Climate Corporate Governance

ENERGOCOM S.A

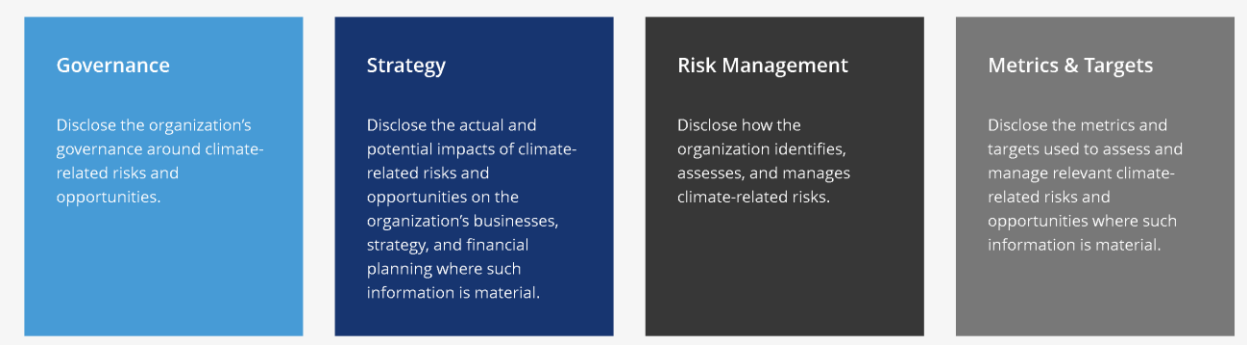
As part of the Enersap (Energy Sector Action Plan) since 2022, Energocom uses EBRD's (European Bank for Reconstruction and Development) natural gas financing facility, which is efficiently contributing to the Moldova's energy security and diversification.

Energocom is leading the efforts of implementation of the best practices in corporate governance in the energy sector of Moldova, including highest standards of transparency and information disclosures on different aspect of business activities.

One area of priority for Energocom has become the establishment of the effective Climate Corporate Governance (CCG) framework which aims to identify, manage, monitor climate related risks and opportunities, and align its operations with the objective outlined by the Paris Agreement.

> The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. It entered into force on 4 November 2016. Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."

To improve transparency of businesses on the reporting of risks and opportunities of climate change, the Taskforce on Climate-related Financial Disclosures (TCFD) has been established. The TCFD's approach focuses on the impact of climate change on the business as well as at the impact of business on climate change. As a result, the TCFD has developed a framework for more effective disclosure of climate-related risks and opportunities through the existing reporting processes related to the following areas:



Climate Corporate Governance is the structure of processes and actions a company puts in place to manage its responses to the financial risks and opportunities of climate change.

With the close cooperation and support of EBRD and KMPG, as implementing partner, Energocom has successfully navigated the process of identifying its climate governance maturity level, assessing the current state, pinpointing gaps and formulating a roadmap to improve and implement best practices.

Energocom commits to incorporate CCG best practices into its corporate governance structure, strategic and operational planning as well as implement respective processes/procedures within the specified timeframes introduced in the action plan.

Current CCG Arrangements at Energocom

Before the creation of the action plan to address climate-related risks and opportunities, it was important to first identify the status of Energocom's practices through assessment of different CCG components, in particular:

All these components have been assessed through analyses of climate related regulations, existing management practices, interactions with key stakeholders, and comparing Energocom's practices with the identified peers' practices. As a conclusion, Energocom has been identified as being on the basic level out of possible four reference levels: 1. Basic, 2. Intermediate, 3. Advanced, 4. Best practice. The chart below visually provides an overview of Energocom's performance across the seven CCG components:

Reference Levels:

1. Basic
2. Intermediate
3. Advanced
4. Best Practice

Assessment of climate-related risks and opportunities

Based on desk research and expert interviews, fourteen (14) climate related vulnerabilities (V) and three (3) opportunities (O) have been identified that can potentially have a financial impact on Energocom's business and operations across its value chain. The respective impact of each Vulnerability and Opportunity has been assessed through three factors: (i) likelihood, (ii) severity of the impact and (iii) its importance to stakeholders. Impacts have been categorized as follows:

Low Impact

The impact is considered of low degree when the following reasons apply:

- Not being identified as a major concern by stakeholders.
- The likelihood of its occurrence is low
- The organization is less susceptible to the impact caused by this risk.

