



Climate-related Financial Risk Disclosure

December, 2025

prolec[®]

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1. Introduction

In compliance with **California Senate Bill 261 (SB 261)** — *Greenhouse Gases: Climate-Related Financial Risk* — this report represents the company's **first Climate-Related Financial Risk and Opportunities Report**, prepared in alignment with the **International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards (ISSB S2)** framework.

Accordingly, this report provides a structured assessment of Prolec, exposure to physical and transition climate risks, as well as the opportunities emerging from the global shift toward a low-carbon economy.

This first report represents a foundational step in Prolec's journey toward robust climate risk management and transparent disclosure. This report is structured around the four main pillars adopted by IFRS S2: Governance, Strategy, Risk Management, and Metrics and Targets. For each pillar, relevant information is disclosed to explain how the company addresses climate change and the associated risks along the value chain. Although this report represents a partial disclosure exercise, there are still areas of opportunity on which Prolec will focus its efforts on the coming years, with the goal of adequately preparing for the implementation of regulations related to climate-related information disclosure.

2. Corporate information

Xignux, S.A. de C.V. and Subsidiaries (the Company) is a group of companies primarily engaged in the manufacture and distribution of electrical wire and cable for the transmission and distribution of electrical power and communications. Prolec is a wholly owned subsidiary of Xignux. Within its Transformers division, it holds a 50% equity stake in Prolec-GE, a joint venture formed in partnership with GE Vernova (formerly General Electric), to manufacture and market power, distribution, and renewable electric transformers used in the generation, transmission, and distribution of electricity for residential, commercial, industrial, and renewable applications, as well as for special applications. As part of the aforementioned joint venture, Prolec and GE Vernova (formerly General Electric) also established GE Prolec to market in the United States the products manufactured by Prolec GE Int.

3. Reporting statement

This Climate-Related Financial Risk Report has been prepared in alignment with the International Sustainability Standards Board (ISSB) – IFRS S2 standard. This framework provides the foundational structure for the organization's climate risk and opportunity assessment, ensuring consistency with internationally recognized best practices and regulatory expectations, including those established under California Senate Bill 261 (SB 261).

Using the ISSB S2 framework as a reference point, the company has developed disclosures structured around the four core pillars — Governance, Strategy, Risk Management, and Metrics & Targets — and aligned them with the corresponding ISSB S2 requirements.

At this stage, the report reflects partial alignment, as certain recommendations and quantitative disclosures remain under development. The organization has identified specific areas for improvement, particularly in the measurement of climate-related financial impacts, scenario analysis, and long-term target setting.

These gaps will be progressively addressed in upcoming reporting cycles as the company enhances its data quality, analytical capabilities, and governance mechanisms to achieve full alignment with ISSB S2 disclosure expectations. Each section of this report indicates the disclosures currently aligned with the standard, the areas where development is ongoing, and the planned next steps for achieving comprehensive coverage in future reports.

4. Governance

Describe your organization's governance structure, if any, for identifying, assessing, and managing climate-related financial risks.

4.1 Board oversight of those climate-related risks and opportunities

The Board of Directors provides strategic oversight of the company's long-term resilience and is supported by three specialized committees: the Finance Committee, the Human Capital and Compensation Committee, and the Audit Committee. Each plays a distinct role in ensuring sound governance and effective risk management across the organization.

The Audit Committee is responsible for supervising how management identifies, monitors, and mitigates risks in alignment with the company's established risk management policies and procedures. It regularly reviews whether the company's risk management framework remains appropriate given the evolving nature of business and operational risks, including those related to climate change.

To support the Committee's oversight, the Internal Audit function conducts both periodic and targeted evaluations of the company's internal controls and risk management processes. The results of these reviews are reported directly to the Audit Committee, reinforcing transparency, accountability, and continuous improvement within the governance structure.

Within the company's broader risk management framework, and in alignment with Xignux's ESG Strategy, risks are categorized under three dimensions—Environmental, Social, and Governance—with climate change recognized as an environmental risk. This classification enables the integration of climate considerations into strategic planning, operational management, and enterprise risk assessment.

As this represents the first comprehensive assessment of climate-related risks and opportunities for Prolec., and the first undertaken at the corporate level, Xignux is actively developing a structured process to extend this evaluation across all business units. Once finalized, the results will be presented to the Board of Directors to support strategic decision-making and long-term planning.

Going forward, the company will continue to strengthen its governance framework by embedding climate considerations into key decision-making processes, overseeing the definition and monitoring of climate-related targets, and ensuring regular progress reviews. In addition, Board-level training on climate change will be implemented to enhance strategic awareness and oversight capabilities across governance bodies.

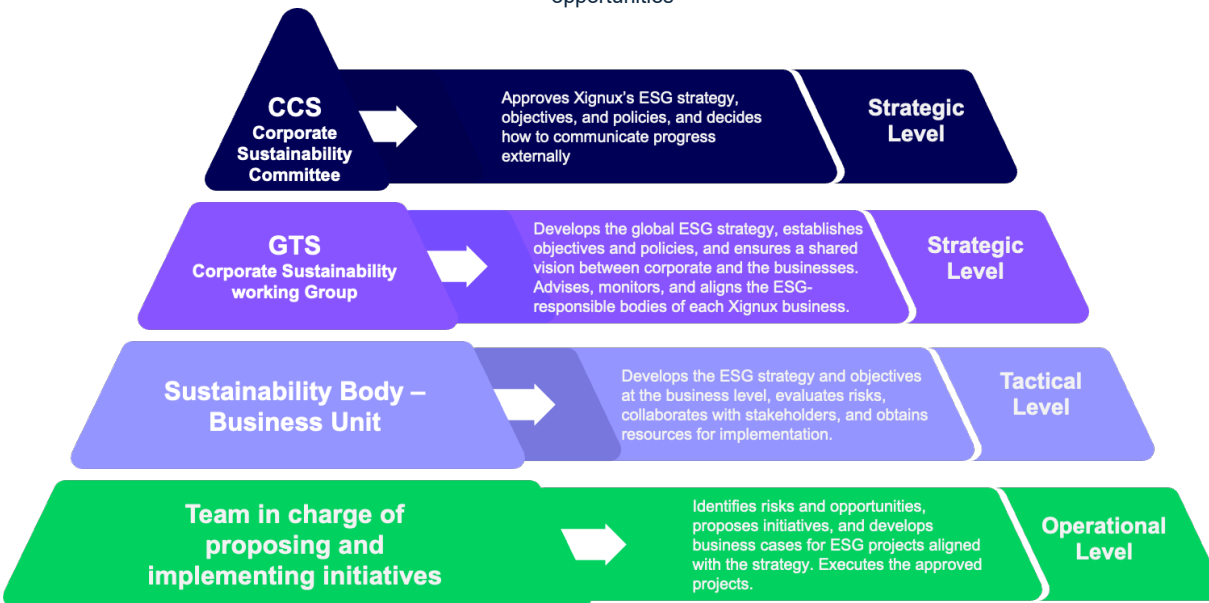
4.2 Management oversight of climate-related risks and opportunities

