Continuing the journey towards TCFD compliance

May 2022
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highlights</td>
<td>3</td>
</tr>
<tr>
<td>Introduction</td>
<td>5</td>
</tr>
<tr>
<td>1 Emerging observations</td>
<td>7</td>
</tr>
<tr>
<td>2 What does LR 14.3.27R mean for premium</td>
<td>13</td>
</tr>
<tr>
<td>listed companies?</td>
<td></td>
</tr>
<tr>
<td>3 What do the Companies (Strategic Report)</td>
<td>20</td>
</tr>
<tr>
<td>(Climate-related Financial Disclosure)</td>
<td></td>
</tr>
<tr>
<td>Regulations 2022 mean for premium</td>
<td></td>
</tr>
<tr>
<td>listed companies?</td>
<td></td>
</tr>
<tr>
<td>4 What does the ISSB's Climate Exposure</td>
<td>22</td>
</tr>
<tr>
<td>Draft mean for premium listed companies?</td>
<td></td>
</tr>
<tr>
<td>5 Climate in the financial statements,</td>
<td>23</td>
</tr>
<tr>
<td>going concern and viability statement</td>
<td></td>
</tr>
<tr>
<td>6 Conclusion</td>
<td>27</td>
</tr>
<tr>
<td>7 Examples</td>
<td>28</td>
</tr>
<tr>
<td>Authors</td>
<td>50</td>
</tr>
</tbody>
</table>
There has been a step change in the level of climate-related disclosures — both in the front and back halves of annual reports, but the journey towards Task Force on Climate-related Financial Disclosures (TCFD) compliance is far from over — both in respect of the quality of the disclosures but also their integration into the broader strategic narrative. There is no room for companies to stand still.

With changes to TCFD guidance, and new standards and regulations being debated and implemented both in the UK and internationally, the bar for TCFD disclosures and reflecting climate in the financial statements continues to rise.

Even premium listed companies which have published their first disclosures in their annual reports as required by Listing Rule (LR) 9.8.6R(8) and associated LR Guidance as issued in December 2020, will need to do more in their next annual report(s) to take account of changes issued in December 2021 to the Listing Rule Guidance and if applicable, the Department for Business, Energy & Industrial Strategy (BEIS) Regulations and non-binding guidance that apply for financial years commencing on or after 6 April 2022.
As many as 78% of companies now refer to impacts of climate change in their financial statements, with over half stating that the impact is immaterial.

Only 37% of audit committees explicitly reference having considered those impacts.

Compared to 33% last year, 70% of companies this year indicate that they have disclosed against all 11 disclosures recommended by the TCFD. However, companies very seldom acknowledged having taken into account all the guidance stipulated for consideration by the Listing Rule and many of the statements discuss the need for further work to be undertaken.

Just 62% of annual reports provide clarity on who had oversight of the TCFD disclosures.

Only 5% included reference to TCFD in the board’s assessment of the annual report being fair, balanced and understandable (FBU).

This is surprising given both the spotlight on these disclosures by investors and regulators, and the fact that they are new. This can also cast doubt over the high levels of stated compliance with the Listing Rule.

Around 13% of companies have not yet conducted a scenario analysis.

Of those that had, 64% discussed outcomes in a qualitative manner only.

As many as 78% of companies now refer to impacts of climate change in their financial statements, with over half stating that the impact is immaterial.

Only 37% of audit committees explicitly reference having considered those impacts.

### TCFD Compliance

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>2020</th>
<th>2021</th>
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<tbody>
<tr>
<td>Disclosed against the 11 disclosures recommended by TCFD</td>
<td>33%</td>
<td>70%</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>Full compliance indicated</th>
<th>Reference to Listing Rule</th>
</tr>
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<tbody>
<tr>
<td>33%</td>
<td>36%</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Climate Considerations</th>
<th>0%</th>
<th>50%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standalone sustainability or TCFD report produced</td>
<td>35%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reference to a climate transition plan</td>
<td>32%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate considerations in viability statement</td>
<td>48%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate mentioned in audit opinion</td>
<td>95%</td>
<td></td>
<td></td>
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13% Partial compliance and no reference to Listing Rule
It is clear that the UK Government’s ambition as announced in November 2020 for the UK to become the first country in the world to make TCFD aligned disclosures fully mandatory across the economy by 2025, going beyond the ‘comply or explain’ approach is now a reality.

In December 2020, the Financial Conduct Authority (FCA) announced Listing Rule 9.8.6R(8) requiring that for accounting periods beginning on or after 1 January 2021 commercial companies with a UK premium listing include a statement in their annual report which sets out whether they have made disclosures consistent with the recommendations of the TCFD and explain if they have not done so.

The objective of this publication is to share emerging observations on how, based on a sample of over 100 annual reports and accounts (ARAs) of 31 December 2021 FTSE 100 and FTSE 250 reporters, premium listed companies have complied with LR 9.8.6R(8). We also discuss how disclosures of companies outside of financial services (FS) are likely to need to evolve reporting going forward, in light of the developments set out on the following page.

A publication focusing on FS TCFD reporting trends will be issued separately. Later this year, EY will also publish the 2022 EY Global Climate Risk Disclosure Barometer, assessing the coverage and quality of climate risk reporting across a global company data set.

Our publication ‘Towards TCFD compliance’, issued in May 2021, included hallmarks of leading practice and disclosure, as well as noteworthy examples, aimed at helping companies respond to the new requirements. Much of what we highlighted as leading practice remains so.
Since we issued this publication, investor, societal pressures and scrutiny continue at strength, and there have been many notable developments in respect of climate reporting, such as:

- In October 2021, TCFD released its fourth status report and two new guidance documents – updates to the implementation guidance (Annex) initially published in 2017 with the TCFD Recommendations Report and new guidance to disclose plans for a net zero transition and seven categories of cross-industry metrics.

- Later that same month, the BEIS published the response to its consultation on Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs. The ensuing regulations made by Parliament in January 2022 largely reflect the proposals and apply for financial years starting on or after 6 April 2022. In February 2022, BEIS published non-binding guidance (to accompany these regulations), which provides answers to commonly asked questions about application and sets out the expectations in respect of each element of the disclosure requirements.

- In November 2021, at COP26 in Glasgow, the International Financial Reporting Standards (IFRS) Foundation announced the creation of the International Sustainability Standards Board (ISSB)\(^3\), with the objective of developing IFRS Sustainability Disclosure Standards for the financial markets. Two prototype standards were published: the general requirements for disclosure of sustainability-related financial information prototype and the climate-related prototype, along with the supplementary technical protocols for disclosure requirements. On 31 March 2022, the ISSB issued the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the Exposure Draft IFRS Sustainability Disclosure Standard 2 (IFRS S2 / Climate ED) which supersede the prototypes\(^4\).

- At the same time, the Chancellor, Rishi Sunak announced that by 2023 UK financial institutions and public listed companies will be obliged to publish “net zero transition plans”\(^5\) detailing how they will reduce the emissions they respectively finance or are responsible for in order to align their businesses with the UK Government’s commitment on decarbonisation and the economy-wide transition to net zero by 2050.

- In December 2021, the FCA announced a new Listing Rule (LR 14.3.27R) applicable to standard listed companies for periods beginning on or after 1 January 2022, which not only mirrors the requirements introduced for premium listed companies introduced by LR 9.8.6R(8), but also references the aforementioned updated TCFD guidance materials and introduces additional guidance on transition plans.

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\(^3\) The ISSB was formed from the consolidation of: The Value Reporting Foundation (VRF), home to SASB Standards and Integrated Reporting Framework and the Climate Disclosure Standards Board (CDSB).

\(^4\) For EY’s analysis of the EDs refer to: ISSB publishes first two EDs on sustainability disclosure requirements | EY – Global
1.1 Compliance with Listing Rule 9.8.6R(8) and disclosure oversight

Of the companies in our sample, 46% did not explicitly reference Listing Rule 9.8.6R(8). In such cases, it was often not clear whether the LR Guidance (i.e., LR 9.8.6BG and LR 9.8.6DG) had been taken into account when making the statement required by sub-paragraph (a) of the LR and whether the disclosure requirements set out in sub-paragraphs (b) and (c) of the LR had been met.

As set out in the FCA’s Primary Market Technical Note TN / 802.1, sub-paragraph (a) of the Listing Rule 9.8.6R(8) requires companies to make a statement setting out whether they had included climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures in their annual financial report. As the wording of the 11 Recommended Disclosures is in fact quite high level, providing a brief qualitative narrative against each could be achieved without great effort. This could suggest that a simple statement confirming that a company has provided such a narrative, regardless of its quality, should suffice to comply with the LR.

The LR Guidance is, however, more prescriptive in setting out how companies should determine whether the disclosures are in fact consistent with the TCFD Recommendations and Recommended Disclosures. The LR Guidance lists out the specific TCFD guidance, documents and technical supplements that should be taken into account in making the assessment. It also states that “a listed company should consider whether those disclosures provide sufficient detail to enable users to assess the listed company’s exposure to and approach to addressing climate-related issues,” taking into account, amongst other things, levels of its exposure to climate-related risks and opportunities as well as the scope and objectives of its climate-related strategy in the context of its overall nature, size and complexity.
Sub-paragraph (b) of LR 9.8.6R(8) sets out further disclosures that are not governed by the TCFD recommendations:

- It requires that companies provide reasons for including TCFD disclosures in a document other than the annual financial report.
- Where companies have not included all TCFD Recommendations and/or TCFD Recommended Disclosures, they need to explain the steps they are taking to make those disclosures in the future, and the related timeframe.

Compliance statements that only state that disclosures consistent with the 11 TCFD Recommended Disclosures have been made, but make no reference to compliance with the broader requirements of the LR, provide readers with less useful information and do not indicate whether the LR Guidance had been properly considered in making the statement.

GSK (Figure 2: 2021 ARA, p49) states both that its disclosures are consistent with the TCFD Recommendations and TCFD Recommended Disclosures, and in compliance with the requirements of LR 9.8.6R. Direct Line (2021 ARA, p76) goes a step further and explicitly states that its disclosures are consistent with the supplemental guidance for all sectors and insurance companies, similar to Melrose (2021 ARA, p60) which states that in assessing the coverage of TCFD disclosures it took into consideration the guidance documents referred to in the guidance notes to the LR. Evraz (2021 ARA, pp284-287) makes clear reference to the LR in its compliance statement, and the cross-reference table provides transparency about the areas of partial compliance and future steps, as required by sub-paragraphs (b) and (c) in LR 9.8.6R (b) (ii). Reckitt (Figure 3: 2021 ARA, p66), whilst complying with 11 Recommended Disclosures, sets out at a disclosure level the actions required to apply the October 2021 Annex.

Our prior year analysis indicated that only 33% of companies had reported on a voluntary basis against all 11 TCFD Recommended Disclosures. This year, despite the more stringent expectations about the quality of the disclosures introduced through the LR Guidance, 70% of companies indicated that they had.

The manner of disclosing partial compliance varies. Grafton (2021 ARA, pp82-85) includes a table to illustrate the timeline for full compliance; HSBC (2021 ARA, pp19, 63 and 402) provides a narrative summarising certain areas where climate-related disclosures were not included; Meggitt (Figure 4: 2021 ARA, p58) provides both an overview of its compliance status, and further detail in a table that includes status and future priorities for each recommended disclosure.

However, a number of companies within our sample that disclosed partial compliance did not provide (as required by LR 9.8.6R(b) (ii) (C)) the steps needed to reach full compliance, the related timeframe, and in some cases neither. When companies made reference to recognising the need for further improvements and enhancements, it was sometimes not clear whether they considered progress to date to be nonetheless sufficient to assert full compliance. We also identified vague statements that could question the company’s compliance assertion.

Statements made by around 70% of the companies in our sample indicated full compliance with TCFD Recommended Disclosures

Only 62% of companies within our sample were explicit about who had oversight of the TCFD narrative; only five companies directly referred to TCFD disclosures being considered as part of the FBU assessment.

