
Arçelik

Climate Change Strategy

As Arçelik, we regard the climate crisis as a fundamental risk affecting the sustainability of our operations. As such, we conduct our operations with an awareness of our duty towards this global risk. Sustainability and combating the climate crisis are at the center of all our business strategies and activities. In line with our vision - Respecting the World, Respected Worldwide - we have adopted sustainability as our business model, and we monitor ESG risks that have major impacts on our corporate strategy.

Being one of the supporters of the Taskforce on Climate-related Financial Disclosures (TCFD), Arçelik identifies its sustainability-related risks and opportunities by following global, regional, and sectoral trends and analyses, climate scenarios and stakeholder feedback. Arçelik defines, quantifies and categorizes its material sustainability-related risks and opportunities in line with International Sustainability Standards Board (ISSB) Framework according to their potential impact and perceived likelihood.

Being a company that places sustainability at the heart of its strategy, it is essential for Arçelik to integrate the risks arising from the climate crisis and other sustainability topics into the ERM system to execute the relevant action plans in line with the Company's Net Zero 2050 and corporate sustainability strategy. Thus, Arçelik Enterprise Risk and Insurance Management Directorate and Sustainability Department work in close coordination to identify, evaluate, measure and prioritize ESG related risks and opportunities and integrate the material topics into the Arçelik's risk matrix. Physical climate risks such as water stress and transition risks such as EU Carbon Border Adjustment Mechanism (CBAM), carbon pricing, reputation, meeting Science Based Targets are embedded into the enterprise risk management system and mitigation actions are incorporated into business processes. The outcome of the analysis is embedded in the Enterprise Risk Management system's financial risks reporting structure. Arçelik has a dedicated in-house team as well as received a third-party service to apply physical and transition risk scenario analyses to identify the long-term potential impacts of the climate crisis.

The Early Detection of Risk Committee is the highest governing body for the management of all risks and opportunities of Arçelik. Thus, governing ESG-related risks including climate related ones falls under the oversight of this committee.

The Board of Directors (BoD) has the overall accountability of managing the Group's sustainability agenda. Risk Management Committee is the Board Level committee responsible to monitor and ensure the successful implementation of ESG strategy, oversee the ESG related risks and act to mitigate such risks. All sustainability-related risks and opportunities including, topics which need the approval or review of the BoD, and subjects including climate change and other principal items are reported quarterly to the BoD by the respective Board member who has been appointed as responsible to do so. Sustainability, as a business model, has fully integrated into the Group's corporate strategy. The Sustainability Council, that is chaired by the CFO and including members from senior management, determines policies and strategies concerning the corporate sustainability and climate crisis, integrate such strategies into business processes and monitor our sustainability performance, ensuring that the decisions made regarding the climate crisis and other ESG related risks and opportunities are widely implemented. A number of working groups reports to the Council which meets quarterly.

Our ambition is to further develop our business towards achieving a low-carbon future and ensuring our business is resilient and adaptable for climate and other ESG-related risks and opportunities. By supporting TCFD and adopting IFRS ISSB Standards, we strive to strengthen the link between climate change and its financial impacts on our business and operations.

Our strategy to contribute to a low carbon economy has a history extending back to more than a decade. In line with our commitment to combat the climate crisis, we take actions to minimize the environmental impact of our products throughout their life cycle. We design our products that comply with the new energy label and environmentally friendly design requirements. By increasing resource efficiency and circularity of our products we contribute to a circular economy.