The Corporate Sustainability Committee (CCS) is the highest-ranking body for sustainability at Xignux and meets annually. It is composed of corporate directors and is responsible for approving Xignux's overall ESG strategy, objectives, and policies. Furthermore, the CSC makes decisions on how sustainability progress is communicated externally (e.g., the commitments and messages included in sustainability reports, investor communications, or press releases, among others).

4. Governance

4.2 Management oversight of climate-related risks and opportunities

Figure 1. Management oversight of climate-related risks and opportunities



The CCS is responsible for:

- Making collective decisions on the initiatives to be implemented and the objectives to be set;
- Deciding how progress will be communicated externally; and
- Advising and/or vetoing initiatives presented by Xignux businesses to the committee.

It is comprised of the Director of Corporate Development, Director of Finance and Corporate Administration, Enterprise Risk Management Director, Legal Director, Managing Directors of each Xignux business and ESG Expert. Each business's ESG risks are addressed in separate meetings. The meetings address ESG-related risks and opportunities detected at business unit level and were considered for the construction of the businesses ESG Strategy.

At the strategic level of the ESG Governance Model is the Corporate Sustainability Working Group (GTS), presided by the Enterprise Risk Management Director and integrated by several directors, which is responsible for developing the overall ESG strategy, establishing objectives and policies, and ensuring a shared vision across all Xignux businesses. Additionally, the group advises and supervises the Sustainability Bodies of each Xignux business, providing support and monitoring in the implementation of proposed initiatives.

This body met three times with the different businesses to review KPIs from the ESG initiatives. The Sustainability body of each business is the only responsible for approving ESG strategies, initiatives and KPIs, under the advice of the CCS.

Each business designed its own ESG Strategy along with the Business Strategy to ensure alignment and sustainability-based decisions. ESG-risks are reported every year to the Sustainability bodies. The ERM Manager of each business reports to the Sustainability bodies. Also, ESG-risks that are critical to the business according to the risks assessment, have a Key Risk Indicators that are reported quarterly as any other risks. The reports are sent to CEO and Managing Team of every business.

5. Strategy

Describe the actual and potential impacts of climate-related risks and opportunities on the company's operations, strategy and financial planning.

5.1 Identification and assessment of climate-related risks and opportunities

During 2025, our first climate risk and opportunities assessment was carried out. Our risks and opportunities are assessed taking into consideration time horizons definition as short-term, medium-term, and long-term as follows:

Table 1. Time horizons

Short-term	Medium-term	Long-term
1 year	3 to 5 years	+5 years

Short-term horizon (1 year): Linked to operational financial planning, it focuses on achieving annual goals, responding to immediate risks and opportunities, and adjusting tactics quickly.

Medium-term horizon (3–5 years): Aligned with strategic planning, it supports investments, growth initiatives, and technological improvements, allowing evaluation of strategic initiatives and their impact on competitiveness and sustainability.

Long-term horizon (5+ years): Focused on fundamental business transformations, market trends, and regulatory changes, it enables management of large-scale environmental risks and long-term sustainable growth.

The climate risk and opportunities assessment included the following sites and where relevant, our supply chain and client risks were also assessed:

Table 2. Sites included in the scenario analysis

Site/State/Country	Principal activity
Dallas, Texas, US	Manufacture and distribution of components
Goldsboro, North Carolina, US	Manufacture and distribution of Power Transformers
Waukesha, Wisconsin, US	Manufacture and distribution of Power Transformers
**GE Prolec Transformers, Inc	Commercialization of, distribution, industrial and power transformers, such a services (installations)

*It is important to note that the scope of this analysis includes sites operating under the name of PROLEC GE WAUKESHA, INC and GE PROLEC TRANSFORMERS, INC., as a legal entity.

**As GE Prolec Transformers, Inc. is solely responsible for commercializing Prolec GE Int. products in the United States, the value chain analysis includes Prolec's manufacturing sites in Mexico, located in the State of Nuevo León.

5. Strategy

Describe the actual and potential impacts of climate-related risks and opportunities on the company's operations, strategy and financial planning.

For the assessment, a total of four scenarios were considered: two scenarios for physical risks and two for transition risks and opportunities.

Table 3. Scenarios

	Scenarios - Physical Risks	Scenarios - Transition Risks & Opportunities
SSP2-4.5 (IPCC)	SSP2-4.5 represents an intermediate scenario with moderate levels of mitigation and adaptation, in which GHG emissions will continue to increase until mid-century and decline thereafter. Socio-economic factors continue historical trends. By the end of the century, this scenario would result in a temperature increase of 2.7°C compared to pre-industrial levels.	STEPS, developed by the International Energy Agency (IEA) This scenario illustrates possible future political, market, and technological developments based on current policies already implemented by governments or soon to be implemented. According to this scenario, the temperature increase would be around 2.7°C by the end of the century compared to pre-industrial levels.
SSP5-8.5 (IPCC)	SSP5-8.5 represents a "worst-case scenario" with no significant mitigation efforts, in which GHG emissions continue to rise due to population and economic growth relying mainly on fossil fuels, leading to a temperature increase of 4.4°C by the end of the century of compared to pre-industrial levels.	Net Zero Emissions by 2050 (NZE Scenario), developed by the International Energy Agency (IEA) This scenario illustrates a future pathway with distinct assumptions around political, market, and technological developments required to reach net zero CO ₂ emissions by 2050, with the advanced economies reaching net zero first. According to this scenario, the mitigation efforts are sufficient to limit the temperature increase to 1.5°C by the end of the century compared to pre-industrial levels.

