

TCFD REP ORT



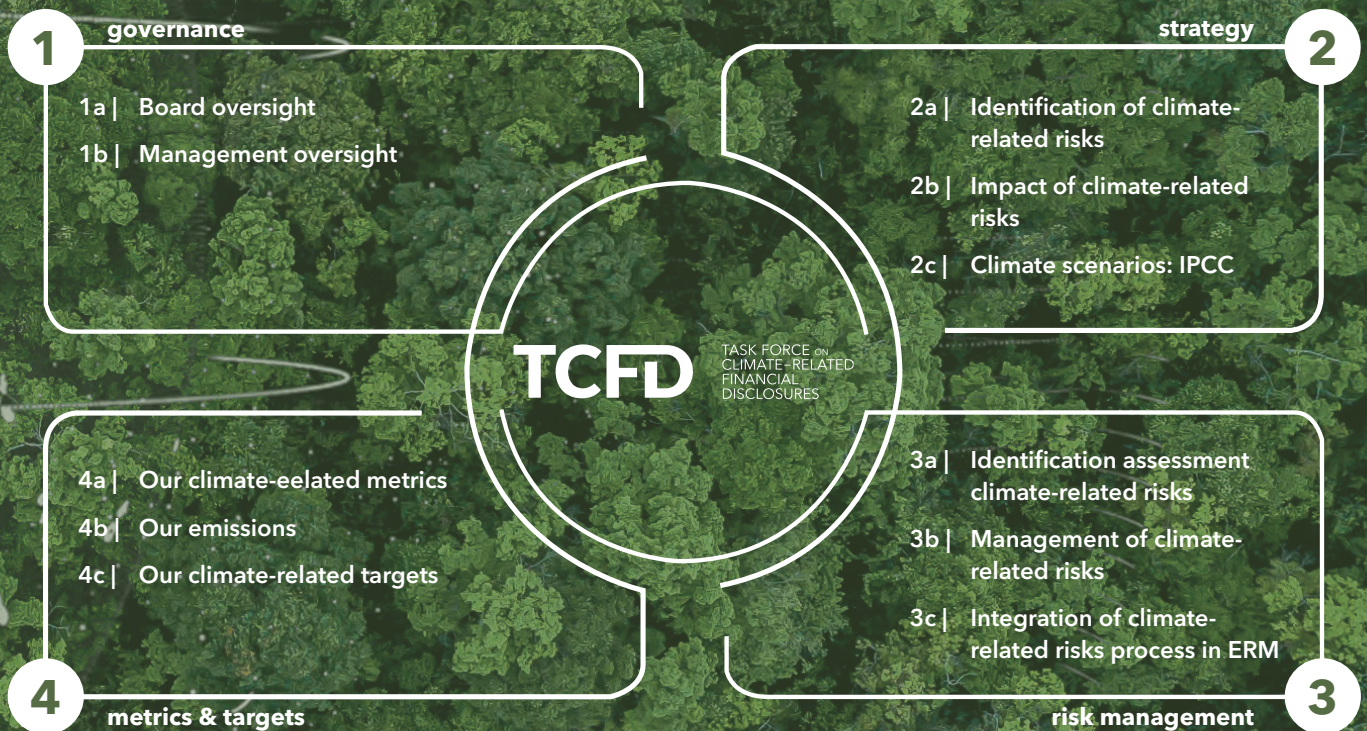
task force on climate-related financial disclosures (TCFD) report

[GRI 2-12, 2-13, 3-3, 201-2]

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Since declaring support for the TCFD Framework and its recommendations, KPS Berhad has looked to identify its physical and transition climate risks while also aligning with the recommendations of the Framework with regard to energy management, scenario planning and risk management.

Hence, beyond generic disclosures on energy consumption and management and emissions, KPS Berhad for 2023 has chosen to also report on climate matters using the prescribed four-pillar format of the TCFD Framework of Governance, Strategy, Risk Management & Metrics and Targets.



task force on climate-related financial disclosures (TCFD) report [GRI 2-12, 2-13, 3-3, 201-2]**1 governance****1a | Board oversight**

The Board is fully engaged in KPS Berhad's strategic planning process, conducting an in-depth strategy review annually and overseeing progress throughout the year. Setting the tone for the Group's sustainable development effort, the Board is responsible for the governance of sustainability practices within the Group. It is assisted by the SBC, which directly oversees the implementation of the Group's Sustainability Policy, sustainability strategies and plans, the management of sustainability materiality matters, and achieving targets.

