Understanding Climate-Related Risks And Opportunities

Presentation : ESG in Action

Date: Wednesday 19th June. 2024

Prepared by: AGV SUSTAINABILITY

Agenda

1. Introduction
2. Climate Risks and Opportunities
3. Climate Reporting
4. Corporate Greenhouse Gas Emissions
5. Way Forward

International Treaty on Climate Change

Paris Agreement, 2016

The **Paris Agreement** was adopted on 12 December 2015 and came into force less than a year later, on 4 November 2016. Although the 1997 Kyoto Protocol also technically remains in force, the Paris Agreement has, in effect, superseded the Kyoto Protocol as the principal regulatory instrument governing the global response to climate change.

Malaysia intends to reduce its economy-wide carbon intensity (against GDP) of 45% in 2030 compared to 2005 levels:

(a) The 45% of carbon (GHG) intensity reduction is unconditional;

(b) The GHG coverage includes **seven (7) greenhouse gasses (GHG): Carbon dioxide (CO_2), Methane (CH_4), Nitrous oxide (N_2O), Hydrofluorocarbons (HFCs), Perfluorocarbon (PFCs), Sulphur hexafluoride (SF6) and Nitrogen trifluoride (NF3).**

Overview

The Paris Agreement establishes both temperature and emissions goals that supplement the UNFCCC's objective of stabilizing concentrations of greenhouse gases at levels that would prevent dangerous anthropogenic interference with the climate system.

Article 2.1(a) specifies two temperature goals: first, to hold temperature increase to "well below" 2°C above pre-industrial levels; second, to pursue efforts to **limit temperature increase to 1.5°C.**

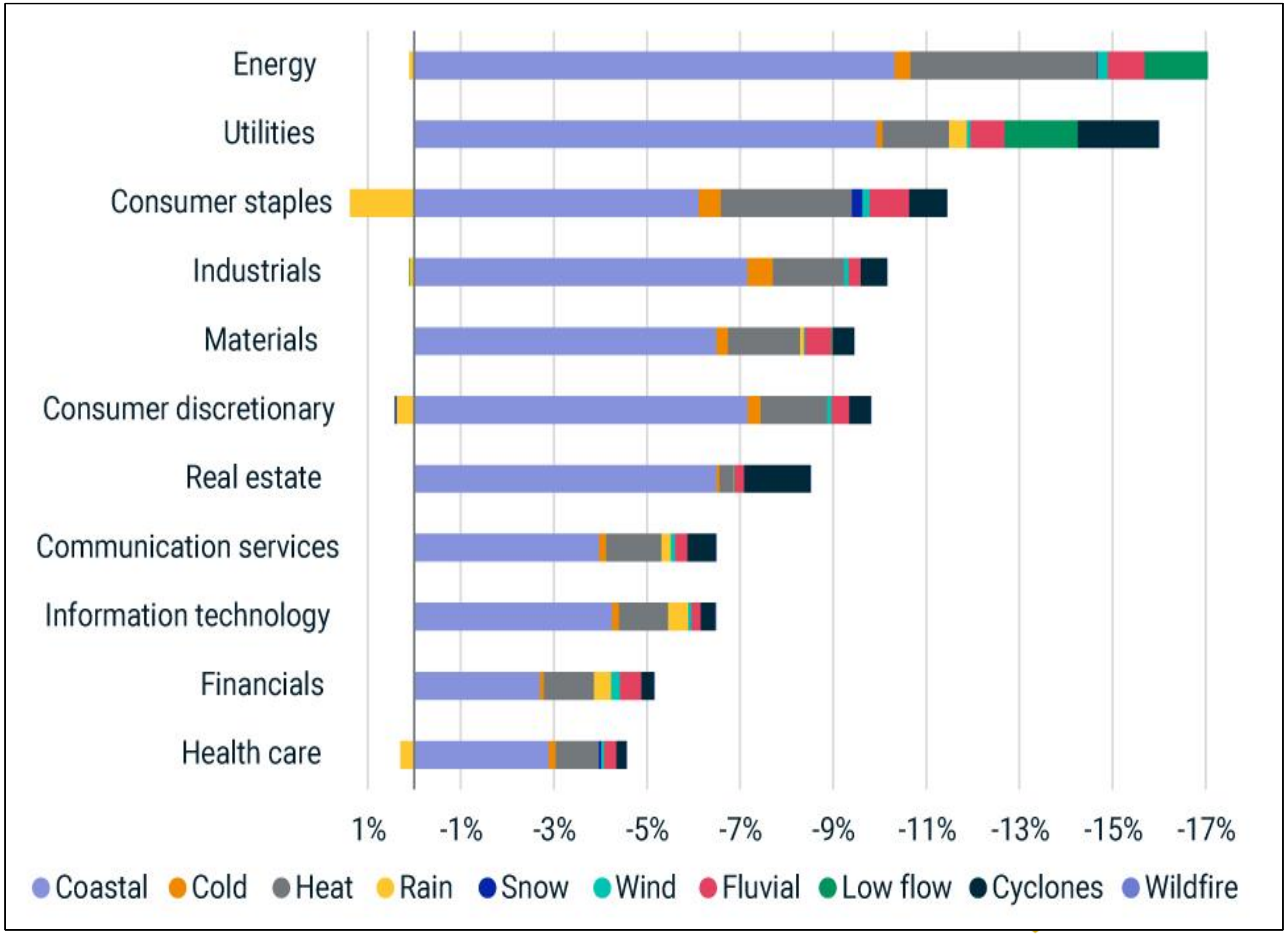
Article 4.1 adds **to achieve net zero emissions in the second half of the century.**