Currently, as one of the members of the Business Ambition for 1.5°C Campaign to ensure partnership with the Race to Zero, our strategy to combat climate crisis depends on our targets in line with the Science Based Targets initiative (SBTi). We have approved Science Based Targets (SBTs) for a well-below 2-degree scenario to reduce Scope 1 and Scope 2 GHG emissions by 30% and Scope 3 GHG emissions from the use phase of sold products by 15% by 2030 from a 2018 base year. On top of this, we have committed to the SBTi to become a Net Zero Company as of 2050 in line with the Science Based Targets Net Zero Standard. Within the scope of this commitment, we submitted our new near-term and net-zero targets which are aligned with the 1.5°C climate scenario to the SBTi. . With the new near-term target, Arçelik commits to reduce its absolute Scope 1 and Scope 2 emissions by 42% 2030 from a 2022 base year and reduce Scope 3 emissions from use of sold products 42% for the same period. In the scope of its long-term net-zero target, Arçelik commits to reduce absolute Scope 1, Scope 2, and Scope 3 GHG emissions 90% by 2050 from a 2022 base year. We aim to do this by taking challenging innovative actions in our entire value chain. For our 10% residual emissions, we commit to investing in qualified nature and/or technologybased carbon removal projects in line with the SBTi Net Zero Standard.

In line with these main pillars, we have set the following targets:

- Establishing renewable energy systemsIncreasing the green electricity usage in all manufacturing facilities
- Decreasing energy consumption in production per product
- Increasing energy productivity
- Investing in renewable energy and energy efficiency
- Implementing ISO 50001 Energy Management System certification across all manufacturing facilities
- Increasing communication activities on environmentally friendly products, energy and water saving tips at home with the aim to educate consumers to make informed choices
- Reducing logistics emissions via reducing number of shipments, increasing the use of bio-fuels and increasing the rate of lower emission transportation modes
- Increasing number of suppliers setting GHG emission targets, using green electricity, having ISO 50001 and 14001 certificates

We believe that implementing an internal carbon price also helps speed up the decarbonization. Since 2020, we have been implementing Shadow Carbon Price Model, which supports the decisions on investments in low-carbon emission technology during the total cost of ownership analysis in investments' decision phase¹.

An effective and sustainable management of the supply chain has strategic importance to our climate strategy. We analyze the sustainability risks in our supply chain and assess based on our risks. We extend in-house Supplier Sustainability Index Project further as Supplier ESG Program in collaboration with an independent, accredited audit firm. Additionally, we audit our critical suppliers by third-party audit firms and self-evaluation audits to new suppliers. We set our targets for our value chain in line with our strategy to integrate sustainability into business processes. We aim to make sure more of our suppliers obtains ISO 14001 certificate. Additionally, we aim collect, monitor, and publicly disclose environmental data such as Scope 1-2 emission values, water, waste and energy performances of the suppliers.

With the awareness of our responsibilities, our plan is to manufacture more environmentally friendly and innovative products with sustainable and resource efficient production to find solutions against climate crisis. In line with this approach, we commit making the necessary investments. We have already started funding the decarbonization investments via green financing such as use of proceed green bonds and green loans. We issued our first Green Bond² which is Turkey's first ever industrial green bond issued in the international markets. The amount equal to the net proceeds of Green Financing Instruments is exclusively used in the eligible categories such as energy efficient products, eco-efficient and/or circular economy adapted products, energy efficiency in production, pollution prevention and control, sustainable water and wastewater management, renewable energy, and green buildings. In addition, through our Green Loan Agreement with EBRD³, we support the green investment programme to transform processes and plants and fund the research and development of greener products.

In conclusion, we are committed to do the following in line with our sustainability strategy and targets to combat and minimize the impacts of climate crisis:

- Prioritize sustainability in all our value chain and the combat against the climate crisis,
- Implement new environmentally friendly and energy-efficient technologies in production,
- Design and manufacture environmentally friendly products which are more energy and water efficient, durable, repairable, and recyclable,
- Position new roadmaps to promote the use of renewable energy,
- Contribute to national and international initiatives by developing collaborations in this field,
- Develop collaborations with NGOs and public institutions and organizations for energy-efficiency in industrial and residential areas for the transition to a low-carbon economy.

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¹ The applied methodology for Shadow Carbon Price Model is decided by following up the updated prices in compliance markets trends such as the EU ETS.

² Total of €350 million with 5-year maturity and 3% interest per annum.

³ Total of €150 million. €83 million is defined as "green" under the definition on Green Loan Principles (GLP) of the Loan Market Association (LMA).