A first high-level assessment was conducted to understand potential climate-related impacts. It identified that certain physical risks, particularly drought, could increase operational risks in the long-term if no mitigation measures are implemented. Policy risks, such as carbon pricing regulations, may lead to higher operating costs. The assessment also highlighted key opportunities, including potential substantial savings on electricity costs from renewable energy, although this will depend on market conditions and will be further evaluated. Overall, current risk exposure is minimal with no significant changes expected in the short-term, and mitigation measures will be implemented with a long-term perspective to ensure resilience and operational continuity.

As this was the company's first exercise of this kind, it is important to note that the risks and opportunities were assessed mainly on a qualitative basis. The aim was to understand the level of exposure to these climate risks and opportunities. In future, this initial analysis will be supplemented by a more detailed financial impact assessment, and efforts will also be made to determine the most efficient mitigation and adaptation measures. These will enable the company to evaluate the impact of climate-related risks and opportunities on its financial position, performance, and cash flow, as well as update its current strategy.

The analysis focused on medium- and long-term horizons, as Prolec currently faces limited exposure to climate risks due to operating in a low-emission industry. However, this could change depending on the scenario, particularly in the long term.

5. Strategy

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The tables below show which climate-related risks and opportunities were deemed to be the most relevant for Prolec, due to their potential impact on our business.

Physical risks					
Risk	Description and projected change under each scenario	SSP2 – 4.5		SSP5 – 8.5	
		2035	2050	2035	2050
Drought/ water scarcity	<p>This risk is related to extended periods of time with a precipitation deficit that might result in a reduction of water availability. This analysis examines projected changes in consecutive dry days (CDD) and water stress levels for manufacturing sites in the U.S. and Mexico.</p> <p>US: Under the SSP2-4.5 scenario, sites in the US currently experience fewer than 30 consecutive dry days per year, with projections showing minimal change across both time horizons and climate scenarios. Dallas, TX records the highest values among US locations but remains below the 30-day threshold. However, two facilities already face significant water-related risks. Goldsboro and Waukesha are situated in regions experiencing extremely high-water stress, while the Dallas, TX site records high water stress conditions.</p> <p>Under the SSP5-8.5 scenario, sites in the US projections showing minimal change across both time horizons and climate scenarios. Dallas, TX records the highest values among US locations but remains below the 30-day threshold. Goldsboro and Waukesha are situated in regions experiencing extremely high-water stress, while the Dallas, TX site records high water stress conditions. This situation remains constant across time horizons and scenarios.</p>	●	●	●	●
	<p>Mexico: Under the SSP2-4.5 scenario, sites currently experience 30 consecutive dry days annually. This duration is projected to increase slightly under both 2030- and 2050-time horizons. The Mexico facilities currently face medium-high water stress levels. Projections indicate a potential increase to high water stress in the near term (2035), with conditions expected to stabilize and return to medium-high levels by mid-century (2050).</p> <p>Under the SSP-8.5 scenario, the number of CDD is projected to increase significantly under this scenario, particularly in the long-term. Projections indicate a potential increase to high water stress in the near term (2035) also for this scenario, but a return to historical levels in the long term, that could be attributed to changes in precipitation patterns.</p>	●	●	●	●

Impact rating scale ● Low ● Medium ● High ● Uncertain

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Physical risks					
Risk	Description and projected change under each scenario	SSP2 – 4.5		SSP5 – 8.5	
		2035	2050	2035	2050
Tropical cyclones	<p>This risk is related to long-term and persistent shifts and alternations in the distribution, frequency, and intensity of rainfall events.</p> <p>Only one Prolec GE Waukesha site (Goldsboro), the one located in North Carolina, faces very high exposure to the risk of tropical cyclones.</p> <p>Under the SSP2-4.5 scenario, the frequency and intensity of extreme weather events, including tropical cyclones and related compound hazards, will likely increase overall, although for some ocean basin these projected changes are hard to model for tropical cyclones. Overall, projections under SSP2-4.5 show mixed signals: while some models indicate increases in tropical cyclone activity, others show only marginal changes or decreases.</p> <p>Under the SSP5-8.5 scenario, changes by 2035 under the SSP5-8.5 scenario are uncertain. However, the likelihood of compound events, such as consecutive tropical cyclones and heatwaves, is projected to increase dramatically, occurring more frequently in the future due to climate change than during the historical period. By 2050, rising ocean temperatures will further amplify both the frequency and intensity of extreme events like tropical cyclones, with more pronounced changes compared to 2035, although climate models still struggle to accurately capture the scale of these changes for the North Atlantic basin and the Gulf of Mexico.</p>	●	●	●	●

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Physical risks					
Risk	Description and projected change under each scenario	SSP2 – 4.5		SSP5 – 8.5	
		2035	2050	2035	2050
Changes in temperature patterns	<p>This risk is related to long-term and persistent shifts in temperature trends. This analysis examines projected changes in mean temperature (T_{mean}) and maximum temperature (T_{max}) for manufacturing sites in the U.S. and Mexico.</p> <p>US: Under the SSP2-4.5 scenario, Waukesha site experience the lowest values. However, across all sites, mean temperature increases of 2-3°C are projected, which represent substantial warming.</p> <p>Under the SSP5-8.5 scenario, both the mean temperature and the maximum temperature increase across all US locations range from 2°C to 3°C depending on scenario and time horizon, but the increase is very substantial, representing very substantial warming with more pronounced impacts on equipment cooling systems and operational efficiency.</p>	●	●	●	●
	<p>Mexico:</p> <p>Under the SSP2-4.5 scenario, Mexico sites currently experience mean annual temperatures of 19°C, projected to increase to 20°C by 2030 and 21°C by 2050. GE Prolec Transformers' Mexico sites currently experience maximum annual temperatures of 25°C, projected to increase to 27°C for both time horizon.</p> <p>Under the SSP5-8.5 scenario, warming reaches 21°C by 2030 and 22°C by mid-century at Mexico sites. These temperature increases are very substantial. Maximum annual temperature reaches 27°C by 2030 and 30°C by mid-century, representing very substantial increases.</p>	●	●	●	●

Impact rating scale ● Low ● Medium ● High ● Uncertain

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The tables below show which climate-related risks and opportunities were deemed to be the most relevant for Prolec, due to their potential impact on our business.