Given this was the first cycle of mandatory TCFD reporting, and the regulatory and investor focus on the disclosures, it is surprising that so many companies remained silent on who had oversight over them. Where this was clearly stated, in the majority of cases this responsibility fell to the audit committee (AC). The AC of CRH (Figure 5: 2021 ARA, pp5, 66) oversaw the significant expansion of disclosures in the ARA in line with the expectations of the TCFD, the emerging EU Taxonomy and further disclosures in respect of relevant accounting estimates and judgements. In its assessment of whether the ARA was FBU, the AC of IHG (2021 ARA, pp96, 99) oversaw “the proportionate and consistent consideration of climate matters across the Annual Report, including the TCFD statement, and in particular the potential impact on forward-looking assumptions supporting impairment testing, deferred tax assets, going concern and viability assessments.” As part of FBU considerations, the AC of BP (2021 ARA, p108) reviewed the assurance process in place for non-financial reporting (incorporating TCFD disclosures).
On the other hand, it is the Sustainability Committee at AstraZeneca (2021 ARA, p89) that reviewed its Sustainability Report and TCFD disclosures. In the case of Aviva (2021 ARA, pp2.21 and 2.28) the AC recommended the 2021 climate-related financial disclosures including TCFD to the Board and the Customer, Conduct and Reputation Committee reviewed the content of the TCFD disclosures in preparation for the climate disclosures being voted on (on an advisory basis) at the 2021 Annual General Meeting.

Regulators in the UK are likely to take a more stringent approach once TCFD reporting becomes more embedded, and this will reinforce the need for more robust oversight over the disclosures.

If a listed company’s disclosures do not appear to meet the requirements of the Listing Rules, the Financial Reporting Council (FRC) is likely, in the first instance, as part of its routine reviews of annual financial reports, to contact the company setting out the issues and asking for further information. Based on this information, the FRC may ask the company to take corrective or clarifying action, such as undertaking to enhance their disclosures in subsequent reports and accounts. We would expect matters to be satisfactorily addressed through this type of engagement without the need for further action regarding the published disclosures. If the FRC is unable to reach a satisfactory conclusion through engagement, the matter will be referred to the FCA to take appropriate action.

In addition, the FRC will refer matters to the FCA which are identified as containing potentially false or misleading information, including the omission of material facts, likely to cause investor harm or which may breach other relevant FCA rules for environmental, social and governance (ESG) matters (see Technical Note TN 801.1).

Financial Conduct Authority, Primary Market Bulletin 36
There are limited references to internal or external assurance over TCFD reporting, with only one company within our sample obtaining a limited assurance opinion over this disclosure.

Within our sample, one company — Polymetal International (2021 ARA, pp261-263) — included the limited assurance opinion it obtained over its description of activities undertaken in respect of the TCFD Recommendations included in the TCFD disclosure. Smith+Nephew (2021 ARA, p96) disclosed that its Sustainability Report, which contains a section about the impact on climate change and cross-references to the TCFD narrative in the ARA, was included in the FBU review undertaken by the internal audit function. ITV (2021 ARA, p88) notes that its TCFD report has been subject to review by external advisers. The AC of LGIM (2021 ARA, p87) spent time during 2021 considering the scope, focus and quality of the various sources of assurance from which it is able to gain comfort. This included a decision to obtain independent limited assurance over certain elements of the group’s climate report.

Our analysis did not indicate that ACs sought comfort over TCFD disclosures as part of the external audit. We identified just a few companies whose auditor stated that, with the involvement of its climate specialists, it had assessed the TCFD disclosures for compliance against the Recommendations of the TCFD framework. In most other cases, audit opinions were either silent; noted that the auditor had considered the consistency of the disclosures in relation to climate change made in the other information within the ARA with the financial statements and its knowledge from the audit; and/or explicitly stated the external auditor had not been engaged to provide assurance over these disclosures.

It will be interesting to observe how this area evolves in the near future in light of increasing demand for assurance over sustainability disclosures. Recent international developments could also influence what happens in the UK with regards to assurance. The new rules proposed by the Securities and Exchange Commission (SEC) in the United States (which, amongst other matters, require domestic and foreign registrants to disclose their greenhouse gas (GHG) emissions in a separately captioned section of their registration statements and annual reports) require that disclosures by accelerated and large accelerated filers on Scope 1 and Scope 2 GHG emissions are subject to third-party assurance.

In March 2022, the Legal Affairs (JURI) Committee of the European Parliament (EP) adopted its report on the Corporate Sustainability Reporting Directive (CSRD) proposal of the European Commission (EC). Whilst not yet final, the CSRD will introduce a requirement for limited assurance on sustainability information. Reasonable assurance provisions might come into effect at a later stage.

International Organization of Securities Commissions (IOSCO) will also push forward work to develop assurance standards. IOSCO has identified independent assurance of the quality of corporate reporting of sustainability information as a key element of building trust in sustainability reporting.

IOSCO 2022 work plan to develop sustainable finance

What we are seeing

Rising demand for assurance over TCFD disclosures and GHG emissions

More audit committees and heads of finance have been asking for external assurance over their climate-related financial disclosures.

Although this is predominantly limited assurance under the International Standard on Assurance Engagements (ISAE) 3000, it still provides a degree of comfort that processes to identify climate-related risks and opportunities, governance over these and the approach to scenario analysis are robust and consistent with the relevant TCFD implementation guidance.

There has also been a notable increase in the number of companies seeking assurance over their GHG emissions reporting, including Scope 3 emissions. As performance against net zero targets comes under increased scrutiny, having to adjust for errors in either baselines or more recent data could prove embarrassing and expensive.

This may explain why companies are also asking how they can prepare to obtain reasonable — rather than limited — assurance over their emissions reporting.

Rebecca Farmer, Partner, Climate Change and Sustainability Services, EY

What we are seeing

Rising demand for assurance over TCFD disclosures and GHG emissions

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Rebecca Farmer, Partner, Climate Change and Sustainability Services, EY

7 The Council, the EP and EC started negotiations on CSRD under trilogues at the end of March 2022 and could reach an agreement on the text before the summer (end of the French EU presidency).
Our thematic review of climate reporting found that many large companies have already started to implement the TCFD recommendations. It is important to ensure that the information presented does not appear to be an ‘add-on’ containing boilerplate messages. We found that reporting under the TCFD recommendations was improved where it was better integrated with the company’s strategy with the use of cross-referencing.

FRC: Key matters for 2021/22 reports and accounts

1.2 Location of TCFD disclosures

Around three-quarters of companies provided TCFD disclosures in a discrete section of their ARA – a TCFD insert. Those that integrated TCFD disclosures throughout the annual report seldom did this in respect of all of the Recommendations.

A common theme across the various reporting publications issued by the FRC in the last two years has been a call for better integration of climate reporting across the ARA, especially in respect of strategy, progress against commitments, and the financial statements.

Furthermore, in its response supporting the ISSB’s prototypes, one of the suggestions raised by the FRC related to better integration of sustainability considerations into the business model narrative.

However, 76% of companies in our sample chose to group the 11 TCFD Recommended Disclosures within the Strategic Report in the form of a TCFD ‘insert.’ Half of these companies did this within a broader ESG/Sustainability section, and others created a dedicated TCFD section. AstraZeneca (2021 ARA, pp217-222) included its TCFD overview within an ‘Additional Information’ section, following the financial statements.

There is benefit in including all TCFD-related disclosures in one place within the ARA, as this approach provides readers with a more holistic view and potentially makes it easier to assimilate than information that is spread out across the ARA. However, when companies also publish a standalone climate or sustainability report (separate from the ARA) with fuller disclosure, we feel there is limited benefit in also having a dedicated TCFD section/insert in the ARA. In such cases, we would advocate that the TCFD narrative in the ARA is better integrated throughout (with a signpost/cross reference to the standalone climate/sustainability report for further information). This would allow a reader to understand how climate considerations are truly embedded in the business and financial models of the company. Of companies within our sample, 34% published such a report, but very few of these integrated the TCFD information across the annual report. Rio Tinto (Figure 6: 2021 ARA, p81) did this fully (whilst, in view of space constraints within the ARA, also referring to other standalone reports), but it was more common for just the governance and risk pillar disclosures to be integrated.

The Recommended Disclosures required under the Strategy Recommendation were integrated least often. Shell (2021 ARA, pp79-85) discusses climate-related risks and opportunities identified over the short, medium and long term, taking into consideration different climate-related scenarios. In this context, Shell explains the resilience of its strategy and the ongoing shift from an asset-based to a customer-based business model inherent in its energy transition. CRH (2021 ARA, p30) states that based on its initial assessment of the transition and physical risks and opportunities that need to be managed, it does not believe that its business model would need to materially change.

But for the most part, companies do not articulate whether adaptation and transition will require a fundamental shift to the way they do business – which in turn makes it more difficult to ascertain the magnitude of climate change related impacts on the financial statements. As the date for certain companies to publish transition plans approaches (see section 2.2.2), it will become imperative that those plans are explicitly reflected within business
model disclosures, as highlighted by the FRC in its ISSB response (noted earlier). Companies also often stay silent on how major divestments, acquisitions or other significant capital allocation decisions take climate considerations into account. Croda (2021 ARA, p71) explains how one of the board’s major decisions – the divestment of the majority of Croda’s Performance Technologies and Industrial Chemicals business operations – impacts the progress of implementing Croda’s sustainability strategy. This is noted as a question that was being commonly asked by investors.

Furthermore, as new standards are developed based on the same four pillars of TCFD – for example, the Taskforce on Nature-related Financial Disclosures (TNFD), the beta version of which was released in March 2022 – companies that continue providing the information in a separate section will risk having multiple, repetitive ‘inserts’ in their annual reports.

The initial step for a company contemplating the requirements of TCFD for the first time is to ask why it matters. In particular, what it means for the company and its business model.

London Stock Exchange: Your guide to climate reporting

I have always been in favour of good roadmap disclosures that provide impactful summaries and direct readers to where they can find more detailed information within the ever-expanding annual report. But I am growing increasingly concerned that the story-telling that, in my mind, is the core strength of the front half in UK annual reports, may be lost. I am not convinced that a multitude of inserts can ever be fair, balanced and understandable.

Maria Kępa, Director, Governance and Public Policy, EY
What does LR 14.3.27R mean for premium listed companies?

The FCA’s finalised handbook guidance relating to LR 14.3.27R, published in December 2021, incorporated the updated guidance materials issued by the TCFD in October 2021 when it published its fourth status report. As these new and updated materials have been referenced in the LR Guidance as relating to the disclosures required by both LR 9.8.6R(8) and LR 14.3.27R, they will need to be considered by premium listed companies for accounting periods beginning on or after 1 January 2022. Therefore, premium listed companies with years beginning on or after 1 January 2022 will need to consider the following additional items compared to earlier periods.