The SBC is primarily responsible for overseeing climate-related issues, assisted by the TCFD Committee.

The SBC also oversees the ongoing action plan for decarbonisation and ultimately achieving carbon neutrality.

The respective subsidiary boards will provide counsel to advance sustainability practices within their operations, integrating sustainability climate-related considerations into their strategies, practices, and decision-making to help subsidiary companies transition to a more sustainable and responsible business landscape.

1b | Management oversight

At the strategic level, the TCFD Committee will identify, assess, and manage the Group's climate-related risks and opportunities. It is a cross-functional group comprising senior executives which include the Chairperson of the committee, Managing Director/ Group Chief Executive Officer ("MDGCEO"), or Deputy Chief Executive Officer (Finance & Corporate Services) ("DCEOFCS") in the absence of MDGCEO, members of Corporate Sustainability Champion ("CSC"), Risk Management Department ("RMD") of KPS Berhad, Finance Department of KPS Berhad, Finance Departments of subsidiary companies and the rest of the Head of Departments ("HODs") which are Human Resource Development Department ("HRD") and Legal and Compliance Department ("LCD") of KPS Berhad.

The TCFD Committee will assist the SBC in sharing information on the Group's climate-related disclosures and the resiliency strategies to mitigate the risks and capitalise on opportunities. The committee will coordinate and communicate climate issues within the Group, identify response measures to climate issues, formulate strategies, and categorise and assess the materiality of climate-related risks and issues.

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2 strategy

2a | Identification of climate-related risks

2b | Impact of climate-related risks

KPS Berhad continues to incorporate climate change into its corporate planning by exploring the resilience of our business strategy under a range of climate scenarios.



After our commitment to support TCFD, we considered physical risks, although we opine the impact of physical risks on us would occur in the later part of our business horizon. We also considered transition risks, whose impacts we believe would be more apparent within the short and medium-term, from policy, technology, market, and reputation perspective as well as opportunities arising from, such as resource efficiency, energy sourcing, new markets, and business resilience.

To facilitate clear and insightful discussion, KPS Berhad grouped all the climate risk and opportunities from its six subsidiary companies with similar climate risk and opportunity characteristics.

TCFD training was provided to all the members of the TCFD Committee. Each subsidiary company has preliminarily identified their respective climate risks and opportunities upon the training.







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Physical Risks Categories	Potential Risks	Potential Impacts
 <p>Acute Risk</p>	Flash floods due to extreme weather.	Inability of the workforce to travel to work.
		Operational site shutdown or major damages to site.
		Delays/impacts to manufacturing processes that affect the supply and quality of products.
		Supply chain disruptions.
		Increase in osh incidents at the site.
		Disruption in the supply of water chemicals and meters. Delays in providing technical services to water and sewage treatment plants.
 <p>Chronic Risks</p>	Rising temperature.	Rising heat affects the functionality of machinery.
		Heat impacts the quality of raw materials.
		Heat leads to increased worker health issues and OSH incidents.
		Heat reduces worker productivity and overall productivity of operations.
	Water scarcity due to drought.	Water supply cuts disrupt production operations.
		Less demand for water chemicals during dry season.