Transition risks					
Risk	Description and projected change under each scenario	STEPS		Net-Zero	
		2035	2050	2035	2050
Policy	<p>This risk is related to regulations and initiatives designed and implemented by governments and public authorities to mitigate climate change and support the transition to a low-carbon economy. This analysis evaluates the exposure to policy and regulatory transition risks—specifically those arising from carbon-pricing mechanisms and energy-efficiency regulations—under two alternative global transition pathways.</p> <p>Under the STEP scenario, US facilities currently face no direct carbon pricing obligations, while value chain in Mexico is subject to indirect impacts from Nuevo León's state environmental tax. However, with over 11 Mexican states implementing carbon taxes, direct pricing may increase moderately in this scenario, particularly by 2050. By 2030, stricter energy performance standards are expected to be introduced at the state level in the U.S., particularly in Wisconsin and Texas while North Carolina froze updates until 2031. Compliance with these regulations is expected to require incremental capital expenditures in energy-efficient HVAC systems, insulation, and lighting upgrades across U.S. facilities. In Mexico, the national roadmap toward net-zero buildings by 2050 is expected to increase regulatory and market pressure for energy efficiency improvements, requiring to participate in voluntary efficiency and certification programs to maintain regulatory alignment and stakeholder expectations.</p> <p>Under the Net-Zero scenario, the company faces a significantly higher level of transition risk driven by the anticipated introduction of a national carbon pricing mechanism in the United States, which would directly affect operating costs at U.S. facilities. In parallel, Mexico's national Emissions Trading System (ETS), currently in a pilot phase, is expected to become fully operational, introducing direct carbon pricing obligations for industrial operations. This scenario assumes a strong policy push toward net-zero building standards by 2050 in both the United States and Mexico, requiring substantial investments in energy efficiency, electrification of manufacturing processes, and low-carbon building technologies. In the United States, the Department of Energy's Industrial Decarbonization Roadmap anticipates significant reductions in industrial emissions through mandatory adoption of energy-efficient technologies, electrification, and increased use of renewable energy. Failure to adapt could result in higher compliance costs, reduced competitiveness, and potential asset stranding. Mexico's net-zero building and industrial decarbonization pathways are expected to exert comparable regulatory and market pressures on value chain operations.</p>	●	●	●	●

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Transition risks					
Risk	Description and projected change under each scenario	STEPS		Net-Zero	
		2035	2050	2035	2050
Market	<p>This risk is related to resulting from changes in consumer preferences and behavior or reduced availability of raw materials due to increased demand. This analysis explores how evolving market dynamics driven by the global energy transition may influence demand, costs, and competitiveness.</p> <p>Under the STEP scenario, by 2030, moderate growth in the share of electricity and renewable energy sources—particularly solar photovoltaic and wind—by 2030 is expected to drive increased demand for transformers supporting renewable generation, grid modernization, and transmission and distribution upgrades. By 2050, electricity demand in the United States is expected to increase further, primarily driven by electric vehicle (EV) adoption and broader electrification of end-use sectors. This trend is expected to sustain demand for grid-connected transformers across transmission, distribution, and charging infrastructure. Rising electrification is also expected to increase demand for critical raw materials, particularly copper, which is a key input for transformer windings. Over the medium to long term, this may result in higher input costs and increased exposure to supply-chain volatility. By 2030, customer demand for high-efficiency and lower-carbon products is expected to increase as utilities advance decarbonization targets. Prolec’s ability to offer energy-efficient and low-carbon transformer solutions is expected to provide a competitive advantage. By 2050, such product characteristics are expected to become standard procurement requirements among climate-committed utilities.</p> <p>Under the Net-Zero scenario, electricity’s share of final energy consumption is expected to increase significantly by 2050, with renewable energy supplying the majority of generation. In the United States, the electricity sector is expected to reach net-zero emissions by 2045, driving substantial investment in grid infrastructure. Accelerated deployment of renewable energy capacity by 2030 is expected to generate unprecedented demand for transformers across transmission and distribution networks, distributed generation, and electric vehicle charging infrastructure. Demand for copper and other critical materials required for clean energy technologies is expected to increase significantly between 2022 and 2030, with potential supply constraints emerging by 2035. These dynamics are expected to exert upward pressure on material costs, making material efficiency, recycling, and circular economy practices increasingly critical to cost management and supply-chain resilience. Demand for low-carbon and high-efficiency products is expected to be strong and driven by both customer preferences and regulatory requirements. By 2035, low-carbon performance is expected to become a standard procurement criterion, creating both significant competitive pressure and opportunities for manufacturers able to deliver compliant, differentiated products.</p>	●	●	●	●

