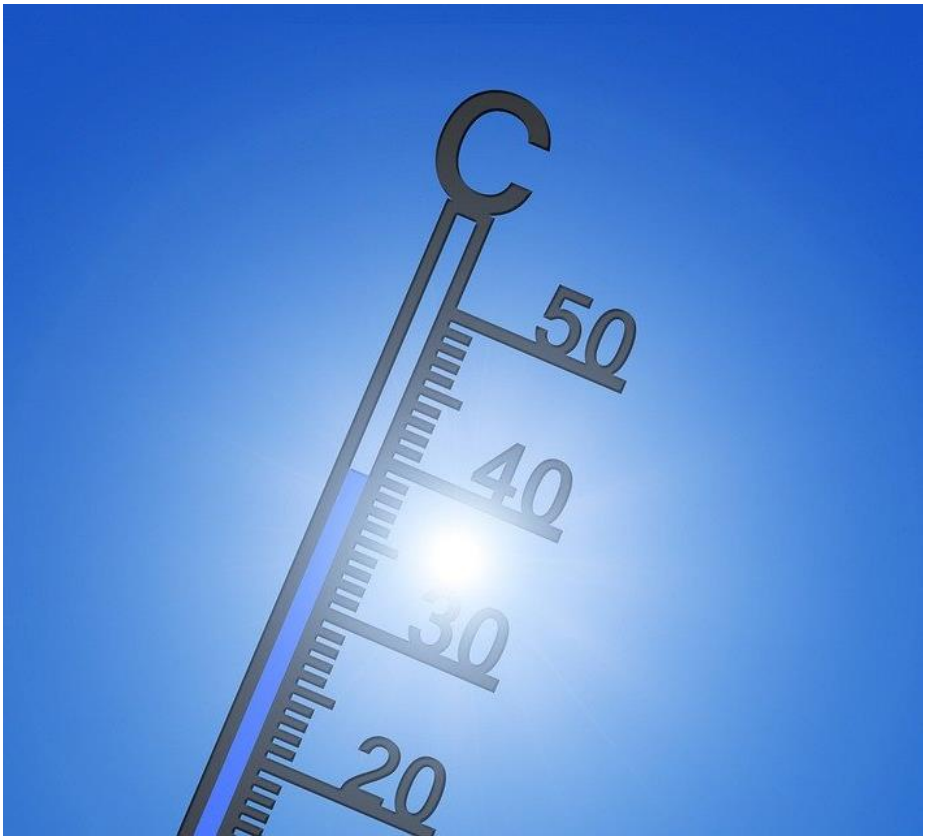
Goodhope

Disclosure of Management Approach

Climate Risk Management

2021



I. Introduction

Earth has warmed by about 1°C since the 19th century and the resulting change in climate is already having dire consequences. Weather patterns are changing, sea levels are rising, and weather events are becoming more extreme. Millions of people and national economies are already suffering from the effects of disasters exacerbated by climate change.

Continued emission of greenhouse gases will cause further global warming, leading to damaging economic and social consequences. Climate Action Tracker suggests that the world's projected warming is 2.7°C by the year 2100.

All organisations face risks relating to the ongoing climate change. These risks can be generally assigned to two categories:

1. Risks arising from the potential physical effects of climate change, extreme weather and biodiversity loss.
2. Risks created by the transition to a low carbon economy and consequent changes in policy and legal contexts, technology and markets.

Proper climate risk management and adaptation to mitigate the above risks and to meet the challenges associated with climate change is integral to the performance of the company. To address the issues, Goodhope is working to ensure that climate-related risks and opportunities are integrated into the Group's business strategy and are sufficiently considered in the decisions made by the company. This climate risk management report provides information on our approach to mitigate and adapt to the physical and financial impacts of climate change.

II. Identifying and assessing climate-related risks

Goodhope is exposed to many risks that arise due to the nature of its business operations and the environment in which it operates. Left unmanaged, these risks might have severe impact on operations, earnings, or reputation.

Effective and appropriate management of the risks is key to achieving the Group's business objectives and ensuring long term returns to all stakeholders. Hence, the Group has in place an Enterprise Risk Management (ERM) strategy to identify and address key risks within its operations. The Group has embedded ERM into its day-to-day business activities and has made it an integral part of its decision-making processes. The responsibility of each department to identify, assess, manage and monitor risks is closely overseen by the Board and Audit Committee.