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Transition Risks

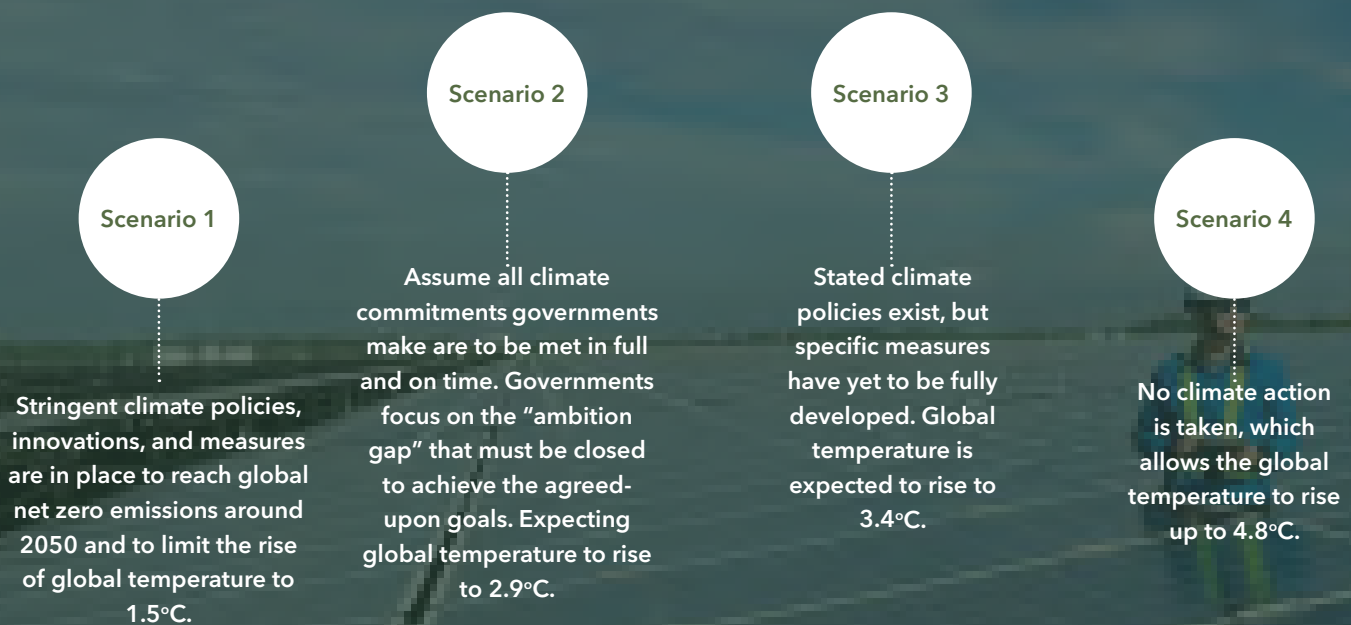
Categories	Potential Risks	Potential Impacts
 <p>Policy</p>	Government and industry regulations (increased green requirements). <ul style="list-style-type: none"> • Carbon Border Adjustment Mechanism ("CBAM") • Carbon tax • Energy efficiency and conservation act (EECA) 	The increasing operational cost of high-emission assets or products.
	Requirement to adopt greener methods and materials.	
	Increased requirements for the use of green-certified materials or green-certified suppliers.	
	Potential for fines censures due to non-compliance.	Loss in revenue.
	Potential for delays in regulatory approvals due to non-compliance.	Delays in demand delivery.
 <p>Technology</p>	Requirement to finance low-emission technologies.	Likelihood of reduced margin of financing or higher interest rates based on Economic and ESG performance.
	Requirement to redesign processes to be more energy efficient.	Increased costs and disruptions.
	Requirements to adopt RE.	Allocation of additional capital expenditures
 <p>Market</p>	Failure to meet climate responsibility standards may face barriers to entering markets that prioritise eco-friendly suppliers.	Loss of revenue and potential new customers.
 <p>Reputation</p>	Exposure to litigation and reputation risk.	Negative media exposure highlighting group's contribution to carbon emissions.

Opportunity Categories

Categories	Potential Opportunities	Potential Impacts
 <p>Market</p>	Increasing demand for green products and services due to government mandate.	Increase in market share and revenue.
	Business expansion into new niche sectors within the industry.	
 <p>Reputation</p>	Transitioning to greener technologies to produce lower carbon footprint products can be an opportunity for brand-building.	Can be the brand leader in providing greener products.

task force on climate-related financial disclosures (TCFD) report [GRI 2-12, 2-13, 3-3, 201-2]**2c | Climate scenarios: IPCC**

Moving forward, KPS Berhad will consider IPCC scenarios to develop its understanding further and strengthen its perspective on imminent climate risks and opportunities, and related financial impact assessment. This analysis will serve as a robust foundation for informed decision-making and strategic planning in the face of a dynamic and evolving climate landscape. Based on the IPCC, four scenarios shall be considered for both the physical and transition risks:



Although four scenarios have been identified, KPS Group will first focus on analysing Scenario 1 and Scenario 2 to assess the financial impacts on the Group. In worst-case scenarios, during the Business-as-Usual (4°C) scenario, the Group is highly impacted by physical risks, while in the aggressive mitigation (2°C or less) scenario, the organisation is highly affected by transition risks.