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Transition risks					
Risk	Description and projected change under each scenario	STEPS		Net-Zero	
		2035	2050	2035	2050
Technology	<p>This risk is related to technological developments, such as the emergence of new technologies to support the transition to a low-carbon economy.</p> <p>Under the STEP scenario, solar photovoltaic and wind power capacity in the United States is expected to continue growing through 2050, supporting sustained demand for transformers across renewable generation projects, transmission and distribution upgrades, and grid modernization initiatives. However, the reduction or phase-out of clean energy tax incentives under the One Big Beautiful Bill Act may slow the pace of renewable deployment and increase financial barriers for certain projects, potentially moderating demand growth relative to more ambitious transition pathways. Improvements in energy efficiency under this scenario are expected to occur gradually, driven primarily by incremental equipment upgrades and compliance with existing minimum performance standards rather than transformational changes in production processes. From a technology disruption perspective, emerging solutions such as solid-state transformers, superconducting transformers, and advanced materials with higher efficiency potential represent a long-term risk. Under the STEPS scenario, these technologies are expected to remain niche or at early stages of development through 2050, limiting near-term competitive disruption but requiring ongoing monitoring and R&D readiness.</p> <p>Under the Net-Zero scenario, the United States is expected to achieve net-zero CO₂ emissions in the electricity sector by 2035, requiring a rapid and large-scale acceleration of renewable energy deployment. Global renewable capacity expansion by 2030 is expected to drive unprecedented demand for transformers across grid infrastructure, distributed generation, and electrification applications. Increased policy support and investment are expected to reduce capital costs for solar and wind projects, improving access to renewable electricity for manufacturing facilities through both grid procurement and on-site generation. This transition increases the strategic importance of low-carbon electricity sourcing as part of operational decarbonization pathways. To comply with increasingly stringent regulatory and market requirements, Prolec's facilities are expected to require significant investments in energy-efficient technologies, including LED lighting, high-efficiency HVAC systems, insulation upgrades, and energy-efficient manufacturing equipment. Breakthrough technologies—such as superconducting and solid-state transformers, nanocrystalline core materials, and smart transformers with advanced monitoring and digital capabilities—are expected to gain commercial relevance from the medium term onward.</p>	●	●	●	●

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Transition risks					
Risk	Description and projected change under each scenario	STEPS		Net-Zero	
		2035	2050	2035	2050
Reputation	<p>This risk is related to negative perception from investors, customers, suppliers if a company fails to address climate change.</p> <p>Under the STEP scenario, by 2035 major U.S. utilities are expected to increasingly require high-efficiency transformers with smart-grid capabilities and extended operational lifespans. Procurement processes are expected to place greater emphasis on lifecycle carbon assessments, supplier decarbonization commitments, and transparency across the value chain. In this context, the company may face growing reputational pressure and potential commercial risk if it is unable to demonstrate alignment with customer climate expectations, including credible emissions-reduction pathways and product-level efficiency improvements. Failure to meet these expectations could result in exclusion from tenders or loss of preferred-supplier status. By 2050, investor expectations are expected to further intensify, with increased scrutiny on the adoption of Science-Based Targets, demonstrated progress in operational and product efficiency, and the articulation of clear and credible net-zero transition pathways.</p>	●	●	●	●
	<p>Under the Net-Zero scenario, by 2035, utilities are expected to mandate ultra-high-efficiency products, full lifecycle carbon transparency, and verified supplier decarbonization as standard procurement requirements. While demand for transformers is expected to be unprecedented, competitive pressure will intensify, and reputational impacts may arise if manufacturers are unable to meet performance specifications or delivery timelines. In such cases, grid delays may be publicly attributed to supplier constraints, amplifying reputational exposure. In addition, companies that fail to invest in innovation—such as advanced transformer technologies, smart-grid integration, and low-carbon product design—or to decarbonize their operations risk erosion of competitive positioning and loss of market credibility. These failures may result in significant reputational damage and exclusion from major contracts. From 2030 onward, the combined effects of carbon pricing, mandatory climate disclosures, and tightening efficiency standards are expected to directly influence investment decisions. Companies without verified transition plans and credible climate performance may face restricted access to green and sustainability-linked finance, higher costs of capital, and increased scrutiny from investors, lenders, and other stakeholders.</p>				●

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Transition opportunities					
Opportunity	Description and projected change under each scenario	STEPS		Net-Zero	
		2035	2050	2035	2050
Products and services	<p>This opportunity is related to the implementation of mitigation and adaptation measures that increase the company's resilience to adverse events. This section identifies how evolving climate policies, market expectations, and technology trends may create product and service opportunities under two climate transition pathways</p> <p>Under the STEP scenario, the transition toward more sustainable products is expected to progress gradually through 2035. The company may gain a competitive advantage by offering transformers with increased recycled content and improved material efficiency, in line with emerging customer expectations and regulatory signals. By 2035, demand for transformers is expected to grow steadily, supported by grid modernization initiatives and incremental integration of renewable energy. Product requirements are expected to increasingly emphasize higher energy efficiency, extended operational lifespans, and enhanced durability to withstand more frequent extreme weather events. By 2050, circular economy practices are expected to become more prevalent, driven by regulatory developments and increasing scarcity of critical materials such as copper. Transformer demand is expected to continue at a moderate pace, primarily supported by infrastructure replacement cycles and incremental renewable deployment.</p> <p>Under the Net-Zero scenario, by 2035, utilities are expected to mandate lifecycle carbon assessments, increased recycled content, and enhanced supply-chain transparency as standard procurement criteria. Accelerated renewable energy deployment—potentially tripling installed capacity by 2035—is expected to drive a significant increase in demand for transformers across transmission, distribution, and distributed energy systems. Transformers will be required to manage variable and bidirectional power flows, increased thermal loads, and higher system complexity. By 2050, carbon-neutral products with verified end-to-end supply-chain transparency are expected to become non-negotiable market requirements. Ultra-high energy efficiency and extreme climate resilience are expected to be essential product characteristics. Advanced digital sensors and monitoring technologies are expected to transform transformers into intelligent grid assets, enabling real-time optimization, predictive maintenance, and enhanced integration of renewable energy sources.</p>	●	●	●	●