2.1 Implementation Guidance (Annex) updated in October 2021

Some companies have already started to consider the updates to the Annex. Barclays (2021 ARA, p101) refers to having considered the Implementation Guidance (Annex) updated in October 2021 (2021 TCFD Annex) and applying it where possible. Barclays stated, “some recommendations in the 2021 TCFD Annex will require more time for us to fully consider. We will be working to implement the rest of the 2021 TCFD Annex recommendations over the course of 2022 and intend to apply these more fully in our next TCFD Report.” WPP (2021 ARA, p214) also notes that some of the recommendations published in October 2021 will take more time to fully consider. These relate to detailed time horizon, financial impacts and scenario analysis of climate-related risks and opportunities. WPP will be working to implement the rest of the 2021 TCFD Annex recommendations over the course of 2022 and intends to apply these more fully in the next TCFD Report.
The revised 2021 TCFD Annex updates specific elements of the implementing guidance within the Strategy and Metrics and Targets recommendations. The key revisions applicable to all sectors (excluding those specific to FS) include:

### 2.1.1 Strategy

<table>
<thead>
<tr>
<th>Recommended disclosure</th>
<th>Summary of change</th>
<th>Reporting example</th>
</tr>
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</table>
| b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning | • Revised to more explicitly address disclosure of actual financial impacts on organisations as well as key information from organisations’ plans for transitioning to a low-carbon economy (transition plans)  
• These impacts may be described in qualitative, quantitative, or a combination of both qualitative and quantitative terms  
• The Task Force encourages organisations to include quantitative information, where data and methodologies allow | Refer to section 2.2.2 for examples regarding transition plans.  
For an example of qualitative impacts of transition and physical risk impacts see Rotork (2021 ARA, pp61-69). An extract is provided in Figure 7.  
For an example of quantified financial impacts of scenario analysis see Unilever (Figure 8: 2021 ARA, pp60-62), Mondi (Figure 9: 2021 ARA, p63) and Antofagasta (Figure 10: 2021 ARA, p57).  
Refer to examples provided in sections 5.1 and 5.2 of financial impacts discussed in financial statements. |
| c) Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario | Climate-related scenario analysis continues to be an area of challenge, with 13% of companies within our sample not having yet conducted a scenario analysis. Of those that had, 64% discussed outcomes in a qualitative manner only, with many noting that their analysis had not yet been quantified. Where companies had quantified impacts, 20% limited their disclosures to providing a range that did not disclose values (e.g. high, medium, low) and only 16% provided quantified ranges or more specific quantifications. Quantification was often included in the stand-alone report and not in the ARA. |

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8 Adapted from: Summary of Changes to Guidance, October 2021  
9 Here and in the tables that follow, we provide examples that to an extent already address the enhanced requirements. However, as these are areas of developing practice, examples will have both good attributes and areas for further refinement.  
10 We excluded from the sample those financial services companies that conducted a Bank Of England Climate Biennial Exploratory Scenario (CBES) analysis only, as individual results cannot be disclosed until the overall official findings have been made public.
2.1.2 Metrics and targets (to be considered in conjunction with section 2.2.1)\textsuperscript{11}

<table>
<thead>
<tr>
<th>Recommended disclosure</th>
<th>Summary of change</th>
<th>Reporting example</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process</td>
<td>• Revised to more explicitly address disclosure of metrics consistent with cross-industry, climate-related metric categories for current, historical, and future periods, where appropriate&lt;br&gt;• Organisations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management, where relevant and applicable</td>
<td>For an example of water withdrawal disclosure - one of the key metrics highlighted in the Summary of Changes - refer to example discussed in section 4: Capricorn Energy (Figure 12: Sustainability Report, p25). More holistic examples of metrics are provided in section 2.2.1.</td>
</tr>
<tr>
<td>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks</td>
<td>• Revised disclosure of Scope 1 and Scope 2 GHG emissions to be independent of a materiality assessment&lt;br&gt;• Revised to encourage disclosure of Scope 3 GHG emissions, whilst acknowledging the disclosure is subject to materiality</td>
<td>AstraZeneca (Figure 11: Sustainability report, p21).</td>
</tr>
<tr>
<td>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</td>
<td>• Added disclosure of targets consistent with cross-industry, climate-related metric categories, where relevant&lt;br&gt;• Added disclosure of interim targets, where available, for organisations disclosing medium-term or long-term targets</td>
<td>GSK (Figure 2: 2021 ARA, pp50-51)&lt;br&gt;Refer to Rio Tinto’s Climate Change Report 2021 and Unilever’s Climate Transition Action Plan (pp47-51) discussed in section 2.2.2.</td>
</tr>
</tbody>
</table>

\textsuperscript{11} Adapted from: Summary of Changes: 2017 to 2021 TCFD Annex, October 2021
What we are seeing

Increasing the rigour in the reporting of climate-related metrics

As companies’ climate-related targets and metrics become central to business strategies and decision-making processes, there is heightened focus on the quality of the data underpinning these metrics.

Reporting in line with the cross-industry and recommended industry metrics will require a broader range of non-financial data than just GHG emissions, and the processes and controls underpinning this data are far less mature than those for financial data. Metric definitions and boundaries are also more ambiguous. We see leading companies undertaking end-to-end analyses of their data processes to fully understand data sources and the potential for control weaknesses.

Many companies do not yet have the systems to support timely and accurate reporting, so bolstering the first line of defence will be critical for improved reporting going forwards.

Rebecca Farmer, Partner, Climate Change and Sustainability Services, EY

2.2 TCFD Guidance on Metrics, Targets and Transition Plans

2.2.1 Metrics and targets

The TCFD Guidance on Metrics, Targets and Transition Plans encourages all preparers to begin disclosing metrics across seven metric categories, applicable to all sectors. Examples of companies reporting against these metrics are listed below.

<table>
<thead>
<tr>
<th>Metric category</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>GHG emissions</td>
<td>Absolute Scope 1, Scope 2, and Scope 3 emissions (Organisations should refer to the GHG Protocol’s the Corporate Value Chain (Scope 3) Accounting and Reporting Standard for guidance on reporting on Scope 3 emissions)</td>
<td>AstraZeneca (Figure 11: Sustainability report, p21)</td>
</tr>
<tr>
<td></td>
<td>Emissions intensity</td>
<td></td>
</tr>
<tr>
<td>Transition risks</td>
<td>Amount and extent of assets or business activities vulnerable to transition risks</td>
<td>Antofagasta (Figure 10: 2021 ARA, pp55-57)</td>
</tr>
<tr>
<td>Physical risks</td>
<td>Amount and extent of assets or business activities vulnerable to physical risk</td>
<td>Segro (Figure 13: 2021 ARA, p95)</td>
</tr>
<tr>
<td>Climate-related opportunities</td>
<td>Proportion of revenue, assets or other business activities aligned with climate-related opportunities</td>
<td>Segro (Figure 13: 2021 ARA, p95)</td>
</tr>
<tr>
<td>Capital deployment</td>
<td>Amount of capital expenditure, financing or investment deployed toward climate-related risks and opportunities</td>
<td>Segro (Figure 13: 2021 ARA, p95)</td>
</tr>
<tr>
<td>Internal carbon prices</td>
<td>Price on each ton of GHG emissions used internally by an organisation</td>
<td>Rio Tinto (Figure 6: 2021 ARA, p80)</td>
</tr>
<tr>
<td>Remuneration</td>
<td>Proportion of executive management remuneration linked to climate considerations</td>
<td>National Express (Figure 14: 2021 ARA, pp98-99)</td>
</tr>
</tbody>
</table>
What we are seeing

Understanding Scope 3 emissions

Understanding and reliably measuring Scope 3 emissions is becoming an area of increasing focus for investors and companies.

Some of the key challenges when measuring, monitoring and managing Scope 3 emissions include limitations to data availability, as well as the need to engage with a wide range of stakeholders internally, in supply chains and the whole lifecycle of the product. Given the global nature and complexity of many supply chains, gathering the required data and fully understanding Scope 3 emissions in line with various established and emerging methodologies can be difficult.

Nonetheless, understanding Scope 3 emissions is not only an important element of TCFD reporting, but also fundamental to decarbonisation strategies across most industries given the largest proportion of emissions often constitute Scope 3. This is where the most meaningful changes can be made to reduce emissions and make progress against net zero targets.

Rebecca Farmer, Partner, Climate Change and Sustainability Services, EY

Tyman (2021 ARA, p68) notes that it reports metrics and targets that align with several of the newly launched TCFD ‘cross-industry, climate-related metric categories’. As its knowledge of climate risks and opportunities improves in 2022, Tyman expects to be in a better position to consider additional metrics and targets, such as risk exposure and capital deployment.

The guidance also explains that climate-related targets should: be linked to defined metrics to allow measurement and progress tracking; be periodically reviewed and updated; be quantified and measurable; have a clearly defined time horizon and baseline; and be reported on at least annually in an understandable and contextualised manner. This is similar to observations raised in the FRC’s thematic review – Streamlined Energy and Carbon Reporting (SECR), which points out that more needs to be done to make SECR disclosures understandable and relevant for users.

National Express (Figure 14: 2021 ARA, pp38-39) includes a table that shows the overall group targets through to 2025 and progress to date from the baseline year. More detail on these targets and on performance against them is set out in the detailed environmental data disclosures at the end of the ARA.

When setting targets, companies may want to consider the sectoral decarbonisation pathways set out by the Transition Pathway Initiative (TPI). TPI aligns with the recommendations of the TCFD and its pathways are used by investors to assess how far companies in their portfolios are aligned with the goals of the Paris Agreement.

As an example, TPI’s decarbonisation pathway for aviation states that if an individual company wants to be aligned with a 1.5°C path, then its emissions intensity by 2030 must be below 616 tonnes of CO2/RTK (revenue tonne kilometre). This level of granular detail allows investors to judge companies’ target-setting, and to hold companies to account as their real-world emissions are reported year-on-year.

TPI Sectoral Decarbonisation Pathways
2.2.2 Transition plans

As they are a key component of a company's strategy to address its climate-related risks and opportunities, the guidance also covers the characteristics of effective transition plans. This guidance is especially important in the context of the UK Government's announcement in November 2021 that it will be making climate transition plans for listed organisations and financial institutions mandatory by 2023. To advance this, HM Treasury launched in April 2022, the UK Transition Plan Taskforce bringing together British industry experts and academia with regulators and the third sector.

Key outputs over its two-year mandate will include recommendations for a disclosure framework for standardised and meaningful transition plans; developing guidance and a set of templates setting out both generic and sector-specific disclosures and metrics; creating guidance on the role of governance and assurance; and building relationships with international organisations overseeing relevant international standards (including the ISSB, TCFD, etc).

Companies are encouraged to disclose key information from their transition plans and report on progress. Information should include the following:

- Current GHG emissions performance
- Impact on businesses, strategy and financial planning from a low-carbon transition
- Actions and activities to support transition, including GHG emissions reduction targets (including target dates, scope and coverage) and planned changes to businesses and strategy

Organisations should also consider describing the assumptions, uncertainties and key methodologies associated with their transition plans.

Part 2 of Rio Tinto's Climate Change Report 2021 is dedicated to its Climate Action Plan. This covers GHG emissions across all three scopes and sets out the commitment to reach net zero emissions by 2050 and interim targets to reduce emissions by 15% by 2025; and by 50% by 2030, relative to a 2018 emissions baseline. The report also explains how capital allocation will align with the 1.5°C decarbonisation strategy, including the aim to phase out the purchase of diesel haulage trucks and locomotives by 2030.

Unilever's Climate Transition Action Plan (Figure 16: Climate Transition action plan, pp47, 51) sets out a range of targets and actions designed to deliver an emissions reduction pathway consistent with the 1.5°C ambition of the Paris Agreement. Unilever discloses both its targets and interim targets, explaining that whilst it has set interim emissions reduction targets, it has not set interim ‘net zero’ targets as it believes that such targets would create tension between investing in offset purchases and investing in GHG reductions in the value chain, which would be counterproductive.

In relation to this, the FCA introduced additional guidance (LR 9.8.6FG) setting out that a listed company that is headquartered in, or operates in, a country that has made a commitment to a net zero economy is encouraged to assess the extent to which it has considered that commitment in developing and disclosing its transition plan. Where it has not done so, it is encouraged to explain why.

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A transition plan is an aspect of an organisation’s overall business strategy that lays out a set of targets and actions supporting its transition toward a low-carbon economy.

An adaptation plan lays out how an organisation aims to minimise risks and capture opportunities associated with physical climate changes.
What we are seeing

Climate transition plans

Going forwards, we anticipate that companies will be measured not just on the level of ambition in their climate goals, but on the delivery and improvement in their carbon performance.

We know that whilst many companies have set net zero targets, only a few have true clarity around how these targets will be achieved, both in the interim and longer term. Setting a robust transition plan requires a clear carbon inventory, together with associated carbon reduction plans and measures. In reality, there is typically a gap between identified emissions abatement and publicly expressed targets, so further work will be needed to identify and estimate the potential costs and resource needs for new abatement projects.