Impact on Business

- **Businesses face both direct and indirect climate risks**, which vary by sector and location, including supply chain disruptions, operational challenges, and climate-related liabilities.
- The **agricultural, forestry, and fishing sectors are most at risk**, but retail, tourism, and manufacturing are also vulnerable to climate change effects.
- **Small businesses**, crucial to the economy, **can be significantly disrupted by climate events**, affecting local communities and economies.

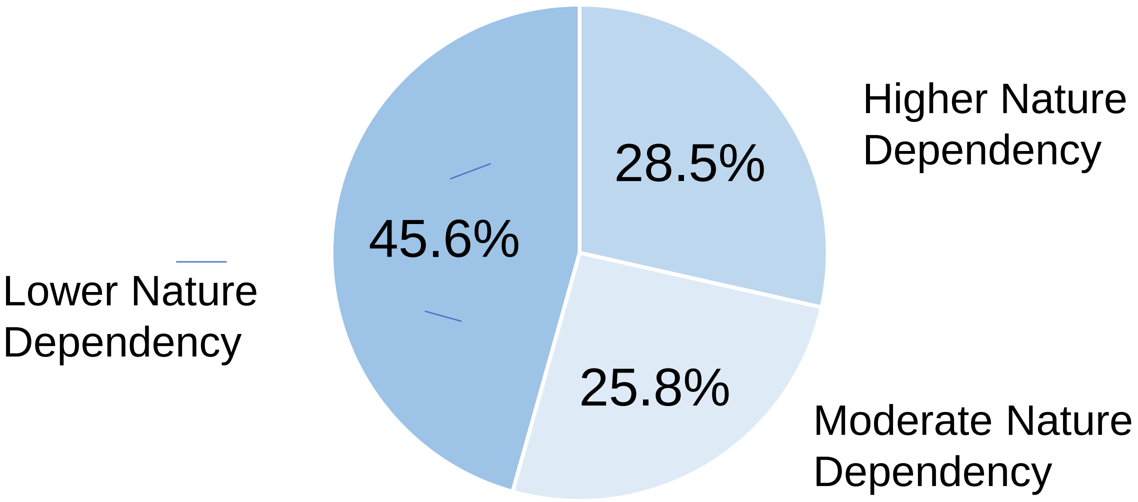
The average business could experience losses of approximately **USD $0.45 for every $1 of cumulative operating cash** generated from their ongoing business activities between now and 2050 (Forbes, 2024).

Impact of Climate Change Risks on Market Value by Sector



Economic Impact of Climate Change

- A large portion of Asia Pacific's economy **depends on natural ecosystems (e.g agriculture and construction)** which are declining rapidly, posing risks to business operations and supply chains.
- There is **increasing pressure on investors** to manage nature-related risks and support nature-positive initiatives which can contribute to climate mitigation efforts.
- Understanding nature-related risks opens up **opportunities for investors** to engage in nature restoration and regeneration which can have positive climate impacts.