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Transition opportunities					
Opportunity	Description and projected change under each scenario	STEPS		Net-Zero	
		2035	2050	2035	2050
Resource efficiency	<p>This opportunity is arising from the emergence of technologies and practices aimed at optimizing the use of resources to support the transition to a low-carbon economy.</p> <p>Under the STEP scenario, improvements in energy intensity are expected to accelerate through 2035, driven by electrification of equipment and compliance with minimum energy performance standards. The company may capture value from this trend by optimizing manufacturing processes and deploying energy-efficient technologies to reduce operating costs and emissions. Adoption of electric medium- and heavy-duty trucks is expected to remain relatively slow under this scenario, partly due to the elimination of federal electric vehicle incentives under the One Big Beautiful Bill Act. While partnerships with logistics providers operating cleaner fleets may offer long-term benefits, higher upfront costs for electric freight are expected to require careful assessment of cost implications despite potential lifecycle savings. Transitions toward greater material efficiency are expected to remain gradual but are likely to accelerate toward 2035. The company may benefit from increasing internal recycling rates for key materials such as copper, aluminum, and silicon steel, generating cost savings, reducing exposure to raw-material price volatility, and enhancing supply-chain resilience.</p> <p>Under the Net-Zero scenario, rapid reductions in energy consumption and emissions become essential. Accelerated expansion of renewable energy capacity by 2030 is expected to improve access to affordable low-carbon electricity through grid procurement and on-site generation, creating opportunities to decarbonize operations while reducing long-term energy costs. In this context, investments in ultra-efficient manufacturing equipment are expected to become economically attractive, supporting both emissions reduction and productivity gains. Adoption of electric vehicles is expected to accelerate by 2030, with electric heavy-duty trucks becoming more prevalent by 2050. As costs decline, partnerships with logistics providers operating electric fleets are expected to become increasingly viable and cost-competitive. Material efficiency is expected to become a primary strategic priority by 2035. By 2050, a full commitment to circular economy principles is expected to be a market and regulatory requirement. Transformers are expected to be designed for recyclability, with verified material traceability across the value chain, to meet carbon-neutral procurement mandates from utilities and other customers.</p>	●	●	●	●

Impact rating scale ● Low ● Medium ● High ● Uncertain

5. Strategy

Describe the actual and potential impacts of climate-related risks and opportunities on the company's operations, strategy and financial planning.

The tables below show which climate-related risks and opportunities were deemed to be the most relevant for Prolec, due to their potential impact on our business.

Transition opportunities					
Opportunity	Description and projected change under each scenario	STEPS		Net-Zero	
		2035	2050	2035	2050
Climate resilience	<p>This opportunity is arising from the implementation of mitigation and adaptation measures that increase the company's resilience to adverse events.</p> <p>Under the STEP scenario, improvements in energy efficiency and adoption of circular economy practices are expected to progress gradually across the industry through 2035. In this context, the company may enhance operational and supply-chain resilience by increasing internal recycling and recovery of critical materials such as copper, aluminum, and silicon steel. Copper is expected to face potential supply constraints by 2035, increasing exposure to price volatility and supply disruption. The development of material recovery systems and refurbishment programs may therefore represent a strategic opportunity to mitigate supply risks, reduce input costs, and enhance long-term resilience. Demand for transformers is expected to grow at a moderate pace, supported by renewable energy integration, grid interconnection projects, and expansion of electric vehicle charging infrastructure. Product specifications are expected to increasingly align with utility grid-modernization requirements, including enhanced durability to withstand extreme weather events and extended operational lifespans. Access to green finance instruments—such as green bonds and sustainability-linked financing—is expected to increase in U.S. capital markets. However, access is likely to be contingent on demonstrated climate performance, credible decarbonization strategies, clearly defined key performance indicators (KPIs), and measurable emissions-reduction targets.</p> <p>Under the Net-Zero scenario, customer expectations and regulatory requirements are expected to drive strong demand for transformers manufactured using low-carbon processes and designed in accordance with circular economy principles. By 2035, circularity is expected to become a key competitive differentiator, and by 2050, an industry standard. Accelerated electrification and large-scale deployment of solar photovoltaic, wind, battery storage, and electric vehicles are expected to drive rapid growth in transformer demand by 2030. In this environment, products with low embedded carbon, circular design features, and high technical performance—including ultra-high efficiency, smart-grid integration, and enhanced climate resilience—are expected to be essential to maintaining market competitiveness. Green and sustainability-linked finance is expected to play a critical role in funding technology upgrades, renewable energy procurement, and circular infrastructure investments. Access to such financing is expected to depend on Science-Based Targets validation, a credible net-zero transition pathway, and transparent, decision-useful climate disclosures.</p>				

Impact rating scale Low Medium High Uncertain

5. Strategy

Describe the actual and potential impacts of climate-related risks and opportunities on the company’s operations, strategy and financial planning.

The tables below show which climate-related risks and opportunities were deemed to be the most relevant for Prolec, due to their potential impact on our business.

Transition opportunities					
Opportunity	Description and projected change under each scenario	STEPS		Net-Zero	
		2035	2050	2035	2050
Market	<p>This opportunity is related to new sources of finance aimed at financing solutions and products that support the transition to a low-carbon economy.</p> <p>Under the STEP scenario, global annual investment in transmission and distribution networks is expected to increase through 2035. This investment trend is expected to support sustained demand for distribution transformers, substation equipment, and grid modernization infrastructure. Tax credits for battery energy storage systems, maintained under the One Big Beautiful Bill Act (OBBBA), are expected to create additional market opportunities for supplying transformers and related equipment for utility-scale battery storage installations. Opportunities related to other emerging technologies are expected to remain more limited or indirect under this scenario. Access to green bonds and sustainability-linked financing is expected to continue expanding in U.S. capital markets. Such instruments may provide funding opportunities for facility upgrades, energy-efficiency investments, and incremental decarbonization initiatives, subject to the Company’s ability to demonstrate credible climate performance and alignment with financing criteria.</p> <p>Under the Net-Zero scenario, global annual investment in transmission and distribution networks is expected to be significantly higher than under the STEPS pathway. This accelerated investment is expected to create an unprecedented opportunity to capitalize on accelerating demand for transformers across transmission, distribution, renewable integration, and electrification applications. In this scenario, supportive policy measures—including tax credits for battery energy storage maintained under OBBBA and incentives for critical minerals production extended through December 2033—are expected to support market growth and reduce cost barriers. These measures also enable more affordable decarbonization of manufacturing operations through increased access to low-carbon inputs and energy solutions. Green bonds and sustainability-linked bonds are expected to become standard sources of capital, particularly after 2035. Access to these financing instruments is expected to be closely linked to verified emissions reductions, credible transition plans, and transparent climate-related disclosures, reinforcing the strategic importance of climate performance in capital allocation decisions.</p>	●	●	●	●

Impact rating scale ● Low ● Medium ● High ● Uncertain

5. Strategy

Describe the actual and potential impacts of climate-related risks and opportunities on the company's operations, strategy and financial planning.