In order to deliver real carbon reduction across the value chain, investment strategies will need to be driven with appropriate tools, such as shadow carbon pricing, and marginal abatement cost curves used to prioritise investment opportunities.

The transition to net zero is likely to be complicated, and those who can articulate a clear decarbonisation strategy will find it easier to access the capital needed to achieve their plans.

Rebecca Farmer, Partner, Climate Change and Sustainability Services, EY

A report released by Climate Disclosure Project (CDP) in February 2022 analysed the current state of climate transition plan relevant information disclosed through CDP’s 2021 Climate Change Questionnaire by over 13,000 corporates in 13 industries and 117 countries. CDP’s disclosure platform translates the TCFD recommendations and pillars into disclosure questions and a standardised annual format, providing a mechanism for reporting in line with the TCFD recommendations.

The analysis found that only one-third reported developing a low-carbon transition plan, and less than 1% reported on all 24 key indicators set out in the CDP Climate Change questionnaire. Disclosure rates for targets were significantly lower than any other climate transition plan element.

According to the report, in 2021, 17% of all UK organisations disclosed at least 80% of the key indicators. Of these 188 organisations, 16 disclosed all key indicators (making the UK one of the geographic leaders, alongside Japan). Most UK organisations (82%) disclosed some (<80% threshold) of the key indicators.

However, 68% of companies in our sample did not make any reference to a transition plan.

Those that did were at times not clear whether one is being developed or already in place and approved by the Board. In some cases, it was also unclear whether the plan being referred to had the requisite CDP indicators of a transition plan as opposed to being an articulation of commitment.

Aviva (2021 ARA, p2.28) states clearly that the Board and the Customer, Conduct and Reputation Committee provided oversight of the Aviva Climate Transition Plan. Centrica (Figure 15: 2021 ARA pp32, 57 and 81) provides this clarity by including the development and publication of its Climate Transition Plan as a principal decision within its section 172(1) statement. It also notes that it will put the plan to a shareholder vote at the 2022 AGM, and the factors its Remuneration Committee will consider when making the 2022 remuneration awards include progress against its Climate Transition Plan.

Around 10% of companies in our sample made reference to a Say on Climate vote – either referencing a vote that had already taken place and its outcomes or stating that one is scheduled to take place.
What do the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 mean for premium listed companies?

The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 (the Regulations) amend sections 414C, 414 CA and 414CB of Companies Act 2006 and require ‘in-scope’ companies with financial years beginning on or after 6 April 2022, to report certain climate-related financial disclosures in the non-financial and sustainability information statement (‘NFSI statement’) – renamed from the non-financial information statement – which forms part of the Strategic Report (SR).

Premium listed companies commonly provide the non-financial information in an index table to meet the requirement of including it in a discrete section of the strategic report; going forward, they will need to expand such tables to incorporate TCFD disclosures. No companies within our sample had done so yet, although some included a standalone TCFD cross-reference table within the SR, and some at the end of the ARA. For example, Polymetal International (2021 ARA, p264) included its TCFD Content Index in one of the appendices following the financial statements, as did Vivo Energy (2021 ARA, p188).

In February 2022, BEIS published non-binding guidance alongside these Regulations (‘BEIS non-binding guidance’) to explain and clarify the scope, content and interaction with other regulatory requirements and signal future developments. The BEIS non-binding guidance makes clear that information material to an understanding of the business must be provided within the ARA. For example, Polymetal International (2021 ARA, p264) included its TCFD Content Index in one of the appendices following the financial statements, as did Vivo Energy (2021 ARA, p188).

11 The Regulations may impact premium listed groups which have a UK incorporated parent company and 500 employees or more.
It is therefore not appropriate for in-scope companies to cross reference to a report outside the ARA (such as a sustainability report located on the company website, even though this would be permitted for TCFD disclosures by the Listing Rules). Consequently, whilst companies can ‘signpost’ more detailed information available elsewhere, premium listed companies that have referred to ‘TCFD reports’ outside the annual report to meet the requirements of LR 9.8.6R(8) will in the future need to include sufficient information in the ARA to meet the statutory requirements.

Many companies that had included reference to other reports in their TCFD statement this year, such as Anglo American (Figure 17: 2021 ARA, pp102-103), did so to provide detail in addition to the disclosures included in the ARA. Barclays (2021 ARA, p101), however chose to include no more than a paragraph per TCFD pillar within its ARA, explaining that, “for ease of review, and given the detailed and technical content of the TCFD Report, we have once again published this as a standalone report.” LGIM (2021 ARA, pp44-45) also took a similar approach, different to HSBC (2021 ARA, p44) which changed the way it presents TCFD disclosures, noting that, “Our overall approach to TCFD can be found on page 19 and additional information is included on page 63. Further details, which last year were presented in a separate supplement, have been embedded in this section [Our approach to ESG] and the Risk review section on pages 131 to 135.” For financial years beginning on or after 6 April 2022 (when the Regulations become effective), companies that present information mainly in standalone reports will need to follow HSBC’s example.

The BEIS non-binding guidance sets a high bar for disclosure expectations, and, unlike the LR, there is no allowance for companies to explain why they have been unable to meet any of these expectations, where the disclosure would be material. This is especially relevant to those that are less progressed on their TCFD journey and whose timeline for full compliance with the LR extends beyond the next two years.

In particular, the BEIS non-binding guidance emphasises the requirement under the Regulations to consider scenarios (in the plural) rather than a single scenario. It adds that the scenario analysis can be qualitative in approach rather than quantitative and also clarifies that it need not be undertaken annually but must be renewed at least every three years and/or when there is a significant change in assumptions for example, due to developments in climate science or a change in the business. Not conducting multiple scenario analysis does not seem allowable under the Regulations and the BEIS non-binding guidance, albeit a qualitative assessment is acceptable. Companies might find the research commissioned by the FRC from Alliance Manchester Business School — Climate Scenario Analysis: Current Practice and Disclosure Trends — useful in understanding the practical processes and approaches used by UK companies in conducting climate scenario analysis. The FRC Lab’s September 2021 publication — Reporting on risks, uncertainties, opportunities and scenarios — also provides useful insights about investor needs regarding scenario reporting more broadly.

This report provides insight into how climate scenario analysis is being used and reported on by FTSE 100 and FTSE 250 (FTSE 350) companies. It highlights the various approaches companies have adopted, instances of good practice, typical challenges faced, and the common steps taken to conduct the analysis. It also explains how certain governance arrangements, such as a senior and cross-functional climate change working group, enrich analytical insights and drive effective action on outcomes. Whilst other forms of scenario analysis were also studied as part of this research, its climate-related applications form the focus of this report.

Climate Scenario Analysis: Current Practice and Disclosure Trends
FRC, Alliance Manchester Business School
What does the ISSB’s Climate Exposure Draft mean for premium listed companies?

On 31 March 2022, the ISSB issued an Exposure Draft of IFRS S2 (which supersedes the prototype published in November 2021 by its Technical Readiness Working Group) along with a comparison of substantive changes. Most notable is the update associated with the financial impacts of climate-related risks and opportunities on an entity’s financial position, financial performance and cash flows. The entity should provide quantitative information, which may be expressed as a single amount or a range, unless it is unable to do so, in which case it would provide qualitative information. This reflects the aforementioned changes in the 2021 TCFD Annex set out in section 2.1.1.

The ISSB’s consultation period is set to close on 29 July 2022, after which the ISSB will review feedback on the proposals in the second half of 2022 and aim to issue both standards by the end of the year, subject to the feedback.

“As with the adoption of International Accounting Standards (IAS/IFRS), it will be for individual jurisdictions to determine whether these standards are mandated for use, the scope of companies affected and the timeframe over which this might take place.” The precise timeframe for these ISSB reporting standards to be endorsed and adopted in the UK is unknown. However, the BEIS non-binding guidance already signals that BEIS is working on measures which will allow the Government to adopt the ISSB international disclosure standards for use in the UK and to require certain companies to report against them. Similarly, in its Policy Statement PS21/23, the FCA was clear that it expects that its climate-related disclosure rules will be updated in due course to reference the ISSB’s reporting standards, once endorsed for use in the UK.

Unlike the TCFD Guidance on Metrics, Targets and Transition Plans, which does not mandate the use of specific metrics, the ED requires companies to report on the cross-industry climate metrics proposed by TCFD (subject to materiality). Additionally, in Appendix B, the ED sets out additional industry-specific climate metrics. Industry definitions and technical protocols for each metric are included in the ISSB’s Technical Protocols for Disclosure Requirements Supplement. These metrics, derived from Sustainability Accounting Standards Board (SASB) Standards, extend beyond those related to GHG emissions and include concepts such as water withdrawn and consumed in water stress regions or metrics related to supply chain management.

The FRC has been encouraging UK companies to report in line with SASB standards and, according to its SASB snapshot, there are already over 40 UK listed companies that do so. For example, Capricorn Energy in its sustainability report provides disclosures aligned with SASB Oil & Gas — Exploration & Production Standard and ISAE 3000/3410, and includes a metric for Total Water Withdrawal (m³) (Figure 12: Sustainability Report, p25).

In preparation for the adoption of the ISSB’s reporting standards in the UK, premium listed companies may want to start analysing the differences between their current TCFD reporting and ED IFRS S2 to understand what the incremental requirements in the ED IFRS S2 may be, including, for example, misalignment with the bases of calculation and presentation and the mandatory use of cross-industry and industry-specific metrics.
Climate in the financial statements, going concern and viability statement

- There is an increased focus on the measurement and disclosure of climate-related matters in an entity’s financial statements.
- The determination of the effects of climate change on an entity’s financial statements may require significant effort and judgement.
- Entities are required, at a minimum, to follow the specific disclosure requirements in each IFRS standard. Entities may need to provide additional disclosures in their financial statements in order to meet the standards’ disclosure objectives. Hence, in determining the extent of disclosure, entities are required to carefully evaluate what information is required for users to be able to assess the effects of climate change on their financial position, financial performance and cash flows.
- This publication is intended to support entities in assessing and reporting on the effects of climate change by providing helpful observations and illustrations.

Applying IFRS – Accounting for Climate Change, EY, Updated May 2022

It is easy to produce TCFD reporting that 'ticks the box' without being insightful or 'decision-useful'. If it does not flow through to the financial statements, the objective has not been achieved.

Freddie Woolf
Global Sustainable Equities Analyst, Jupiter Asset Management

Last year, Carbon Tracker and the Climate Accounting Project published a study which examined whether publicly listed carbon-intensive firms (and their auditors) considered material climate-related risks in financial reporting.

Of the 107 global companies that were reviewed, the study concluded that over 70% did not indicate that they had considered climate matters when preparing their 2020 financial statements. Additionally, 80% of auditors provided no indication of whether or how they had considered material climate-related matters, such as the impact of emissions reduction targets, changes to regulations, or declining demand for company products, in their audits.
of climate risk and climate change impacts to accounting standards and recommended to the board a paper on climate change reporting in the 2021 financial statements. This analysis is also referenced in the basis of preparation note. The AC of Shell (2021 ARA, p160) includes climate change and energy transition as a significant accounting and reporting consideration. Unlike these examples, references made by ACs were often purely cursory.

Whilst in many cases, the references in financial statements may also come across as being somewhat superficial, this is clearly a positive step change from the prior year and an increasing number of companies did report on the impact of climate change on their financial statements in a meaningful way.

5.1 Basis of preparation and judgements and estimates

Some companies provide an overview of the impact of climate on the financials in the basis of preparation / accounting policies note. **Smith+Nephew (2021 ARA, p152)** explains that the impact of climate change was considered in respect of the going concern and viability assessments, cash flow forecasts used in the impairment assessments of non-current assets including goodwill and carrying value and useful economic lives of property, plant and equipment and notes that, “the climate change scenario analyses undertaken this year in line with TCFD recommendations did not identify any material financial impact.” **Unilever (2021 ARA, p118)** makes a similar statement: “In preparing these consolidated financial statements we have considered the impact of both physical and transition climate change risks on the current valuation of our assets and liabilities. We do not believe that there is a material impact on the financial reporting judgements and estimates arising from our considerations and as a result the valuations of our assets or liabilities have not been significantly impacted by these risks as at 31 December 2021.”