Climate-related risks and opportunities are well integrated into our ERM processes. Supported by various departments, the Group Sustainability Team is tasked with collecting all relevant news and information relating to climate and is responsible for monitoring the respective risks. Considerations that are incorporated into our climate risk assessments are shown in Table 1. All our operations as well as our suppliers' operations are exposed to these risks.

Important findings, including information on the risks, opportunities, mitigation measures and monitoring results, are presented to the Board and Audit Committee on a regular basis.

Table 1. Considerations that are incorporated into our climate risk assessments	
Physical risks	Physical risks resulting from climate change can be event driven (acute) e.g. extreme weather events, such as storms or floods; or longer-term shifts (chronic) e.g. sustained higher temperatures. All could lead to implications for business.
Regulations	We and all our suppliers must comply with applicable national and/or local laws and regulations especially those related but not limited to labor, health and safety, natural environment and local communities. Changes in regulations to address climate change could lead to implications for business.
Litigation	Recent years have seen an increase in climate-related litigation claims being brought before the courts when organizations fail to mitigate impacts of climate change. As the value of loss and damage arising from climate change grows, litigation risk is also likely to increase.
Health and Safety	The health and safety of all employees and people living in and around our concessions could be impacted by climate change, e.g. poor air quality from wildfires can exacerbate chronic health conditions like asthma and increase risk of respiratory disease; flooding can cause risk to life and expand the range of infectious diseases.
Technology	Technological improvements or innovations that support the transition to a lower-carbon, energy-efficient economic system can have a significant impact on business. For example, the development and use of renewable energy, battery storage, energy efficiency, and carbon capture and storage will affect the competitiveness of certain organizations, their production and distribution costs, and ultimately the demand for their products and services from end users. The adoption of technology to tackle climate change could be challenging and poses risks of systems not functioning properly.
Market	The ever-changing market and public opinion driven by NGO campaigns poses a risk to our business. Disrupted demand for our products, shifts in supply and demand must be taken into account.
Supply Chain	Our suppliers are an important part of our business. Like our own business operations, our suppliers are exposed to the risks of extreme temperatures, prolonged drought, land fires, heavier rainfall during wet seasons, sea level rise, floods and storms. They may also be affected by the changes associated with transitioning to a lower-carbon economy.
Reputation	Climate change is a potential source of reputational risk tied to changing customer or community perceptions of an organization's contribution to or detraction from the transition to a lower-carbon economy. There are risks that we may be targeted by an NGO campaign and take reputational hit.
Financial	The potential financial costs of recovering any damage due to climate change are significant.

III. Managing climate-related risks

Inadequate climate resilience could lead to environmental impacts, reduced yields, reputational damage and financial costs to the company. To prevent negative impacts, we must ensure we have appropriate resources and systems in place to adapt and address the risks. Our efforts to mitigate and adapt to climate change not only reduce the risks of the company suffering from adverse impacts due to climate change but could also create opportunities for new business models including resource efficiency and cost savings.

Climate-related information, including risks and opportunities, is regularly presented by our Group Head of Sustainability to the Board and Audit Committee. The outcome of these discussions guides the strategy, action plans, policies, annual budgets and so on.

The Group Sustainability Team works with relevant personnel on the action plan that is shared and communicated to all related staff. Team meetings are conducted at least every month with relevant departments to review progress. Updates are presented to the Board and Audit Committee. The Board will assess outcomes of projects and will support the further development of action plans.

It is not only our own operations that are exposed to climate-related risks, but also the operations of our suppliers. So, as well as working to implement climate risk management among our business units, we promote sustainable practices throughout the supply chain and encourage our major suppliers to undertake their own climate risk assessments and integrate climate risk management into their businesses. In doing so we build resilience along the supply chain, reducing the risk of climate change impacting future supply to our processing facilities.