The tables below show which climate-related risks and opportunities were deemed to be the most relevant for Prolec, due to their potential impact on our business.

Transition opportunities					
Opportunity	Description and projected change under each scenario	STEPS		Net-Zero	
		2035	2050	2035	2050
Energy source	<p>This opportunity is related to replacement of traditional energy sources, that are based on fossil fuels, to renewable sources.</p> <p>Under the STEP scenario, the levelized cost of electricity (LCOE) for solar photovoltaic and wind power in the United States is expected to decline across both the medium- and long-term horizons. These cost reductions are expected to make renewable electricity procurement increasingly economically attractive relative to conventional energy sources. Regulatory frameworks are expected to extend renewable energy deployment targets and state-level incentive mechanisms beyond current timelines, supporting incremental expansion of renewable capacity and improving long-term price stability for renewable electricity procurement.</p> <p>Under the Net-Zero scenario, further reductions in solar photovoltaic LCOE are expected to position renewable electricity as a cost-advantaged energy source by 2035. This transition is expected to be supported by policy incentives for renewable energy procurement, battery energy storage, and grid infrastructure investments, which together enhance system reliability and enable higher penetration of variable renewable energy. Improved availability of affordable, reliable low-carbon electricity is expected to support operational decarbonization, reduce long-term energy cost exposure, and strengthen the company's ability to meet customer and investor expectations under an accelerated energy transition.</p>	●	●	●	●

Impact rating scale ● Low ● Medium ● High ● Uncertain

5. Strategy

Describe the actual and potential impacts of climate-related risks and opportunities on the company's operations, strategy and financial planning.

5.2 Management of climate risks and opportunities

We are committed to integrating sustainability as a strategic pillar for creating long-term value. We recognize that our competitiveness and operational strength depend on responsible management of environmental, social, and governance issues. At Prolec, we initiated a transformation process to define a sustainability strategy aligned with global best practices and tailored to our operations. This strategy responds to the evolving expectations of the market and of various stakeholder groups, including customers and financial institutions.

As a result of this process, we established three priorities:

- Decarbonization, with the objective of reducing our carbon footprint through the reduction of Scope 1 and Scope 2 emissions.
- Environmental management, through initiatives focused on optimizing energy and water use, as well as improving waste management.
- Human capital, with a firm commitment to attracting, retaining, and holistically developing the talent that drives our organization.

This strategy reflects our conviction that we can only build a sustainable, profitable future with a positive impact for all through a comprehensive and transparent vision. Operational efficiency is a core component of Prolec's climate strategy and a key lever for managing transition risks and reducing greenhouse gas (GHG) emissions. Through continuous process optimization, the Company reduces energy and resource intensity across its operations, directly supporting progress toward its climate and sustainability objectives.

To mitigate climate-related transition risks and improve operational resilience, Prolec has implemented a series of initiatives aimed at reducing Scope 1 and Scope 2 emissions, improving resource efficiency, and strengthening environmental performance. These initiatives include:

- Deployment of on-site solar photovoltaic systems at manufacturing facilities in Mexico
- Conversion of conventional lighting systems to LED technology
- Replacement of HVAC equipment with systems using more energy-efficient refrigerants
- Installation of dry cooling systems at the Waukesha facility to reduce water consumption and enhance operational resilience
- Installation of wastewater treatment plants at manufacturing facilities in Mexico

In 2024, Prolec expanded its manufacturing facility in Shreveport, Louisiana, to respond to increasing demand for transformers supporting renewable energy projects. The USD 34 million investment increased production capacity by more than 1,500 units annually and positions the Company to capture climate-related growth opportunities associated with the energy transition.

In alignment with New York State's climate objectives, Prolec announced the deployment of generator step-up (GSU) transformers at two substations in northern New York. These projects support the integration of renewable energy into the grid, enhance power system resilience, and contribute to the decarbonization of the electricity system

Our strategy demonstrates initial resilience to climate-related risks. Additionally, we will strengthen our business strategies to integrate medium- and long-term climate considerations. While current exposure is limited, scenario analysis indicates that risks such as drought, regulatory changes, or fluctuations in commodity prices could affect operations in the future to some degree, with variations depending on the scenario. The findings of the analysis will be taken into account to define the appropriate mitigation and adaptation measures to address such risks. This approach allows Prolec to anticipate and respond to evolving climate risks while maintaining operational continuity, competitiveness, and long-term value creation.

6. Risk Management

Describe how the reporting entity identifies, assesses, and manages climate-related risks including a description of the process the reporting entity uses for identifying, managing and assessing climate-related risks, and how those considerations and processes are integrated into the organization’s overall risk management.

Xignux has an Enterprise Risk Management (“ERM”) system established throughout the organization. Xignux uses a digital tool that allows to manage risks efficiently “Modo Xignux Digital”. The operating model is a representation of how the GRC (Governance, Risk and Compliance) function uses business capabilities and structure to deliver value in accordance with corporate strategy across its various business units, lines of business, divisions, etc. Our model establishes a common structure, language, and definitions that help provide a holistic view of the GRC Model at Xignux.

Xignux risk and opportunity management process is based on COSO ERM Enterprise Risk Management. As mentioned in section 4 Governance, within the company’s broader risk management framework, and in alignment with Xignux’s ESG Strategy, risks are categorized under three dimensions—Environmental, Social, and Governance—with climate change recognized as an environmental risk. This classification enables the integration of climate considerations into strategic planning, operational management, and enterprise risk assessment.

An important milestone was achieved in 2025 with the completion of the organization’s first climate risk and opportunities identification and analysis exercise using a scenario-based approach, which brought together representatives from the Risk, EHS, ESG, Operations, Logistics, Finance, Procurement, and Commercial areas. Based on the outcomes of this assessment, the organization will strengthen the integration of ESG considerations and climate-related risks and opportunities into its broader Risk Management framework, ensuring that these factors are systematically evaluated and managed in future decision-making processes.