In our cross-industry sample this year:

- 78% of companies explicitly referenced climate change considerations in basis of preparation, judgement and estimates or impairment/valuation notes in the financial statements; in some cases, companies have explained how climate was considered in the financial statements in a separate note.
- Just under half referenced such considerations in the viability statement.
- 54% included explicit statements that the impact of climate change is not material to the financial statements, whilst 13% indicated that the impact could be material. In either case, very few disclose the quantification that led to the conclusion.

At the same time, references to climate considerations in UK external audit opinions are now the norm, reflected in 95% of them. However, only 37% of ACs called out explicitly that their work had included a consideration of the impact of climate change on financial statements.

The AC of Rentokil (Figure 18: 2021 ARA, pp106-109, 155) reports that it reviewed management’s analysis undertaken to link the expected levels of climate risk and climate change impacts to accounting standards and recommended to the board a paper on climate change reporting in the 2021 financial statements. This analysis is also referenced in the basis of preparation note. The AC of Shell (2021 ARA, p160) includes climate change and energy transition as a significant accounting and reporting consideration. Unlike these examples, references made by ACs were often purely cursory.

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Rio Tinto (Figure 6: 2021 ARA, pp219-220) explains that its analysis of climate impacts, and therefore commodity price assumptions, is based on a blend of three scenarios, only one of which represents the Group’s view of the goals of the Paris Agreement. For this reason, the impairment outcome cannot be described as Paris-aligned. Rio Tinto also explains that for internal approval purposes it uses a notional carbon price of US$75/t CO2e. Anglo American (2021 ARA, p186) on the other hand states that its specific TCFD scenarios “are not used as an input to asset valuations for financial reporting purposes as no single scenario is representative of management’s best estimate of the likely assumptions that would be used by a market participant when valuing the Group’s assets.”

In the accounting judgements and estimates note, ITV (2021 ARA, p180) states that: “Climate related risks have been identified as an emerging business risk, however the Directors do not view them as a source of material estimation uncertainty for the Group.” A similar sentiment is expressed by Bodycote (2021 ARA, p99). Meggitt (2021 ARA, p191) on the other hand explains that its critical accounting judgement regarding the capitalisation of development costs reflects the extent to which the impacts of climate change may impact the future original equipment and aftermarket revenues the group will derive from the aerospace programme. Mondi (Figure 9: 2021 ARA, pp62-63, 183), when discussing climate change as one of the significant accounting estimates within its basis of preparation stated that ‘climate change is an emerging business risk, with regard to its potential impact on the Group’s business activities. Climate change-related risks are assessed as a qualitative and quantitative risk in the context of ongoing and potential developments in the future, and the potential impact of climate change on the Group’s competitive position and profitability.’

What we are seeing

Move towards quantification of financial impacts

As TCFD-aligned disclosures are maturing, companies are increasingly conducting scenario analysis, to gauge the potential future financial impact different climate scenarios may have. This requires a deep understanding of the climate-related risks and opportunities that could affect a company now and in the future. Companies are updating their corporate risk registers and risk management processes to reflect this more adequately.

Quantifying the financial impacts of these climate-related risks and opportunities can vary in complexity depending on the nature of the risk or opportunity, as well as on the financial modelling approach. We are already starting to see companies re-engage on this for their next financial year end. They are bringing a combination of operational, sustainability and finance teams together to ensure that financial implications are properly understood and modelled accordingly.

Rebecca Farmer, Partner,
Climate Change and Sustainability Services, EY

Many companies talk about being ‘Paris-aligned’, but there is significant uncertainty surrounding the ways in which society, government policy, technological advancement and the world economy will change over the next 30 years; the extent to which such changes will meet the aspirations of the Paris Agreement and whether and how these will affect an individual company. Whilst companies can commit to these aspirations, financial reporting under IFRS is based on reasonable and supportable assumptions that represent management’s current best estimate of the range of economic conditions that will exist in the foreseeable future. There are no accounting and reporting standards that govern the application of ‘Paris-aligned’ accounting within the financial statements.

Gary Donald, Partner, Assurance, EY

“...
note, concludes there was no material impact. Its TCFD scenario disclosure includes estimated EBITDA impacts and their expected time horizon. Additionally, the fact that climate change related risks are reflected in accounting policies and financial reporting is referenced as part of Mondi’s discussion of the strategy pillar within its TCFD disclosure.

5.2 References in balance sheet notes

Most commonly, companies included climate considerations in respect of goodwill and intangible impairment considerations, and slightly less often in respect of property, plant and equipment. When discussing impairment testing within its intangible assets note, BAT (2021 ARA, p207) explicitly states that: “The impact of climate change on the future cash flows has been considered for scenarios analysed in terms of future access to tobacco and nicotine. The climate change scenario analyses – conducted in line with TCFD recommendations – undertaken this year did not identify any material financial impact.” A similar sentiment is expressed by IHG (2021 ARA, p176) which states in its goodwill and other intangible assets note that the potential downside risk of physical and transitional climate risks has been considered when testing goodwill and brands and could be absorbed within existing headroom, without taking account of opportunities or mitigating actions. Drax (Figure 19: 2021 ARA, p209) discusses a significant estimation uncertainty in respect of the useful economic life estimates of its Drax Power Station’s biomass assets and quantifies the potential impacts on depreciation.

In financial services, valuation considerations also included financial instruments. abrdn (2021 ARA, p214) concludes that having considered implications of climate-related risk for the 2021 financial statements, there are no impacts on the valuation of the Group’s assets and liabilities including the valuation of financial instruments held at fair value through profit or loss (in particular, in relation to level 3 investments) or at amortised cost (in particular in relation to expected credit losses). Many companies within extractive industries (e.g., Glencore) also discuss climate considerations in respect of restoration/decommissioning provisions. Other less common examples include references to deferred tax (e.g., IHG), contract loss provisions (e.g., Rolls Royce), allocation of transaction price in variable revenue considerations (e.g., Serco), impact on the valuation of investments underlying post-employment benefit obligations (e.g., BAE Systems) and biological assets (e.g., Smurfit Kappa).

Tullow Oil (2021 ARA, p146) summarises the impacts of climate change and energy transition in note 26, which covers financial planning assumptions and potential impacts on specific balance sheet line items. In respect of both intangible exploration and evaluation assets and property, plant and equipment, Tullow Oil quantifies the potential write-off to intangible exploration and evaluation assets under its “Net Zero Emission by 2050 Scenario.” In respect of decommissioning provision, Tullow explains that the energy transition could result in decommissioning taking place earlier than anticipated and sets out how production assumptions would accelerate. IAG (Figure 20: 2021 ARA, pp212-213) also brings together the various considerations into one note – Note 4 Impact of climate change on financial reporting – which is split into two sections: Significant transactions and critical accounting estimates, assumptions and judgements in the determination of the impact of climate change, and Critical accounting estimates, assumptions and judgements – cash flow forecast estimation.

5.3 Going concern and viability statements

Given that most companies consider climate change not to be a risk likely to materialise in the short term, it is not surprising that only around a quarter of companies in our sample made reference to climate change considerations in respect of going concern assessments, whereas just less than half referenced it in the viability statement. In many cases, these references were, however, very high level and did not provide much insight into exactly what had been considered in the assessments or how climate change was incorporated into scenarios. Rolls Royce (Figure 21: 2021 ARA, pp58-60) on the other hand sets out that whilst it is unlikely that physical and transition risks will arise during the 18-month period being assessed for going concern, both physical and transition risks have been considered. The viability statement includes reference to the TCFD scenario in which climate change increases costs, reduces sales volumes and disrupts supply chains. A number of banks (e.g., NatWest, Standard Chartered) referred to the CBES stress test for banks.
It is clear from our analysis that there has been a positive step change in both the extent of TCFD reporting and how climate considerations are reflected in the financial statements. However, equally clear is that the quality of the reporting varies. We had expected more companies to take advantage of the ‘comply or explain’ basis of LR9.8.6R(8) in the first reporting cycle and set out those aspects of the recommendations, where the analysis and related disclosures are not yet fully developed to meet the high standard set out in the various TCFD guidance documents. On the contrary, the vast majority of companies asserted full compliance, and many did so on the basis of simply having provided commentary against each of the 11 recommended disclosures.

It will be interesting to see how these companies evolve their disclosures in the next reporting cycle, to reflect the changes introduced by the 2021 TCFD Annex and TCFD Guidance on Metrics, Targets and Transition Plans, the BEIS Regulations and non-binding guidance and how they discuss their progress towards establishing transition plans.

We also hope that in the next reporting cycle there will be better integration of the TCFD disclosures into the strategic narrative.

Undoubtedly, even those companies that provided high-quality disclosures this year cannot stand still. Numerous changes have already been effected and, as indicated in Greening Finance: A Roadmap to Sustainable Investing, more is yet to come. ACs will also need to keep a close watch on international developments, especially CSRD. Whilst not yet final at the date of writing, it could impact large EU subsidiaries of UK companies and UK companies which have transferable securities listed on EU-regulated markets.

A company we spoke to in the energy sector about their transition plan stated that their entire strategy was, in fact, their transition plan. Granted, this won’t be the case for all companies, but for many, climate considerations will need to be much better embedded into everyday decision making and this in turn reflected in the flow of the related narrative.
Examples
## Figure 1
Template statement of compliance with Listing Rule 9.8.6R(8). Annotations provided in red boxes are mandatory to meet the LR requirements; annotations in green boxes are recommendations of good practice.

Cross-reference to where the disclosure can be found. If cross-referencing to another document, explain why the information is not included in the annual report, or that you consider the information in the other document to be supplementary / superfluous to meeting the disclosure requirement.

For any partial or non-compliance – explicitly state the reason.

In the case of partial or non-compliance set out the steps needed to address the gap and the expected timeframe for doing so.

### Cross-reference or explanation of non-compliance

<table>
<thead>
<tr>
<th>Governance</th>
<th>TCFD recommended disclosures</th>
<th>Cross-reference or explanation of non-compliance</th>
<th>Next steps and other comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Board oversight</td>
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<tr>
<td>b. Management's role</td>
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<tr>
<th>Strategy</th>
<th>TCFD recommended disclosures</th>
<th>Cross-reference or explanation of non-compliance</th>
<th>Next steps and other comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Climate-related risks and opportunities</td>
<td></td>
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<tr>
<td>b. Impact on the organization's businesses, strategy, and financial planning</td>
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<tr>
<td>c. Resilience of the organization's strategy</td>
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<table>
<thead>
<tr>
<th>Risk Management</th>
<th>TCFD recommended disclosures</th>
<th>Cross-reference or explanation of non-compliance</th>
<th>Next steps and other comments</th>
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</thead>
<tbody>
<tr>
<td>a. Risk identification and assessment processes</td>
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<tr>
<td>b. Risk management process</td>
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<tr>
<td>c. Integration into overall risk management</td>
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</table>

<table>
<thead>
<tr>
<th>Metrics and Targets</th>
<th>TCFD recommended disclosures</th>
<th>Cross-reference or explanation of non-compliance</th>
<th>Next steps and other comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Climate-related metrics in line with strategy and risk management process</td>
<td></td>
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<tr>
<td>b. Scope 1, 2, (and 3) GHG metrics and the related risks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Climate-related targets and performance against targets</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In meeting the requirements of Listing Rule 9.8.6R(8), we have concluded that:

- We comply with TCFD Recommended Disclosures X, Y, Z
- We partially comply with TCFD Recommended Disclosures A, B, C
- We do not comply with Recommended Disclosures I, J, K

In assessing compliance we took into consideration the documents referred to in the guidance notes to the Listing Rule. In the table above we cross-refer to where the disclosures are located or provide reason for non-compliance.