The physical risks are most material in a 4°C warming scenario when global efforts fail to limit the emissions of carbon. At the same time, transition risks are most material in the 2°C or less warming scenario due to stakeholder demands for businesses to speed up the transition to low-carbon production processes.

Hence, focusing on Scenario 1 and Scenario 2 will help the Group remain adaptable and open to revisiting the transition analysis regularly. More stringent policies and regulations from local and international organisations are anticipated in the short term due to the pledge taken by the world leaders to limit global temperatures to 1.5°C. Meanwhile, there are certain regions and countries in which we operate could announce pledges towards net zero emissions. However, there are ongoing gaps the authorities have to focus on to ensure the pledges can be met on time. Comparatively, the Group is expecting severe financial implications in Scenario 1 than scenario 2.

As understanding climate-related risks and opportunities evolve, the Group may update the approach and include additional scenarios.

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Our decarbonisation strategy

A substantial transformation in our energy sources is imperative to tackle the climate change risks and opportunities to meet our climate goals. We have established clear, measurable, and ambitious initiatives to steer our sustainability endeavours.

1

Setting environment-related KPIs:

In alignment with this ambition, in 2023, KPS Berhad has identified 24 environmental-related KPIs covering resource efficiency, energy efficiency, waste management, water management, and emissions reduction initiatives. These KPIs align with the environmental materialities that are most significant to our operation across KPS Berhad and our subsidiary companies.

2

Carbon baseline solidification:

We solidified our carbon baseline by capturing and disclosing emissions from all our manufacturing facilities throughout Malaysia and Indonesia. In addition to this, we expanded our transparency efforts by including a Scope 3 assessment, which encompasses emissions from employee commuting and business travel. This comprehensive approach ensures that we clearly understand our carbon footprint and can work towards reducing it.

3

Enhancing energy efficiency:

We are committed to enhancing energy efficiency within our subsidiary companies. Initiatives include converting to the use of electric forklifts. Another promising opportunity is the shift towards automation exemplified by installing advanced robotic production lines within our manufacturing facilities. To illustrate, consider our subsidiary, MDS Advance, where the integration of fully automated machinery has enabled uninterrupted 24/7 production with minimal reliance on manual labour. This transformative step enhances production capabilities and significantly reduces error rates and waste, aligning perfectly with our sustainability goals.

4

Transition to RE:

We are gradually transitioning to RE sources to power our operations. This transition is exemplified by the successful installation of solar panels at our subsidiary companies. This marks the beginning of our journey towards greater reliance on solar energy, reducing our dependence on fossil fuels. One significant avenue is to continue implementing RE efficiency strategies, such as using solar power to operate manufacturing facilities. KPS Berhad can substantially decrease our carbon footprint by reducing reliance on fossil fuels and grid electricity.

5

Capacity building:

In line with our commitment to capacity building, we regularly organise meetings and workshops designed to enhance knowledge and expertise within the organisation. These sessions include specialised training in GHG emissions management and the introduction of principles outlined by the TCFD Framework. These initiatives are extended to all employees of the Group, ensuring that everyone within the organisation comprehends and contributes to our sustainability objectives.

KPS Berhad's decarbonisation strategy for climate change adaptation involves a multi-pronged strategy that prioritises stakeholder interests, data-driven decision-making, and regulatory compliance to reduce our carbon footprint. This approach positions us to effectively address the impacts of climate change while fostering a sustainable and resilient business model.

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3 risk management

3a | Identification assessment climate-related risks

We have established an enhanced ERM Framework based on the ISO 31000:2018 International Standard of Risk Management-Principles and Guidelines to proactively identify, evaluate, and manage key risks.

A wide range of risks faced by KPS Berhad are included in this ERM process, including ESG-related issues that could present enterprise-wide financial, operational, or strategic risks. This includes evaluating issues associated with climate change, which mainly covers both physical risks and transition risks, as stated in the TCFD Framework.

Having embedded sustainability in the ERM, VaR assessment is expected to be carried out on other matters such as operational issues, including new climate-related regulations, supply chain challenges, weather-related disruptions, and natural disasters.

