gradually increasing their market share compared to fossil fuel-using and hybrid vehicles. The electricity needs of electric charging stations are expected to be met from renewable energy, which is expected to increase demand and therefore capacity.

**Business Adaptation:**

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**Opportunity 3:** Increasing renewable energy efficiency and capacity through Technological Developments, Digitalization and Innovation

**Opportunity Term:** Short to Medium and Long-Term

**Opportunity Type:** Change and growth of the market

**Financial Impact of Opportunity:** Creation of new income items with climate technologies

**Definition of Opportunity:** Solar power is produced and used during the day when the sun is up. At night time, if the energy is not stored, other electricity sources are used for consumption. This presents a significant challenge to maintaining continuous energy supply from solar power. Emerging technologies and innovations in energy storage and battery systems will increase efficiency in the use of renewable energy and encourage the installation of new capacity.

In addition, digital solutions that enable more efficient and effective management of solar power plants are expected to create alternative income items.

**Business Adaptation:**

In order to ensure the continuity of the energy it produces, the Company actively pursues opportunities in the field of energy storage and battery technologies and explores opportunities to integrate them into its service scope. On 9 November 2023, a cooperation agreement is signed to install a 2 MW energy storage unit for ÖZMEN-1 SPP. As climate technology solutions, batteries and energy storage will be one of the main driving forces of renewable energy sector. We set up a sub-committee to review ideas and projects that we can incubate to become innovative solutions to improve energy efficiency and complement our services. The project flow coming to **Sustaintech VC** is also an important source for innovative ideas.

In the short and medium term, the Company, along with its subsidiaries, plans to offer advanced technological and digital solutions to its customers for more efficient and effective plant management.

**Opportunity 4:** Carbon Border Adjustment Mechanism, new legislation on carbon footprint practices and the transition of corporate consumers to renewable energy

**Opportunity Term:** Short to Medium Term

**Opportunity Type:** Market Expansion

**Financial Impact of Opportunity:** Revenue growth due to increased market demand

**Opportunity Description:** Corporate customers are increasingly turning to renewable energy consumption due to factors such as carbon border implementation, sustainability efforts, increasing legal regulations and carbon footprint reduction and net zero targets. In this context, the market is expanding due to growing number of institutional customers seeking to install their own renewable power plants for self-consumption or investment purposes.

**Business Adaptation:**

The Company strengthens its competitive positioning by taking solid steps to reinforce its strengths and competitive advantages. The Company is one of the leading solution partners for corporate consumers that wish to transition to renewable energy and is increasing its efforts to seize new business development opportunities.

**Opportunity 5:** Invest in manufacturing activities with vertical integration for local production of procurement products

**Opportunity Period:** Short, Medium and Long Term

**Opportunity Type:** Market Growth, Sustainable Sourcing

**Financial Impact of Opportunity:** A new revenue item and turnover growth, cost optimization

**Opportunity Definition:** The company plans to invest in the production of climate technologies in local and nearby geographies to increase sustainability in the supply chain and reduce the risk of any disruptions.

**Business Adaptation:** Solar panels, inverters, transformers and battery storages, along with other products, constitute the largest cost and important items for solar power plants, and unexpected changes in the supply and demand dynamics of these products increase project costs. In order to ensure the local supply of these products in a sustainable way, the Company; It evaluates production strategies, researches organic and inorganic growth opportunities and interviews with companies that it can partner with in this regard.

### 3. Risk Management

#### Process for Identifying and Assessing Climate Related Risks

The Company adopts a systematic approach and employs best practices to identify and manage climate-related risks.

With three committees (**Corporate Governance Committee, Early Detection of Risk Committee and Sustainability Committee**) that regularly report to the BoD, the Company is provided with information about climate-related risks and opportunities, enabling it to make strategic decisions. These strategic decisions are reflected in policies related to risk management and communicated to management.

The Company identifies short-term, medium-term and long-term risks and opportunities arising from climate change as follows:

- **Short Term:** Due to the emerging market dynamics in Turkey, the short term is defined as 1 year. Since short-term risks and opportunities have the more immediate impact on our business, risks and opportunities are re-evaluated every quarter under the leadership of the Early Detection of Risk Committee.
- **Medium Term:** All risks and opportunities between 1 to 5 years duration, which are expected to have an impact on our business plan, are evaluated as medium-term risks and opportunities. The medium-term risk and opportunity assessment is carried out in conjunction with the Early Risk Detection Committee and C-level executives to gain a comprehensive understanding of the factors shaping our business strategy.
- **Long Term:** Risks and opportunities 6 and 10 years' duration that may have an impact on our business, our customers and the environment are defined as long-term risks and opportunities. Such risks and opportunities require longer-term planning. The assessment of long-term risks is carried out with the participation of C-level managers together with the Early Detection of Risk Committee.

The Company conducts climate-related scenario analyses to understand the impact of climate-related risks on its business model, strategy and financial performance in the short, medium and long term.

Climate-related risks are assessed and prioritized based on scenario and probability analyses, considering the magnitude and significance of their impacts. These risks are then incorporated into the organization's overarching risk management policies.

## Process for Managing Climate Related Risks

The Company revises its product, service, procurement strategies and policies to adapt to identified risks, respond changes, and capitalize on opportunities, ensuring alignment with the business plan. For instance, when entering agreements with suppliers, the Company informs them about its Environmental Impact Reduction Supplier Policy and Provision of Environmental Criteria. It also communicates its Partnership Termination Policy and Supply Chain Employee Occupational Health and Safety Policy. Suppliers are required to comply with these policies, and contracts are terminated with those who fail to do so. The Company sets targets in line with international agreements such as the Paris Agreement for more effective and efficient management of climate related risks, and periodically shares them with its stakeholders through ESG reporting in line with its the principles of transparency and accountability.

The company regularly reviews its risk management objectives, strategies, policies and processes through the integration of the Paris Climate Agreement, COP28, UNGC, IEA, World Economic Forum Risks and Opportunities, etc., incorporating new knowledge and developments in climate science and policies around the world, in accordance with quality management standards.

In 2023, the company became a member of the Business Council for Sustainable Development (BCSD) Turkey in order to learn, share and collaborate on industry best practices for managing climate risks and opportunities.