Set out key focus areas for next year

Consider explaining readiness to comply with any changes to requirements applicable for the next reporting cycle

Consider explaining any scope differences to the SECR disclosure

Set out key focus areas for next year

Consider explaining readiness to comply with any changes to requirements applicable for the next reporting cycle

Consider explaining any scope differences to the SECR disclosure

Continuing the journey towards TCFD compliance

Continuing the journey towards TCFD compliance

Continuing the journey towards TCFD compliance

Continuing the journey towards TCFD compliance

29
GSK (2021 ARA, pp49-51) states both that its disclosures are consistent with the TCFD Recommendations and TCFD Recommended Disclosures, and in compliance with the requirements of LR 9.8.6R. It also provides targets for metrics relating to water use and non-circular waste, amongst others.

**Climate-related financial disclosure**

GSK climate-related disclosures are consistent with the recommendations and recommended disclosures of the Task Force on Climate-related Financial Disclosures (TCFD), and in compliance with the requirements of LR 9.8.6R (UK listing rules).

GSK has been reporting on climate-related financial disclosures in accordance with the TCFD recommendations since 2019, with the purpose of building trust and connecting both our strategic and financial disclosures to climate change. In 2021, we have expanded disclosure by undertaking a more detailed review of GSK’s manufacturing operations and our inhaler portfolio, which is the largest contributor to GSK’s current carbon footprint within our portfolio of medicines, vaccines and consumer products. GSK’s carbon reduction pathway to become net zero by 2030 can be found here on gsk.com.

We will continue to evolve our future climate-related disclosures by building further climate risk assessments into our external supply chain.

### Summary of GSK’s risks and opportunities

<table>
<thead>
<tr>
<th>Physical risk/description</th>
<th>Scenario</th>
<th>Risk management</th>
<th>Potential profit impact/timeframe</th>
<th>Metrics</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing levels of water stress which reduces the availability of water for our operations. GSK uses freshwater as the main source of water to manufacture medicines, vaccines, and consumer health products. If water availability was restricted at a factory then production operations would be interrupted.</td>
<td>BAU and low carbon</td>
<td>We have performed water stewardship risk assessments for all our manufacturing sites and we have identified ten sites in our current network that are currently in areas of high-water risk. We are developing plans for these sites to become water neutral by 2030 and will partner with other organisations to address shared water challenges. We are currently piloting this approach in our Cape Town site working with partners including WWF and the Water Resilience Coalition. The TCFD process has helped us develop a watch list of additional sites potentially under long-term threat and we will monitor changes to the risk levels and update our site water risk assessments appropriately.</td>
<td>Low: &lt;£100m/ Long: 3-10 years</td>
<td>Sites that have achieved water stewardship*</td>
<td>Achieve good water stewardship at 100% of our sites by 2025 Reduce overall water use in our operations by 20% by 2030 Be water neutral in our own operations and at key suppliers in water stressed regions by 2030</td>
</tr>
</tbody>
</table>

### Opportunities

<table>
<thead>
<tr>
<th>Scenario</th>
<th>How the opportunity is managed</th>
<th>Potential profit impact/timeframe</th>
<th>Metrics</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>At COP26 in November 2021, more than 50 countries around the world committed to provide low carbon healthcare systems. This could lead to increasing demand for low carbon vaccines and medicines.</td>
<td>BAU and low carbon</td>
<td>We are reducing our own scope 1 &amp; 2 carbon emissions which in turn reduces the scope 3 footprint of our customers and suppliers. We have started a new Eco-design programme to reduce the impacts of all our products and packaging. GSK have certified and published the carbon footprints of our portfolio of respiratory inhalers and have launched our first carbon neutral inhaler in the UK. This enables healthcare providers and patients make informed choices. We have started an R&amp;D programme to find a lower-impact propellant that could reduce emissions from our metered dose inhalers by about 90%.</td>
<td>Low: &lt;£100m/ Long: 3-10 years</td>
<td>Scope 1, 2 and 3 carbon emissions Total waste and non-circular waste</td>
</tr>
</tbody>
</table>
Figure 3
Reckitt (2021 ARA, p66), whilst complying with 11 Recommended Disclosures, sets out at a disclosure level the actions required to apply the October 2021 Annex.

Compliance Statement
We are pleased to confirm that we have included in this TCFD Statement for Reckitt the material climate-related financial disclosures consistent with the four recommendations and the eleven recommended disclosures set. However, as we try and align our approach to the updated TCFD additional guidance (Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (2021 TCFD Annex) which was released in October 2021, there are some recommendations in the 2021 TCFD Annex: All Sector Guide that we are continuing to work on and will require more time for us to fully consider. In line with the current Listing Rules requirements (as referred to in Listing Rule 9.8.6R(8)), these areas are detailed below with reference to the TCFD recommendations:

- Development of more detailed disclosures by geography or sector, in addition to the current considerations for the overall business. Our current analysis often considers specific geographies for supply chain risks and sectors for market-level risks and opportunities, and we will develop these for future reporting (TCFD Strategy (a)).
- Assessment of climate related issues in terms of acquisitions or divestments, where we are developing processes to strengthen our existing compliance agenda. We will report on these in the future (TCFD Strategy (b)).
- Assessment of climate related issues in terms of the response of consumers, to products in different ways, both in terms of risk and opportunity, and in different geographies. We have begun to assess these, considering both internal and external data and will report more on these in the next two years. Our sustainable product innovation programme does, however, already take such issues into account alongside transitions risks, within our product innovation activity (TCFD Strategy (b)).
- Assessment of climate related issues in terms of access to capital where there is apparently limited initial impact (TCFD Strategy (b)).
- Further development of our decarbonisation roadmap alongside the initial interim milestones noted for our 2025, 2030 and 2040 targets and ambitions (TCFD Strategy (b)).
- The development, during 2022, of our internal carbon pricing approach and modelling which will inform future programmes (TCFD Strategy (b)).
- With ongoing activity, we continue to build resilience against the impacts of climate change (TCFD Strategy (c)).

We are working to implement the 2021 TCFD Annex recommendations in full over the course of 2022 and will report further on these in our next TCFD report.
Figure 4

Meggitt (2021 ARA, p58) provides both an overview of its compliance status, and further detail in a table that provides status and future priorities for each recommendation.

### Taskforce on Climate-related Financial Disclosures (TCFD)

We adopted TCFD reporting early in 2020 and have developed our reporting process during 2021 to meet the disclosure requirements from 2021 onwards. Many of the TCFD requirements were already integrated into our strategy, operations and culture and we have strengthened our reporting in this Annual Report to provide additional disclosures in key areas.

As per Listing Rule 9.8.5EIR, Meggitt has adopted climate-related financial disclosure consistent with the TCFD recommendations and recommended disclosures with exception of Scope 3 data disclosure and improvements planned for 2022 as detailed below.

#### 1) Governance

- **Describe the Board’s oversight of climate-related risks and opportunities.**
  - Section 1 below
  - Climate change and environmental sustainability is a major consideration of our business at all levels.
- **Describe management’s role in identifying and managing climate-related risks and opportunities.**
  - Section 1 below
  - Climate related risks and opportunities are integrated into our strategic and business model.
- **Describe how management and the Board engage with key stakeholders on climate change.**
  - Board and management committee review risks and opportunities as part of their areas of responsibility.
- **Sustainability strategy will continue to be reviewed by the Board on an annual basis.**

#### 2) Strategy

- **Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.**
  - Section 2 below
- **Describe the impact of climate-related risks and opportunities on the organisation’s business strategy and financial planning.**
  - Section 2 below
  - Strategic planning is integrated into financial planning.
- **Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**
  - Section 2 below

#### 3) Risk Management

- **Describe the organisation’s processes for identifying and assessing climate-related risks.**
  - Principal Role: section 2 below, section 3 below.
- **Describe how processes for identifying and assessing climate-related risks are integrated into the organisation’s overall risk management.**

#### 4) Metrics & Targets

- **Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.**
  - Section 4 below
- **Describe Scope 1, Scope 2 and if appropriate Scope 3 greenhouse gas (GHG) emissions, and the related risks.**
  - Section 4 below and page section of CR report (page 61)
- **Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against these targets.**
  - Section 4 below

CRH (2021 ARA, pp5, 66) notes that its AC oversaw the significant expansion of disclosures in the ARA in line with the expectations of the TCFD, the emerging EU Taxonomy and further disclosures in respect of relevant accounting estimates and judgements.

### Audit Committee Report - continued

#### Key Areas of Focus in 2021

<table>
<thead>
<tr>
<th>Climate Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>A particular area of focus for the Committee in its review of the 2021 Annual Report and Form 20-F was the Group’s reporting on climate-related risks, including the Group’s accounting judgements, disclosures and financial statements, including their alignment with CRH’s carbon reduction targets, and the Group’s approach with regard to compliance with the recommendations of various regulatory bodies (International Accounting Standards Board, International Audit and Assurance Standards Board, Financial Reporting Councils, European Securities and Markets Authority), the Task Force on Climate-related Financial Disclosures (TCFD) and the emerging EU Taxonomy requirements. In conjunction with the SESR Committee, which took a lead role in analysing the TCFD recommendations and EU Taxonomy regulations and the Company’s response thereto, the Committee reviewed the climate disclosures including the TCFD disclosures on pages 28 to 31 and agreed that these are appropriate and that the assumptions used in the financial statements were consistent with these disclosures.</td>
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</table>

#### Delivering Against Challenging ESG Targets

- CRH is, and will continue to be, a leader in providing solutions in the built environment for the challenges and opportunities arising from mitigating and managing the impact of climate change and supporting environmentally sustainable economic growth.

- Our 2020 Sustainability Report set out challenging targets for mitigating our environmental impact, enhancing the contributions our products and customer solutions make to the circular economy and sustainable economic growth, ensuring the safety of our people and progressing our inclusion and diversity (M&D) agenda.

- During 2021 we made positive progress against these targets and I am pleased to advise that we expect to deliver on our decarbonisation target ahead of schedule. As a result, the SESR Committee has agreed with management that the Group has achieved an updated 2030 Group-wide carbon reduction target as set out on page 31.
Figure 6
Rio Tinto (2021 ARA, pp80-81, 219-220) integrates disclosures across its ARA. However, in view of space constraints within the ARA, it also refers to other standalone reports like its Climate Change Report and Sustainability Fact Book. In its financial statements, it explains that its analysis of climate impacts, and therefore commodity price assumptions, is based on a blend of three scenarios, only one of which represents the Group’s view of the goals of the Paris Agreement. It also discloses its internal carbon price.

Decarbonising our operations
In the lead up to the UN Climate Change Summit in Glasgow, we announced that we will accelerate actions to decarbonise our assets in the short term and aim for a 15% reduction in emissions by 2025 – five years earlier than originally planned. We increased our 2030 target to a 50% reduction in our Scope 1 and 2 emissions and remain committed to reaching net zero by 2050.

To achieve this, we aim to:
- Develop renewable power in the Pilbara. The 24MW solar plant at Sudal-Darri and the 45MW battery system at Tom Price that we approved in 2020 are expected to come online in 2022. We are now targeting the rapid deployment of one gigawatt of wind and solar power. This will replace gas power and increase demand from our fixed plants and infrastructure, as well as support the early electrification and decarbonisation of our mobile fleet.
- Work with state and federal governments, power companies and renewable developers to dramatically increase the availability of renewables in eastern Australia, and aim to develop green repowering solutions for the Boyne Island and Tomago smelters.
- Advance the projects in our Marginal Abatement Cost Curve such as the deployment of zero-emission trucks and the use of hydrogen at our alumina refineries.
- Use a $755M CO₂e internal carbon price to incentivise energy-efficiency investments and identify new mitigation projects.
- Scale up the ELYSIS™ technology with the goal to have it available for installation from 2024. Construction of the first commercial-scale prototype cells of the inert anodes technology has begun at our Alumina Smelter in Saguenay—La-Cant., Quebec.