What are Climate Risks

Climate-related risks are the potential negative impacts arising from climate change. It can be categorised into:

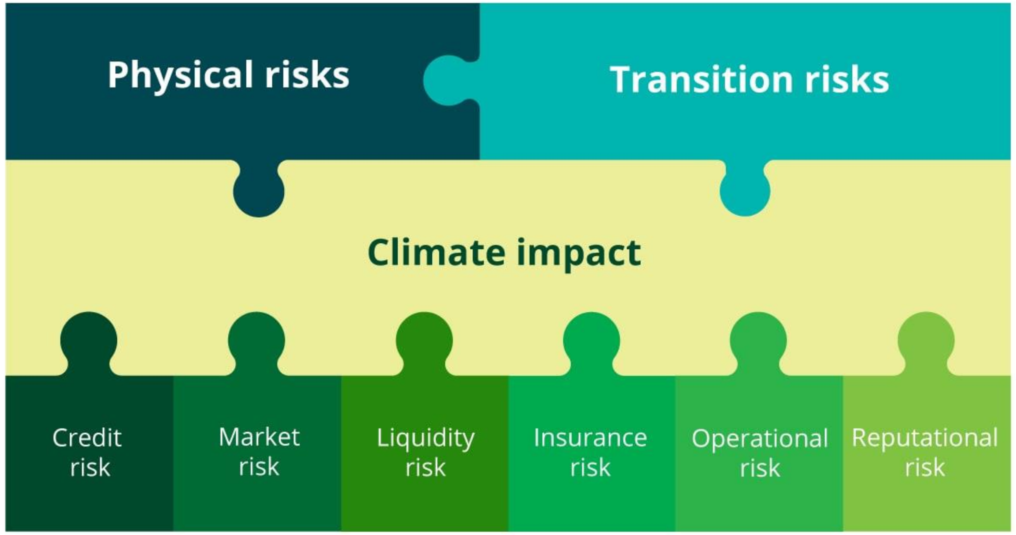
Physical Risks

These arise from the direct physical effects of climate change, such as increased frequency of extreme weather events, changes in temperature and precipitation patterns, and altered water availability.

Transition Risks

These occur when society takes action to mitigate or adapt to climate change, leading to a shift towards a low-carbon economy. Examples include the introduction of new climate policies or changes in consumer demand favouring climate-friendly products.

- **Both physical and transition risks can translate into financial risks** for businesses, affecting traditional risk categories like credit, market, liquidity, insurance, operational, and reputational risks.
- Businesses can protect themselves and **find opportunities by proactively addressing climate risks.**