In addition, the TCFD Committee has identified climate-related risks through engaging with subsidiary companies and working with external industry advisors. We continue to explore options to better evaluate the likelihood and materiality of potential climate-related risks. At this stage, the assessments are expected to be more qualitative as we have not modelled the potential financial impacts of different climate scenarios with historical data. As this effort progresses, we shall continue to explore options for more quantitative analysis.

KPS Berhad's Risk department is part of the TCFD Committee. Climate risks and opportunities will be assessed from 2024 onwards by the risk department and will then be incorporated into the Group's ERM.

3b | Management of climate-related risks

At a minimum, TCFD Committee meetings are planned to be held biannually, where significant climate-related risks and opportunities are deliberated on, identified, and assessed before recommendations are made to the SBC, which will guide Management on suitable plans. Information pertaining to sustainability strategies, priorities, targets, and performance against the KPIs are communicated to internal and external stakeholders in the Group's Sustainability Report, which is published annually together with the Integrated Report.

Functionally, RMD is responsible for developing, coordinating, and facilitating the Risk Management processes within the Group. Climate-related risks and mitigation strategies are captured in risk registers and will be updated in a timely manner.



3c | Integration of climate-related risks process in ERM

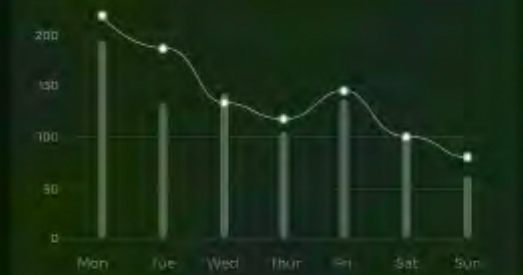
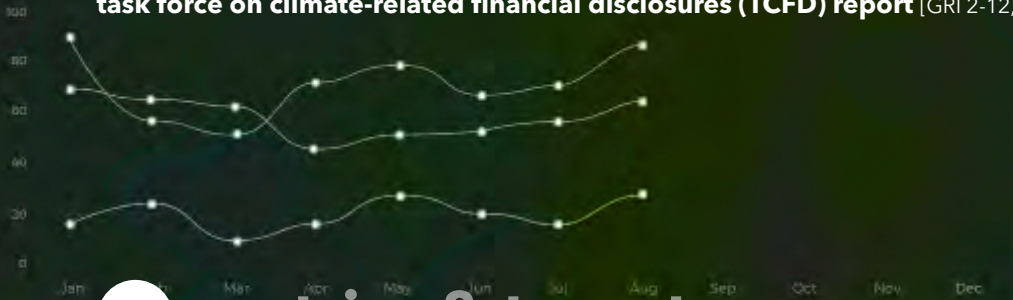
KPS Berhad has executed ERM initiatives based on the approved ERM framework, including continuous review, tracking and monitoring of key mitigation strategies, implementing action plans, and identifying key risk areas.

In 2024, the RMD will assess the climate risks to understand the short-, mid- & long-term impact levels based on the different climate scenarios.

As a part of the TCFD Committee, the RMD shall enhance the existing risk management processes to systematically assess, and manage climate-related risks, considering both short-term and long-term impacts of shifts in the policy, technology, and economic landscape, that are imminent in the transition to a low carbon economy. This will involve integrating climate scenarios and stress testing into our risk assessment methodologies, developing strategies to minimise vulnerabilities and enhance resilience, and accounting for different climate scenarios. RMD will validate regular monitoring and reporting of climate-related risks to ensure continuous improvement.



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4 metrics & targets

4a | Our climate-related metrics

4b | Our emissions

As of 2023, KPS Berhad tracks its carbon emissions, energy consumption, material consumption, water usage, and waste generation. Moving forward, appropriate reduction targets will be determined.

The Group measures its Scope 1, Scope 2 and Scope 3 carbon emissions and related energy sources.

As financial quantitative analysis is performed, metrics and targets will include financial figures related to climate change. These could be related to provisions or impairments or increased expenditures to be incurred due to climate change and potential savings derived from increased solar adoption or quantification of new revenue sources.

4c | Our climate-related targets

To ensure that our climate strategy aligns with the global transition to a low-carbon economy, as per the aforementioned, the Board approved our sustainability roadmap, thus enacting our commitment to reduce GHG emissions by 45% by 2030 and reach carbon neutrality by 2050, in addition to other sustainability initiatives in response to increasingly expansive stakeholder expectations with regards to sustainable manufacturing.



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