Moderate Impact

The impact is considered moderate when the risk is present, is relatively likely to take place and/or could end up causing some effects to the functioning of Energocom

High Impact

These are risks of highest concern. The following conditions identify high impact risks:

- The likelihood of their occurrence is high
- Most frequently identified during the stakeholder interview/external sources as a high risk
- Have significant impacts through the value chain of Energocom

These components, combined, offered a view on the potential impact of each risk which together with additional components has created the bases for climate risk mapping. Extract from the risk mapping is presented below:

#	Type of Sensitivity (TCFD)	Vulnerability	Value chain	Type of Potential Financial Impact	Geographical Scale	Main location of Impact on Energocom value chain	Initial Risk Impact Assessment to Energocom
1	Physical – Chronic	**Average temperature rise**	Gas & Electricity	Assets	Country	Upstream & Downstream	Moderate
2	Physical – Chronic	**Changes in weather patterns**	Gas & Electricity	Turnover	Country	Downstream	High
3	Physical – Acute	**Extreme weather events**	Gas & Electricity	Assets	Region	Complete Value Chain	Medium

Each identified vulnerability and opportunity has been scanned on the nature and extend of potential impact on business segments of Energocom taking into consideration components of affected value chain:

Potential business implications on Energocom's Natural Gas value chain:

#	Vulnerability	Upstream inputs		Own operations			Downstream		
		Gas extraction/ production	Transportation	Purchase	Storage	Trading	Transportation	Distribution	Retail
1	**Average temperature rise**	Gas processing plants and compressors may be required to intensify their efforts to maintain operations, leading to increased energy consumption.	Higher ambient temperatures can cause expansion of gas volume and greater stress on assets (particularly on pipes), which reduces transportation efficiency and accelerates wear and tear on assets.	-	-	-	Higher ambient temperatures can cause expansion of gas volume and greater stress on assets (particularly on pipes), which reduces transportation efficiency and accelerates wear and tear on assets.	-	-
2	**Changes in weather patterns**	-	-	-	-	-	-	-	Fluctuations in customer demand, such as milder or stronger winters, will directly influence gas consumption, resulting in variations in usage levels.
3	**Extreme weather events**	Heat waves can increase the energy needed for natural gas extraction and processing. Storms can affect production leading to supply disruptions.	Elevated temperatures may impact gas pipeline efficiency, leading to decreased capacity or leaks. Storms can damage pipeline infrastructure, causing gas leaks and supply disruptions.	-	Intense heat may diminish the effectiveness of natural gas storage facilities, impacting their capacity to store and release gas. Storms can harm storage facilities, causing gas release.	-	Elevated temperatures may impact gas pipeline efficiency, leading to decreased capacity or leaks. Storms can damage pipeline infrastructure, causing gas leaks and supply disruptions.	Heat waves can strain local distribution networks, causing overloads and potential interruptions in gas supply. Storms can disrupt distribution systems, leading to gas delivery problems for consumers.	Extreme weather can disrupt gas demand patterns, causing variations in retail prices and potential supply limitations.

