

TCFD-aligned disclosure

As part of activities to improve international ratings on climate risk management and sustainability, in 2023 KMG teamed up with the European Bank for Reconstruction and Development for a project to develop an action plan for corporate climate governance and disclosure aligned with the TCFD recommendations.

The project consisted of four stages.

The first one was initial diagnostics, which provided for an analysis of KMG's current business processes in the area of decarbonisation and sustainability to assess their alignment with the TCFD recommendations. A benchmarking exercise was conducted to identify and present best industry practices on TCFD-aligned disclosure, including compilation of a list of climate-related risks for a detailed scenario analysis of their impact on KMG's business model in the short, medium, and long term (until 2030, 2045, and 2060 respectively).

The second stage focused on risk assessment, climate change scenario, analysis, and stress tests, and aimed to review the Company's value chain so as to deep dive into its segments and assess their exposure to climate-related risks.

For each segment of the value chain (upstream, midstream and downstream), including the Company's foreign assets, the assessment helped identify 25 strategic assets (of 17 subsidiaries and associates) for subsequent scenario analysis. At the next stage, the assets underwent scenario analysis to gauge their exposure to climate-related risks at various scenarios of temperature changes and shifts in a regulatory environment.

The results were used to calculate the risks' financial impact on the key financial metrics of the Company's subsidiaries and associates and its consolidated financial highlights such as net profit and EBITDA margin. Afterwards assets of KMG and its subsidiaries and associates were classified based on their exposure to key climate-related risks. The analysis also reflected opportunities associated with the energy transition as well as respective decarbonisation projects planned by KMG as part of its LCDP.

At the third stage of the project, KMG's decarbonisation measures were analysed to better understand the Company's current plans. This review resulted in recommendations on a methodology for ex-ante and ex-post quantification of progress under prioritised

climate actions. Ex-ante quantification will be used for strategic planning and prioritisation of climate actions for implementation, and ex-post quantification will be leveraged for the purposes of KMG's climate reporting. The quantification methodologies rely on international standards for tracking greenhouse gas emissions, such as GHG Protocol. They also provide recommendations to revise KMG's existing goals (target level for GHG emissions for 2031 and low-carbon projections for 2060), including analysis of discrepancies with:

- international standards (for example, the Science Based Targets initiative (SBTi) recommends that near-term targets should have a target year of 5–10 years from the date the target is set, and long-term targets should have a target year of 2050 or sooner); and
- greenhouse gas emissions standards (such as GHG Protocol), including boundaries and completeness of data.

Recommendations also concern ways in which KMG's climate goals can be better aligned with international standards (including as regards inclusion of Scope 3 emissions in line with the SBTi recommendations). In addition, KMG was advised to add new measures to its decarbonisation list, namely steps aimed at climate change mitigation and adaptation in order for the Company to achieve its climate goals, reduce risks, and capitalise on climate-related opportunities. The list mostly include energy and resource saving measures as well as implementation of, or investment in, renewables already identified by KMG.

The final fourth stage of the project leveraged the previous stages and assessment to develop a Corporate Climate Governance Plan.



TCFD table

Recommended disclosures	Sections of the Annual Report
<p>Corporate governance</p> <p>Disclose the organisation's governance around climate-related risks and opportunities.</p> <p>a) Describe the board's oversight of climate-related risks and opportunities.</p> <p>b) Describe the management's role in assessing and managing climate-related risks and opportunities.</p>	<ul style="list-style-type: none"> ■ Ensuring Sustainable Development, p. 138 ■ Climate Change and Greenhouse Gas Emissions, p. 183 ■ Corporate Risk Management System, p. 263 <hr/> <ul style="list-style-type: none"> ■ KMG's Development Strategy (Strategic Goal 4), p. 50 ■ Ensuring Sustainable Development, p. 138 ■ Sustainable Development KPIs of KMG's Management, p. 166 ■ Corporate Risk Management System, p. 263
<p>Strategy</p> <p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.</p> <p>a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.</p> <p>b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.</p> <p>c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 °C or lower scenario.</p>	<ul style="list-style-type: none"> ■ Market Overview, p. 30 ■ Key risks, p. 267 <hr/> <ul style="list-style-type: none"> ■ Market Overview, p. 30 ■ KMG's Development Strategy (Strategic Goal 4), p. 50 ■ Commitment to UN Global Compact Principles and 17 Sustainable Development Goals (Goal 13), p. 160 ■ Low-Carbon Development Programme, p. 167 ■ Climate Change and Greenhouse Gas Emissions, p. 183 ■ Key risks, p. 267 <p>A Corporate Climate Governance Plan was developed to include climate-related scenarios.</p>
<p>Risk management</p> <p>Disclose how the organisation identifies, assesses, and manages climate-related risks.</p> <p>a) Describe the organisation's processes for identifying and assessing climate-related risks.</p> <p>b) Describe the organisation's processes for managing climate-related risks.</p> <p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.</p>	<ul style="list-style-type: none"> ■ Commitment to UN Global Compact Principles and 17 Sustainable Development Goals (Goal 13), p. 160 ■ Low-Carbon Development Programme, p. 167 ■ Climate Change and Greenhouse Gas Emissions, p. 183 ■ Key risks, p. 267 <hr/> <ul style="list-style-type: none"> ■ Climate Change and Greenhouse Gas Emissions, p. 183 ■ Key risks, p. 267 <hr/> <ul style="list-style-type: none"> ■ Climate Change and Greenhouse Gas Emissions, p. 183
<p>Metrics and targets</p> <p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p> <p>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.</p> <p>b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.</p> <p>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and actual performance against targets.</p>	<ul style="list-style-type: none"> ■ KMG's Development Strategy (Strategic Goal 4), p. 50 ■ Commitment to UN Global Compact Principles and 17 Sustainable Development Goals (Goal 13), p. 160 ■ Climate Change and Greenhouse Gas Emissions, p. 183 ■ Low-Carbon Development Programme, p. 167 ■ Energy Saving and Energy Efficiency Programmes, p. 180 ■ Sustainable Development KPIs of KMG's Management, p. 166 <hr/> <ul style="list-style-type: none"> ■ Climate Change and Greenhouse Gas Emissions, p. 183 <hr/> <ul style="list-style-type: none"> ■ KMG's Development Strategy (Strategic Goal 4), p. 50 ■ Commitment to UN Global Compact Principles and 17 Sustainable Development Goals (Goal 13), p. 160 ■ Climate Change and Greenhouse Gas Emissions, p. 183 ■ Low-Carbon Development Programme, p. 167