What is Climate Reporting

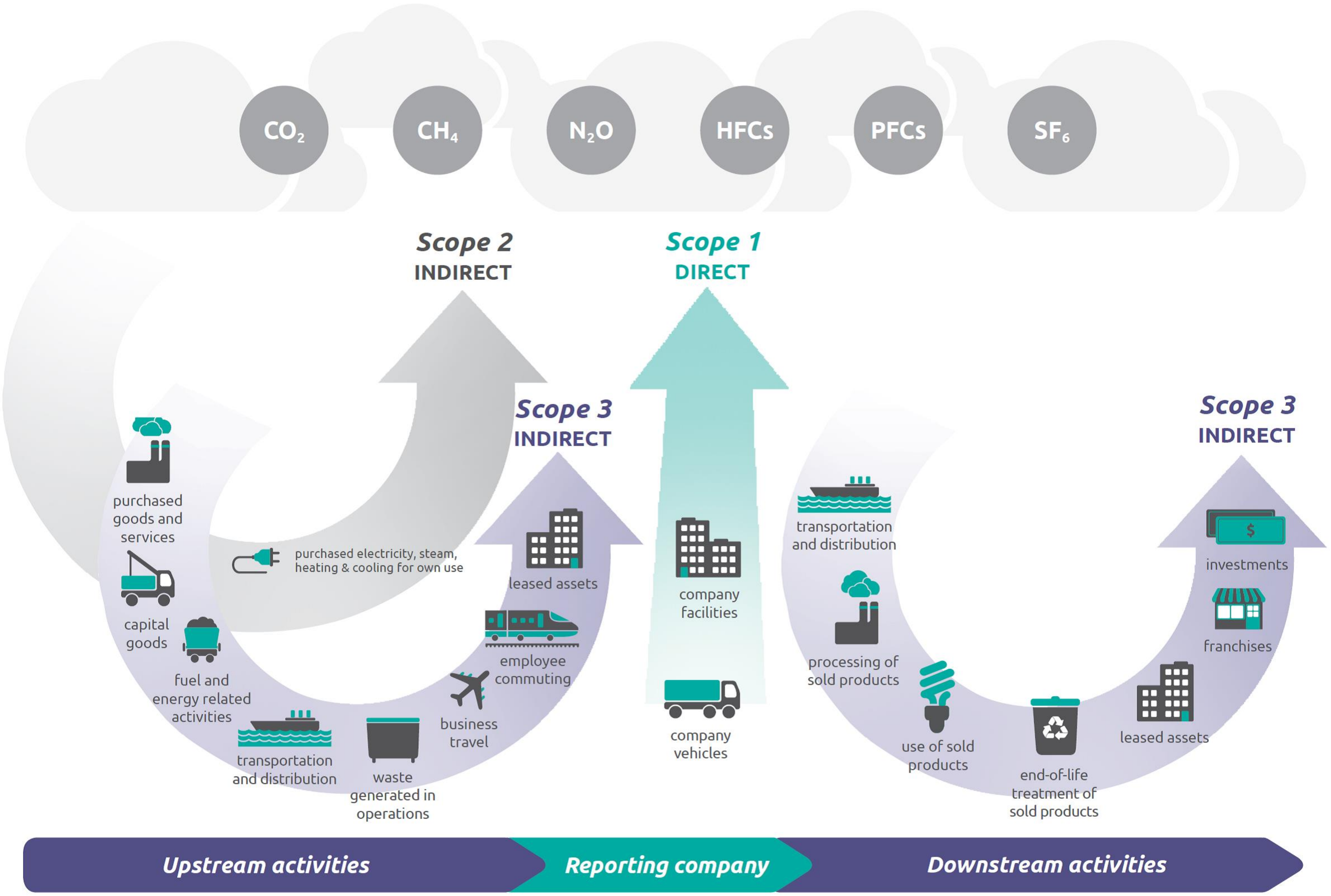
- Climate reporting refers to the process of **disclosing a company's exposure to climate-related risks and opportunities, as well as its strategies and progress towards reducing emissions.**
- It involves understanding **reporting requirements**, **gathering information**, and seeking external **assurance** for accuracy.
- **Purpose**: It helps investors, regulators, and customers **understand a company's climate risks and strategy.**
- **Benefits**: Reporting **aids in strategic decision-making** and reveals insights to adjust the company's climate strategy.

Report should include:

- Company's financial exposure to climate-related risks (physical and transition) along with the opportunities and the approach to managing them (governance, strategy, risk management, metrics and targets).
- Company's annual GHG emissions across Scope 1, 2 and 3.
- Company's emissions reduction targets, strategy for meeting these targets, and progress toward them.

Scope 1, 2 and 3 GHG Emissions Across the Value Chain

- **Upstream emissions**: Originating from the extraction, production, and transportation of goods or services a business purchases or uses.
- **Direct emissions**: emissions that come directly from sources owned or controlled by a business.
- **Downstream emissions**: Arising from the use and disposal of products after they leave the company's ownership.



Practical Steps for Businesses to Start Reporting on Climate Risks, Opportunities, and GHG Emissions

1 Discover

- Identify the team or person responsible for public reporting and disclosure.
- Conduct a gap analysis and benchmark against industry best practices.
- Understand stakeholder requests for climate reporting.
- Develop a climate-disclosure roadmap aligned with existing standards.