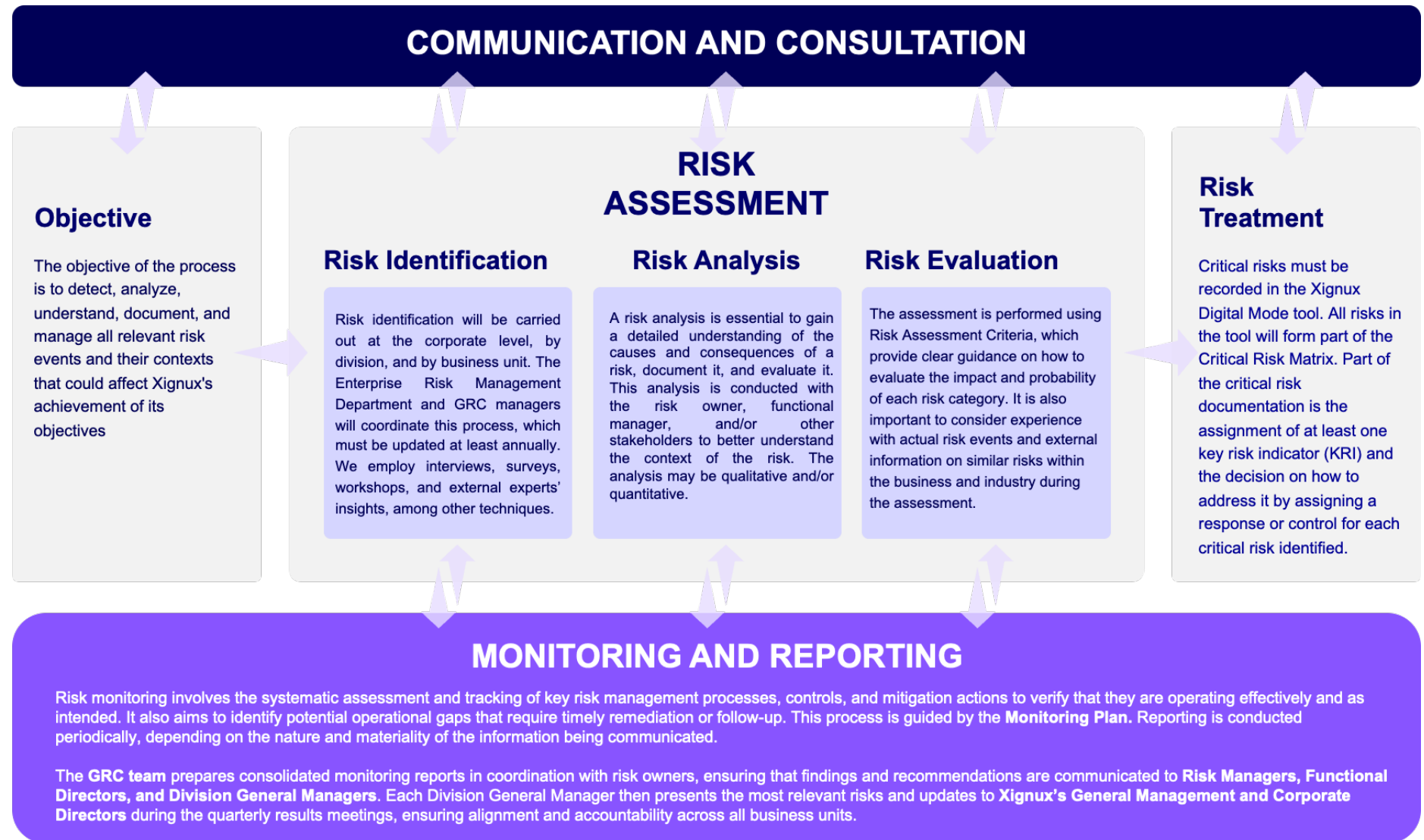
Figure 3. Enterprise Risk Management Model



6. Risk Management

6.1 Risk and Opportunity Management Process

Figure 4. Xignux's Risk Management Process



7. Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities adopted to reduce and adapt to climate-related risk, where such information is material.

As part of its 2030 strategic vision, Prolec has established climate- and resource-related targets to manage transition risks, improve operational efficiency, and support the long-term resilience of its business. By 2030, Prolec aims to achieve:

- A 60% reduction in Scope 1 and Scope 2 greenhouse gas (GHG) emissions.
- A 30% reduction in total water consumption.

Metrics	
Topic: GHG Emissions	2025
Scope 1 emissions (absolute metric tons CO ₂ e)	20,782.00
Scope 2 emissions (absolute metric tons CO ₂ e)	36,878

Metrics	
Topic: Energy Management	2025
Total Energy Consumption (GJ)	662,877.73
Percentage grid electricity (%)	100%
Percentage renewable (%)	1%

Metrics	
Topic: Water Management	2025
Total water withdrawn (m ³)	155,443
Total water consumed, percentage of each in regions (USA) with High Baseline Water Stress (%)	0.50%
Total water consumed, percentage of each in regions (Mexico) with High Baseline Water Stress (%)	86%
Total water consumed, percentage of each in regions (USA) with Extremely High Baseline Water Stress (%)	14%

7. Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities adopted to reduce and adapt to climate-related risk, where such information is material.

Metrics				
Climate-related Risks & Opportunities				
Number of sites (with high levels of exposure)	Type of assets / Business activities	Risk/Opportunity	Indicator	Scenario / Time horizon
3 – US	Manufacturing Plant	Physical Risk: Drought and water scarcity	Consecutive dry days / water stress	SSP5 – 8.5 /2050
1 – US / 1 - Mexico (value chain)	Manufacturing Plant / Value Chain	Physical Risk: Changes in temperature patterns	Mean temperature (Tmean) / Maximum temperature (Tmax)	SSP5 – 8.5 /2050
3 – US / 1 - Mexico	Manufacturing Plant	Transition Risk: Policy	Carbon pricing schemes	NetZero Emissions by 2050 Scenario / 2035
Not applicable	Company-wide	Opportunity: Product and Services	Demand for low-carbon products	NetZero Emissions by 2050 Scenario / 2035
3 – US / 1 - Mexico	Manufacturing Plant	Opportunity: Renewable Energy procurement	Percentage renewable (%)	NetZero Emissions by 2050 Scenario / 2035