IV. Climate Risk Assessment 2021

1.	Risks arising from the potential physical effects of climate change, extreme weather and biodiversity loss.		
	Climate change amplifies the risks of extreme temperatures, prolonged drought, land fires, heavier rainfall during wet seasons, sea level rise, floods and storms.		
	Risks	Potential Impacts	Mitigation Steps
1.1	Crop yields affected by changes in water availability, unusual weather patterns, drought or flood	Oil palm growth relies on the availability of water from rainfall and acute physical risks such as extreme drought and flood can greatly reduce oil palm yield. Other crops will be similarly impacted by changes in water availability, unusual weather patterns, drought or flood, either directly or as a result of species loss that may occur. The company may be impacted by reduced production and revenue, supply chain disruption and increased costs as part of efforts to support local livelihoods and address damages.	• Enhance crop resilience through Research and Development re. palm seedlings which are more resilient to extreme weather patterns. • Help and facilitate our smallholders to obtain Sustainability Certification and attain a better price in the market. • Encourage Sustainable Practices for the growth of other crops to reduce the risk of climate change impacting community food sources and livelihoods.
1.2	Loss of infrastructure due to floods	Floods could damage the infrastructure of company concessions and surrounding villages, e.g. damaging homes and interfering with transport and activities.	• Upholding policies of no deforestation, no peatland development and zero burning in compliance with Sustainability Standards.
1.3	Poor water quality in flooded areas	Increased run-off during flooding can cause poor water quality, disturbing ecosystems and impacting basic sanitation, washing, food and drinking, and so on. This can be detrimental to the health and livelihoods of people who rely on the rivers, lakes, reservoirs, and wells in the area.	• Upholding policies of no deforestation, no peatland development and zero burning in compliance with Sustainability Standards. • Implementing best management practices for riparian areas.
1.4	Stress on water supplies during droughts	As well as impacting crop yields (1.1), water shortages will also impact other income-generating activities, food production and clean water supplies. This can be detrimental to the health and livelihoods of people who	• Resilient water management programs.

	Risks	Potential Impacts	Mitigation Steps
		rely on the rivers, lakes, reservoirs, and wells in the area.	
1.5	Deforestation due to landfires	Failure to protect areas in concessions from fires could result in the sealing of concessions by authorities. The company would suffer from financial and reputational implications.	• Upholding no deforestation, no peatland development and zero burning policies in Compliance with Sustainability Standards. • Implementation of our fire prevention and mitigation program. • Health programs for haze, including raising awareness and the distribution of face masks.
1.6	Loss of infrastructure due to landfires	Financial implications may occur due to direct damage to assets.	
1.7	Poor air quality from landfires	The poor air quality caused by the haze from landfires can exacerbate chronic health conditions like asthma and contribute to respiratory illnesses.	
1.8	Injuries, illnesses or deaths due to extreme weather or increased prevalence of infectious diseases	Extreme weather events such as floods threaten public health e.g. by disrupting access to health services, causing injuries and drowning. Changes in the climate can also be associated with changes in the distribution of some water-borne illnesses and disease vectors. Our clinics and the community health centres that we contribute to could come under increasing pressures.	• Continue to support local livelihoods: When the farmers receive more earnings they have more access to better education for their children, better access to health.
1.9	Allegations of company contributing to local climate changes and adverse events associated with this	The company may be impacted by grievances lodged by affected parties if company operations are perceived to have contributed to adverse climate-related events. Any allegations could lead to reputational damage, particularly if the problem goes public, and the company could be subjected to the financial costs of remediating the damage and paying any fines.	• Full compliance with all legal requirements. • Upholding no deforestation, no peatland development and zero burning policies in Compliance with Sustainability Standards. • Good stakeholder relations. • Effective grievance system to handle complaints.

2.	**Risks created by the transition to a low carbon economy and consequent changes in policy and legal contexts, technology and markets**
	Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organizations.

	Risks	Potential Impacts	Mitigation Steps
2.1	Policies that attempt to constrain actions that contribute to the adverse effects of climate change	Policy actions around climate change continue to evolve but include the introduction of bans and carbon pricing. The impacts associated with the introduction or change of policy depend on the nature and timing of the policy change but could necessitate the need for further action to reduce emissions and may cause changes in market opportunities and prices.	• Keep up to date with potential policy changes and encourage resilient and adaptive solutions to avoid adverse impacts for the company.
2.2	Increasing demand for suppliers to comply with NDPE policy	Some suppliers may fail to keep up-to-date with NDPE commitments.	• Supplier engagement for NDPE compliance.