2 Assess

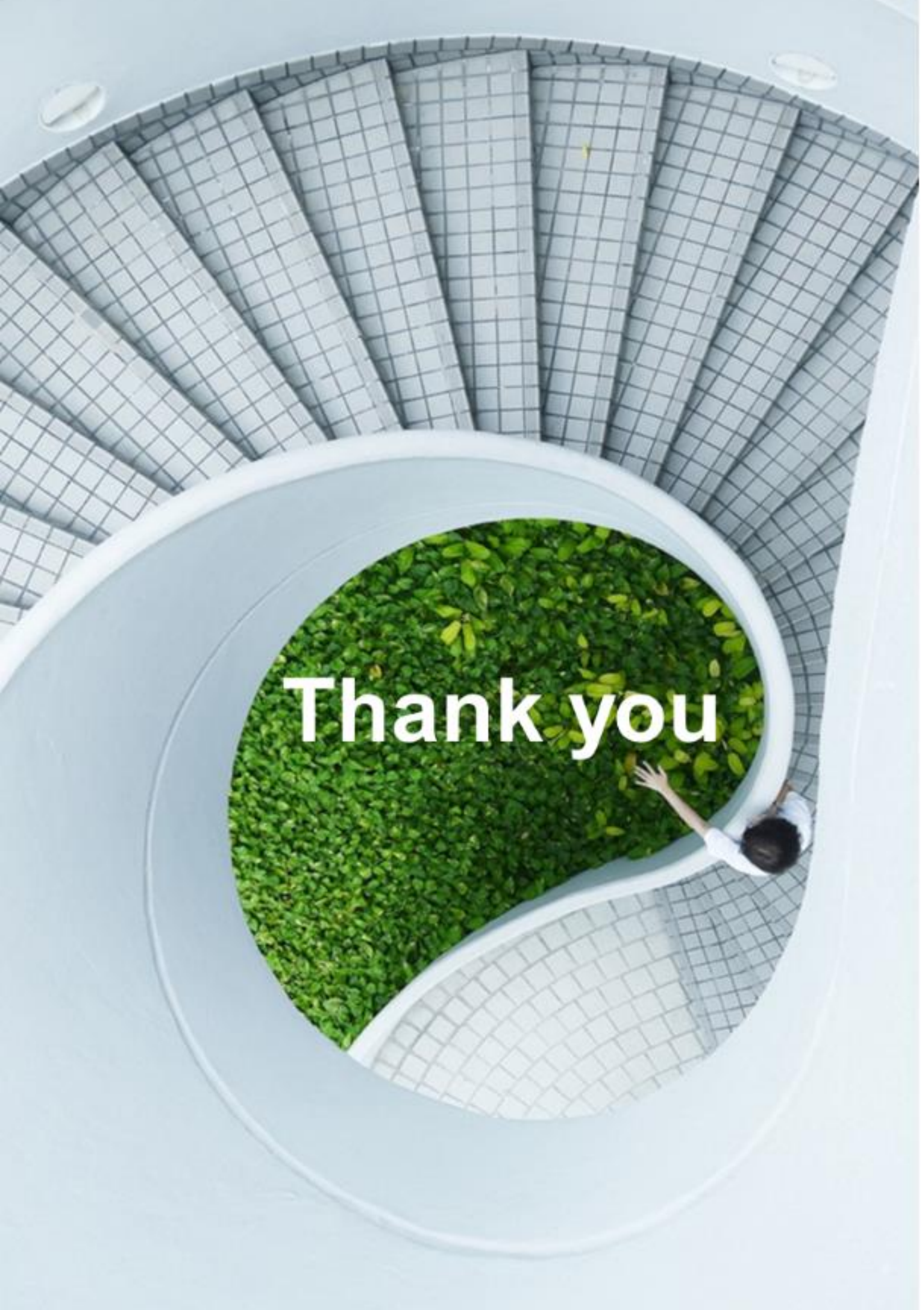
- Conduct a GHG inventory to determine Scope 1, 2, and 3 emissions.
- Analyse historical extreme weather events and their financial impacts.
- Perform scenario analysis for forward-looking transition and physical climate risks.
- Establish goals, metrics, and targets for risk reduction and management.
- Develop a transition and adaptation plan.

3 Report

- Use existing reporting channels to disclose content.
- Share a transition and adaptation plan outlining goals and targets.
- Communicate progress to internal and external stakeholders.

4 Manage

- Implement the roadmap and take necessary actions.
- Continuously monitor risks, opportunities, progress, and barriers.
- Report progress and identify areas for improvement.



AGV Sustainability & ESG Services Sdn. Bhd.

We are a boutique ESG consulting firm that provides a complete range of services to enhance the sustainability performance of businesses. With three offices in Malaysia and international affiliates, we bring together a strong team of senior consultants with expertise in governance, risk management, environmental and social issues. We provide customised services to meet our clients' requirements and are well placed to develop Net Zero Roadmaps and Action Plans, prepare sustainability reports that are aligned with the TCFD Recommendations as well as ESG Indices such as FTSE4Good Bursa Malaysia and the Dow Jones Sustainability Index, develop Internal Sustainability Guidelines & Stakeholder Engagement Plans and provide sustainability assurance services / audits.