We estimate that we will invest approximately $7.5 billion in capital between 2022 and 2030 to deliver our decarbonisation strategy (approximately $1.5 trillion over the period 2022 to 2024). There will also be incremental operating expenditure on building new capabilities, energy efficiency initiatives, and research and development of approximately $200 million per year to 2030.

Disclosures consistent with the TCFD recommendations
Climate-related disclosures on governance, strategy, risk-management, as well as metrics and targets, are integrated into this Annual Report in the following sections: Strategic Context, Key Performance Indicators, Innovations, Risk Management, Principal risks and Uncertainties, Governance, the Sustainability Committee report, the Remuneration Committee report and in the notes to the accounts.

Given space constraints in the Annual Report, other reports supplement the disclosures on climate-related governance, strategy, risk-management and metrics and targets that are made in this report. These are available at rintinto.com/reports. Our 2021 Climate Change Report provides further detail on our approach including our Climate Action Plan, the way we evaluate and manage climate-related risks, progress towards our targets and our value chain partnerships. Our 2021 Sustainability Fact Book provides a full list of the 11 main TCFD recommendations alongside references to our disclosure against them. Our 2020 Climate Change Report includes further detail on our approach to scenario analysis, including our consideration of 1.2°C scenarios. These disclosures meet all of the disclosures required under the TCFD Recommendations and Recommended Disclosures.

Climate change
We have put the net zero transition at the heart of our business strategy: combining investments in commodities that enable the energy transition with actions to decarbonise our operations and value chains. As a result of this, our strategy and approach to climate change are supported by strong governance, processes and capabilities. In 2021, we updated our Scope 1 and 2 emissions targets and now aim to reduce emissions by 1% in 2022, by 50% in 2030 (relative to our 2016 equity baseline) and to achieve net zero emissions by 2050. These targets are aligned with efforts to limit global warming to 1.5°C, which is aligned with the stretch goal of the Paris Agreement. The goals of the Paris Agreement are set out in Article 2, which includes holding the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C.

We frame the strategic context for the Group through the lens of three scenarios, developed by the Strategy and Economics teams, structured around our analysis of the interplay of three global forces: geopolitics, society and technology.

- In a geopolitics-led scenario, strong nationalistic tendencies hold back global action on climate change, carbon prices remain low (in the range US$0-30/t CO₂e) and warming exceeds 3°C by 2100.
- In a society-led scenario, strong global co-ordination of climate policies, supported by high and rising carbon prices (reaching US$130/t CO₂e in 2050), accelerates the energy transition and we believe achieves the goal of the Paris Agreement by limiting warming to well below 2°C by 2100.
- In a technology-led scenario, innovation boosts economic productivity and decarbonisation efforts; however, carbon prices remain modest (ranging US$10 to US$75/t CO₂e by 2030) and action to limit emissions is insufficient, so warming exceeds 2°C by 2100.

We recognise that the pace of decarbonisation across the global economy is uncertain and that current climate policies in many countries are not yet aligned with stated ambitions. These policy uncertainties are captured in our scenario analysis, which in turn informs the central case carbon price assumptions. We continue to monitor alternative scenarios including ones that limit warming to 1.5°C. For example, the IEA NE2050 assumes higher carbon prices and a much faster energy transition than our scenarios; they also require a higher level of co-ordination in climate policies across sectors and countries. The IEA’s scenario also assumes stronger demand for commodities such as copper or battery minerals that are critical to the accelerated deployment of solar and wind renewables or electric vehicles.

Portfolio strategy
Our scenarios above inform our portfolio strategy, the internal commodity price setting process and strongly influence our critical accounting judgements and estimates. Through our strategy process we test the resilience of our portfolio against each of these three scenarios and conclude that overall, our portfolio is expected to perform more strongly in scenarios with proactive climate action, particularly in relation to aluminium and copper. Our strategy to focus our growth capital expenditure on materials that enable the energy transition is informed by these scenarios. Our ambition is to increase our growth capital expenditure to up to US$3 billion per year in 2023 and 2024, developing new options and finding innovative ways of bringing projects on-stream faster. This includes investment in lithium production at Rincon and Jadar, cobalt at Oyu Tolgoi and Won, as well as high-grade iron ore from Simandou.

Accounting judgments
The forecast commodity prices (including carbon prices) are informed by a blend of our three scenarios and are used pervasively in our financial processes from budgeting, forecasting, capital allocation and project evaluation to the determination of ore reserves. In turn, these prices are used to derive critical accounting estimates including as inputs to impairment testing, estimation of remaining economic life for units of production depreciation and discounting and rehabilitation provisions. As only one of our scenarios represents the Group’s view of the goals of the Paris Agreement, and because of the policy uncertainties described above, our commodity price assumptions are not consistent with the expectation of climate policies required to accelerate the global transition to meet these goals.

In addition to prices, given the significant investment we are making to abate our carbon emissions, we have also considered the potential for asset obsolescence, with a particular focus on our Pilbara operations where we are prioritising investment in renewables to switch away from natural gas power generation, but no material changes to accounting estimates have been necessary. The closure date and cost of closure is also sensitive to climate assumptions but no material changes have been made in the year specific to climate change.
Continuing the journey towards TCFD compliance

**Figure 7**
Rotork (2021 ARA, pp61-69) provides qualitative financial impacts of scenario analysis as part of its TCFD disclosure.

**Phase 1**
(Completed in 2021):

**Qualitative Climate Scenario Analysis**
The focus over the past year has been to complete a non-financial assessment, scoring and ranking of the identified risks and opportunities. The methodology is shown on page 71 and the assessment results are set out on pages 64-68.

**Process described**
1. Risk & Opportunity Identification: Initial research on sectoral and climate scenario impacts has been supplemented with extensive internal engagement across numerous business functions to identify risks and opportunities and understand those that are relevant for different functions. Interviews and workshops were held with teams in engineering, commercial, strategy, finance, property, energy, supply chain and sourcing, this extensive engagement has ensured that climate risks, opportunities, and potential impacts have been considered in the context of Rotork’s operations.

2. Qualitative Risks & Opportunities Assessment: Identified risks and opportunities have been scored and prioritised using three assessment criteria: vulnerability, magnitude and likelihood, each physical and transition risk or opportunity has been considered across time horizons and climate scenarios using indicators from IPCC and NGFS databases specifically, IPCC WGI Interactive Atlas, and NGFS IASA Scenario Explorer and CA Climate Impact Explorer. This analysis will enable Rotork to prioritise the most material risks and opportunities and their value drivers, from which possible financial impacts can be modelled in 2022.

**Phase 2**
To be completed in 2022: Quantification of financial impact from material risks and opportunities

During 2022, we will continue to advance our climate scenario analysis by modelling the potential financial impacts across forward-looking business and climate scenarios from some of our most material risk and opportunities. The results will be integrated into our financial planning process and considered in our business strategy development.

**Process described**
1. Define impact pathways and select value drivers for quantification: Our initial assessment has identified climate value drivers that will be considered for financial impact quantification.

2. Modelling financial impacts: For each value driver, cash flow impacts will be calculated across a range of climate and business scenarios (climate scenarios described on page 62). In this way, Rotork’s strategy can be stress-tested against different possible climate futures.

3. Integrate outcomes: The results of the assessment will form future climate-related metrics related to risk and opportunity. They will also be used in processes relating to risk management, capital allocation, business strategy development and financial planning.

**Climate opportunity**
The role Rotork can play in a green economy and a cleaner, more sustainable future featured highly in our materiality assessment in 2021.

Our products will enable the move to a low carbon world, with applications in transition fuels such as LNG, natural gas and biofuel. In the medium term there are also opportunities to participate in fast-developing new sectors, such as hydrogen and carbon capture, usage and storage.

In addition, there are considerable opportunities to assist our oil and gas customers in delivering against their ambitious net-zero commitments, including through providing products and services that deliver reliable, energy efficient solutions that minimise environmental impacts, for example, through lower emissions, energy consumption and water usage. Similar opportunities present themselves in the power, water and industrial markets. For example, our products have applications in the roll-out and modernisation of critical infracture. Water scarcity is resulting in a greater need for recycling and desalination and rising sea-levels are necessitating flood defence investment. Climate-related opportunities and case studies feature highly throughout this report. Case studies illustrating the role we can play are set out on pages 2-7 and S2-54.

**Transition Risk Assessment**

**Physical Risk Assessment**

**Relevance to Rotork (sector & geography)**
- Carbon tax to be implemented by 2020 on imported materials for non-EU manufacturers
- Following COP26, countries globally will be advancing their climate policies
- New York Independent System Operator discussing introduction of carbon tax
- Main impact will relate to supply chain for sourcing decisions, and operation’s decarbonisation strategy

**Potential financial impacts**
- Increased production of O&G emissions, as well as carbon tax on materials import and transportation
- Stiffer regulation and legislation to decarbonise and on green credentials in manufacturing
- Mandates on carbon-intensive activities causing temporary disruptions

**Response**
- Incentive to invest in decarbonisation measures
- R&D in initiatives to transition to greener operations and solutions
- Work with suppliers to support their reduction in exposure to carbon taxes

**Risk & Opportunity Scores:**
- Not assessed against the scenario
- Low
- Medium-Low
- Medium-High
- High
- Very High

**Risk drivers**
- Extreme cold temperatures affecting working conditions and ice on roads; risks to workers in the breakdown of transport links
- High temperatures and heat events affect usage of equipment and machinery
- Increasing humidity, compounded by higher temperatures, poses health and safety risks to employees

**Potential financial impacts**
- Transport breakdown increases upstream and downstream value chain, and ability to assemble and distribute products, posing risk to revenue
- Transport breakdown also impacts employees’ ability to commute to work, reducing production capacity
- Revenue impact as a result of lower production capacity due to building closures, stops, as equipment needs to cool down, or due to reduced capacity and productivity of employees
- Increased costs of maintenance of capital goods and implementation of climate control measures
- Increased insurance premiums if risk is predicted to increase in the future

**Response**
- Continued implementation and further investment in climate control at all facilities
- Infrastructure for flexible working to reduce impact if employees are not able to get to offices
- Review current continuity plans and strategies to mitigate potential transportation issues
Unilever (2021 ARA, pp60-62) details the assumptions it has used to undertake high level quantitative scenario analysis. It discloses the potential gross financial impact (i.e., before taking account of any actions it may take to mitigate the risk) as a range to reflect the uncertainty inherent in their quantitative assessment.