Potential business implications on Energocom's Electricity value chain:

#	Vulnerability	Upstream inputs		Own operations			Downstream		
		Electricity generation	Transmission	Purchase	Storage	Trading	Transmission	Distribution	Retail
1	Average temperature rise	Elevated temperatures may reduce power plants' efficiency, thus reducing electricity output and increasing fuel consumption to maintain output levels.	Temperature rise can damage electricity infrastructure and require costly repairs and resilience measures.	-	-	-	Temperature rise can damage electricity infrastructure and require costly repairs and resilience measures.	Temperature rise can damage electricity infrastructure and require costly repairs and resilience measures.	As temperatures rise, this may cause greater demand for electricity (air conditioning and cooling systems)
2	Changes in weather patterns	-	-	-	-	-	-	-	Weather-driven demand spikes can strain the grid and affect pricing.
3	Extreme weather events	Heat waves can reduce the efficiency of power plants, leading to decreased power generation. Storms can damage generation infrastructure, causing outages.	High temperatures can strain transmission lines and transformers, potentially causing power outages. Storms can damage transmission infrastructure, disrupting the flow of electricity.	-	Extreme heat can reduce the efficiency of energy storage systems, affecting their ability to store and release energy. Storms can damage storage facilities and lead to the release of hazardous materials.	Extreme weather can affect energy prices and trading strategies due to fluctuations in supply and demand.	High temperatures can strain transmission lines and transformers, potentially causing power outages. Storms can damage transmission infrastructure, disrupting the flow of electricity.	Heat waves can strain local distribution systems, leading to overloads and potential power interruptions. Storms can disrupt distribution networks, causing power outages for consumers.	Extreme weather can impact energy demand patterns, leading to fluctuations in retail pricing and potential supply constraints.

Energocom's Roadmap towards Improving its CCG Evaluation

As was mentioned, Energocom commits to improve its evaluation of Climate Corporate Governance and to get to the best practices in the industry. Energocom takes into consideration the practices from the peers in the industry as well as pays highest attention to the recommendations from the EBRD Corporate Climate Governance Assessment tool and KPMG's experience and resources on Climate Governance Advisory. The action plan, elaborated together with our partners EBRD and KPMG, envisages implementation of activities which will contribute to the improvement of Climate Corporate Governance in the company. In addition, it will allow Energocom and its stakeholders to monitor the committed progress and evaluate performance against targets.

The anticipated effect of the suggested actions, which impact each corporate governance component, is included. This shows how each individual action, as well as a combination of actions, could improve the corporate governance assessment tool's score. The 'Timing range' is defined as: **Immediate** (within 6 months), **short** (6 months-2 years), **medium** (2-4 years). Below are the activities to be implemented related to each CCG component:

Commitment

Energocom will set decarbonization targets for 2030 and beyond and develop a set of KPIs to monitor the company's performance in relations to these targets. This action will bring the company in line with the Paris Agreement and support the company's resiliency in a future low-carbon economy.

Accountability

Energocom will initiate modifications in the governance structure to establish responsibilities and accountability on the management as well as on the management oversight levels to ensure climate related aspects become part of business decision making mechanism.

Processes

Energocom will integrate climate-related risks and opportunities assessment process into overall risk management process, develop tools and frameworks for permanent qualitative and quantitative measurement of the risk / opportunity impacts on company's financial position.

Capacity

Energocom acknowledges the high importance of capacity building on climate related risks and opportunities for company staff. Therefore, Energocom will develop the structured approach to ensure permanent awareness improvement as well as training programs for staff, including the board, to achieve best practice level knowledge base.

In addition, Energocom will create a system to identify awareness and capacity gaps within the value chain as well as monitor and incorporate environmental regulations.

Engagement

Energocom will establish the structured process of stakeholder engagement across value chain to ensure proper management of environmental, social and economic risks and opportunities and adequate communication of outcomes.

Disclosure

Energocom will implement internationally recognized methodologies and guidelines to ensure adequate disclosure of low-carbon transition and risks/opportunities management. Energocom aims to achieve good practices for disclosure following TCFD requirements and recommendations.

Validation

With the target to achieve the best practices in medium term, Energocom will establish the internal process for validations of climate related data, with the additional mechanism of external validation of disclosures for climate-related risks and opportunities. This process will ensure transparency of data collection and reporting.