12 – Climate change

RISK DESCRIPTION

The mining industry is highly exposed and sensitive to climate change risk.

Climate change is a systemic challenge and will require coordinated actions between nations, between industries and by society at large. It demands a long-term perspective to address both physical climate change and low-carbon transition risks and uncertainties.

Due to climate change, our operations and projects are expected to face acute physical risks from extreme events such as high temperatures, droughts and extreme rainfall from more frequent and intense hurricanes in the Pacific.

These natural disasters may affect the health and safety of our people, damage access roads and mine infrastructure, disrupt operations and affect our neighbouring communities. In addition, the rise in temperatures may increase our water demand while the decrease in annual precipitation exacerbates water stress in the regions where we operate.

These chronic risks may intensify the competition to access water resources, increasing risks to the social licence to operate. The societal responses to transition to a low-carbon economy include more stringent regulations to reduce emissions, a transformation of the global energy system, changes in behaviour and consumption choices and emerging technologies.

Adaptation measures are necessary to build the flexibility to respond to physical and transitional changes.

FACTORS CONTRIBUTING TO RISK

- Current and emerging climate regulations have the potential to result in increased cost, to change supply and demand dynamics for our products and create legal compliance issues and litigation, all of which could impact the Group's financial performance and reputation. Our operations also face risk due to the physical impacts of climate change, including extreme weather.
- Warming temperatures will increase water scarcity in some locations, inhibiting water-dependent operations, complicating site rehabilitation and bringing companies into direct competition with communities for water resources.
- The supply of critical inputs to mining processes, such as water and energy, is likely to face greater constraints.
- Employee health and safety will be put at risk by increases in communicable diseases, exposure to heat-related illnesses and the likelihood of accidents related to rising temperatures.
- Obtaining and maintaining a social licence to operate will become more difficult in communities where climate change exacerbates existing vulnerabilities and increases direct competition between the Company and the community for resources.
- Increased physical and non-physical risks will make project financing more difficult to secure.

CONTROLS, MITIGATING ACTIONS AND OUTLOOK

- Climate change has formed part of our strategic thinking and investment decisions for over two decades.
- We are considering the recommendations of the TCFD regarding: Governance, Strategy, Risk Management and Metrics and targets.
- We recognise the importance of maturing our approach to integrating physical climate change risks and adaptation into financial planning and decision-making processes. We are committed to enhancing our understanding of the site-level impacts and vulnerabilities to refine our adaptation measures.
- The pervasive and complex nature of climate change means that it can act as an amplifier of other risks such as environmental incidents, access to water, health and safety of our people, government regulations and social licence to operate. The Head of Sustainability and the Head of Risks support the process to refine the identification and risk assessment of physical and transitional risks.

For more details see Climate Change on pages 93-99

- We use the guides from industry associations (i.e. ICMM), international scientific reports (i.e. IPCC), reports from industry peers and reports of the Mexican Government to identify the physical impacts of climate change.
- To gain a general understanding, we use the outcomes of scenarios built by the Mexican Government reports using the Global Circulation Models (GCMs) and different Representative Concentration Pathways (RCPs).
- In addition, we use Aqueduct, a tool developed by the World Resources Institute (WRI), to better understand water stress under different climate change scenarios in the 2020-2030 period.
- We are implementing a series of controls to manage the threat of extreme weather, including structural integrity programmes across all critical assets, emergency response plans and flood management plans. These controls keep our people safe and help our operations return to normal capacity as quickly as possible.
- We are increasing the supply of the materials essential to building a low-carbon economy.
- We are setting targets to reduce our emissions (on an absolute and intensity basis) over the short, medium and long term.

For more details see Energy and Climate on pages 93-99 and Water Stewardship on pages 102-103

COVID-19 PANDEMIC IMPACT

- The Covid-19 crisis and climate change demonstrate that we live in an interconnected world. We are faced with global challenges that need coordinated responses where each actor takes on their role. No country can deal with these issues alone.

KEY RISK INDICATORS

- Energy demand/value added
- CO_2/energy consumption
- Zero-carbon fuel share

LINK TO STRATEGY

1 2 3 4

RISK APPETITE

Low

CHANGE IN HEAT MAP

Elevated from Emerging Risk

RISK RATING (RELATIVE POSITION)

2020: Medium (12)