### 1.5°C scenario analysis financial quantification in current money

<table>
<thead>
<tr>
<th>Financial quantification of the assessed regulatory and market risks</th>
<th>Risk</th>
<th>Potential financial impact on profit in the year if no actions to mitigate risks are taken(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon tax and voluntary carbon removal costs</td>
<td>2030</td>
<td>-£3.2bn to -£3.4bn</td>
</tr>
<tr>
<td>We quantified how high prices from carbon regulations and voluntary offset markets for our upstream Scope 3 emissions might impact our raw and packaging materials costs, our distribution costs and the neutralization of our residual emissions past 2039.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Absolute zero Scope 1 and 2 emissions by 2030</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scope 3 emissions exclude consumer use emissions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carbon price would reach 245 USD/tCO2e by 2050</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rising more aggressively in early years in a proactive scenario</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The price of carbon offsetting would reach 65 USD/tCO2e by 2050</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offsetting 100% of emissions on and after 2035</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land use regulation Impact on food crop outputs</td>
<td>2030</td>
<td>-£0.8bn to -£0.9bn</td>
</tr>
<tr>
<td>We quantified how changing land use regulation to promote the conversion of current and future food crops to forests could drive reduced crop output and lead to increased raw material prices, impacting sourcing costs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>By 2050, in a proactive scenario, land use regulation would increase prices by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• PALMs - 28%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Commodities and food ingredients - 33%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• By 2050, in a reactive scenario, land use regulation would increase prices by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• PALMs - 19%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Commodities and food ingredients - 11%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact of rising energy prices for suppliers and in manufacturing</td>
<td>2030</td>
<td>-£0.6bn</td>
</tr>
<tr>
<td>We quantified how electricity and gas prices increases could impact both total energy annual spend as well as indirect cost increases passed through from raw material suppliers.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High uncertainty surrounds possible shifts to energy prices during a transition to 1.5°C world</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analysis assumes that by 2050 average electricity prices would:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Rise - 16% in The Americas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Rise - 18% in Europe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Decline -1% in ASIA/AMET/RUB(c)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>By 2050 average global gas prices would rise by -14%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Financial quantification of the assessed physical environment risks

<table>
<thead>
<tr>
<th>Financial quantification of the assessed physical environment risks</th>
<th>Risk</th>
<th>Potential financial impact on profit in the year if no actions to mitigate risks are taken(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water scarcity impact on crop yields</td>
<td>2030</td>
<td>-£0.3bn to -£0.2bn</td>
</tr>
<tr>
<td>We quantified how increased water-stressed areas and prolonged droughts would reduce crop outputs due to water scarcity in agricultural regions, decreasing crop viability, and impacting raw material prices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>By 2050, in a proactive scenario, water scarcity would increase prices by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• PALMs - 19%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Commodities and food ingredients - 11%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• By 2050, in a reactive scenario, water scarcity would increase prices by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• PALMs - 14%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Commodities and food ingredients - 16%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extreme weather (temperature) impact on crop yields</td>
<td>2030</td>
<td>-£0.4bn to -£0.3bn</td>
</tr>
<tr>
<td>We quantified how extreme weather events such as sustained high temperatures could impact crop output and therefore sourcing costs across key commodities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>By 2050, in a proactive scenario, extreme weather would increase prices by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• PALMs - 12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Commodities and food ingredients - 14%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• By 2050, in a reactive scenario, extreme weather would increase prices by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• PALMs - 18%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Commodities and food ingredients - 21%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Summary of high-level quantitative assessment

For those risks and opportunities where we have undertaken high-level quantitative assessments, the results are shown in the tables below. These assessments show the gross impact before any action which Unilever might take to respond. The ranges reflect the different results from the reactive and proactive pathways assessed.

We first undertook scenario analysis in 2017 on 2°C and 4°C scenarios. This year we have completed a 1.5°C scenario analysis. The results of this work on the way to 1.5°C is consistent with this previous work. The key differences are due to the more extreme measures that would need to be taken to achieve a 1.5°C outcome; the evolution of the scientific assumptions contained within the IPCC’s AR6 report; and a more detailed approach to the scenario analysis. The financial impact in 2030 is more significant in the 1.5°C scenario. However, the scenario avoids the greater negative impacts from the physical risks associated with higher temperature rise scenarios in 2050 and beyond.

### Financial quantification of the assessed opportunities

<table>
<thead>
<tr>
<th>Growth in plant-based foods category</th>
<th>Potential financial impact in the year if actions to capitalise on opportunities are taken(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2030</td>
<td>2039</td>
</tr>
<tr>
<td>Opportunity</td>
<td>-£0.5bn</td>
</tr>
</tbody>
</table>

- By 2050, the total global market for plant-based products would rise to ~USD 1.6 trillion
- Maintain a constant market share
- Product mix and product margins would remain constant

(1) These potential financial impacts are based on high-level quantitative assessments of certain risks and opportunity areas which could impact us in 2030, 2039 and 2050.
(2) Refers to Asia, Africa, Middle East, Turkey, Russia, Ukraine and Belarus.
Mondi (2021 ARA, pp62-63, 183) when discussing climate change as one of the significant accounting estimates within its basis of preparation note concludes there was no material impact. Its TCFD scenario disclosure includes estimated EBITDA impacts and their expected time horizon. Additionally, the fact that climate change related risks and are reflected in accounting policies and financial reporting is referenced as part of Mondi’s discussion of the strategy pillar within its TCFD disclosure.

The TCFD recommends applying widely used reference scenarios that are publicly available and peer reviewed. For the year ended 2021 our assessment of the financial implications of our climate change-related risks was prepared considering a 2DS and BAU scenario in line with our commitments published in 2019. Going forward we will further our understanding of the financial implications of our commitment to transition to Net-Zero by 2050, in line with the SBTi New Net-Zero standard, and the impact of assessing our climate change-related risks in line with a 1.5°C scenario.

During the year we assessed our climate change-related risks and opportunities and have specified the estimated EBITDA impact in the tables below and on pages 64-66, taking into consideration mitigation measures implemented by the Group. These risks and opportunities only reflect our climate change-related risks and opportunities and reflect an update of the risks and opportunities presented in our 2020 Sustainable Development report and our 2021 GCP submission. For an overview of all our Group principal risks please refer to page 88.

### Climate change-related risks and opportunities

<table>
<thead>
<tr>
<th>Climate change-related risks</th>
<th>Estimated financial impact (K€)</th>
<th>Timeframe</th>
<th>Scenario sensitivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical risks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. South African plantation yield loss</td>
<td>18-20</td>
<td>Short</td>
<td></td>
</tr>
<tr>
<td>2. Chronic changes in precipitation</td>
<td>10-15</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>3. Higher wood procurement costs</td>
<td>50-100</td>
<td>Long</td>
<td></td>
</tr>
<tr>
<td>4. Risk of flooding</td>
<td>10-15</td>
<td>2DS</td>
<td></td>
</tr>
<tr>
<td>Transition risks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. GHG regulatory changes net impact</td>
<td>25-65</td>
<td>BAU</td>
<td></td>
</tr>
<tr>
<td>6. Energy supply costs</td>
<td>40-100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Challenging customer behaviour</td>
<td>0-35</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Climate change-related opportunities

<table>
<thead>
<tr>
<th>Climate change-related opportunities</th>
<th>Estimated financial impact (K€)</th>
<th>Timeframe</th>
<th>Scenario sensitivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sale of by-products</td>
<td>10-20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Reduced operating costs through energy efficiency</td>
<td>20-25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Changing customer behaviour</td>
<td>120-240</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Strategy**

Sustainability is at the core of Mondi’s strategy and we have a long-standing focus on becoming less carbon intensive. Since 2014, we have reduced our GHG emissions (per tonne of saleable production) by 25%. This has been achieved through targeted investments to reduce our reliance on fossil fuels and increase energy efficiency across our operations as described in the case study below. We believe that we have the right strategy, including our commitment to Net-Zero by 2050, to address the challenges and opportunities arising from climate change-related risks. There are many uncertainties around the impacts of a business-as-usual scenario (BAU). While we continue to enhance our strategy, which has been identified and further understood under each of our TCFD scenarios, we consider that based on our current understanding of our strategy is resilient.

The Group’s climate change-related risks and opportunities are routinely considered in our strategic and financial planning, our capital allocation decisions and in operational management. Climate change-related risks have been identified as one of our strategic principal risks and are reflected in our accounting policies and financial reporting.

The impact of climate change is considered in the estimates of future cash flows used in the impairment assessment of goodwill, as detailed on page 196. Climate change is, as detailed on page 198, included as a factor that impacts the conversion factor used in the assumptions for valuation of the Group’s forestry assets and as a factor incorporated into the risk premium applied to mature and immature timber. Climate change was considered in the assessment of fair value of assets and liabilities accounted for in business combinations as detailed on page 212. The Group accounting policies reflect the impact of climate change considerations in relation to the assessment of the residual values and estimated useful economic lives of property, plant and equipment, as detailed on page 226, and in relation to the accounting policy applied for the valuation of forestry assets and the assessment of goodwill for impairment.

1. The Representative Concentration Pathway (RCP) 4.5 (RCP4.5) scenario is a business-as-usual (BAU) scenario, which projects the global mean temperature rise by 2.6°C to 3.2°C and the global mean sea level rise by 21 cm to 32 cm by the late 21st century.
2. The Intergovernmental Panel on Climate Change (IPCC) 2°C scenario (2DS) is based on limiting global temperature rise to below 2°C, and is a scenario that allows CO2 emissions to be reduced almost to zero by 2050 compared to 2011. Under this scenario emissions are projected to decline from 2030 and continue their decline after 2050 to reach carbon neutrality.

### Significant accounting estimates

#### Climate change

Management has considered the impact of climate change in preparing the consolidated financial statements. In particular, in the context of the disclosures included in the Strategic report, including the Group’s Mondi Action Plan 2030 (MAP2030) science-based targets as detailed in the taking action on climate section on pages 55-67. These considerations, which are integral to the Group’s strategy, did not have a material impact on the key accounting estimates and judgements, including the following areas:

- the estimates of future cash flows used in the impairment assessment of goodwill – refer to note 12
- the assumptions used in the fair value measurement of forestry assets – refer to note 14
- the assessment of residual values and estimated useful economic lives of property, plant and equipment – refer to note 33
- the fair value of assets acquired and liabilities assumed in business combinations – refer to note 25

While these considerations did not have a material impact on the areas set out above, this may change in future periods as management evolves its understanding of climate change-related impacts on the Group.
Antofagasta (2021 ARA, pp 55, 57) sets out both its adaptation and mitigation response and provides quantified financial impacts of scenario analysis as part of its TCFD disclosure. It also provides a table describing the climate-related metrics it is developing in accordance with the revised guidance provided by the TCFD in October 2021.
AstraZeneca (Sustainability report, p21) illustrates how it will follow the science and deliver absolute reductions in all direct and indirect sources, Scopes 1, 2 and 3, of GHG emissions across its value chain.

**Ambition Zero Carbon**

We will follow the science and deliver absolute reductions in all direct and indirect sources, Scopes 1, 2 and 3, of greenhouse gas (GHG) emissions across our value chain, doing our part to limit the impacts of climate change while unlocking opportunities to deliver improved patient-centric healthcare in a low carbon economy.
Capricorn Energy (Sustainability Report, p.25) provides disclosures aligned with the SASB Oil & Gas – Exploration & Production Standard and ISAE 3000/3410 and includes a metric for Total Water Withdrawal (m³).

**Strategic Objectives**
- Maintain licence to operate.
- Minimise the environmental impact of our operational and non-operational activities.

**Principal Risks**

**Material Issues**
- High materiality:
  - Materials Use
  - Reuse, Recycle and Waste Management
  - Water Use
  - Product Stewardship

**2021 Performance Against Sustainability Objectives**
- Improved our standard water data collection and assessment.
- Improved water resilience and stress ranking and reporting.

**2022 Sustainability Objectives**
- Enhance assurance from auditors on environmental data, with a focus on freshwater extraction and discharges to environment, notably in areas of water scarcity.
- Focus on minimising freshwater extraction and risks to surface water sources.

**Freshwater Use**
Water resilience and water use are areas of increasing focus for our industry, and include transparency around use in areas of water stress. We appreciate that our business both impacts and depends on water resources close to our operations. We also respect that access to clean, safe water is a fundamental human right and is one of the UN SDGs with importance to local communities and the environment. Therefore, our water resource strategy covers:
- assessing the need for using and abstracting freshwater;
- exploring ways to manage freshwater more efficiently;
- identifying and implementing ways to reduce our operational impacts on freshwater;
- enhancing our reporting of freshwater resource management.

Having completed CDPS Water Security assessment in 2020, we completed the full questionnaire in 2021. Earning a score of 8, our submission improved our level of transparency on water abstraction and protection, quality management and discharge parameters, and included considerations of water stress and resilience.

At the start of 2021, we revised the HSE criteria on our investment proposal checklist to reference the World Resources Institute’s Aqueduct Water Risk Atlas. This online water risk mapping tool helps companies, investors, governments and other users to understand where and how water risks and opportunities are emerging worldwide, and has helped us to analyse water stress when considering possible new venture activities.

During the year, our use of freshwater remained low, primarily as a result of the level of operational activity we undertook. In 2021, 100% of our water withdrawal (132m³) was freshwater.

**Total Water Withdrawal (m³)**
<table>
<thead>
<tr>
<th>Year</th>
<th>Freshwater Withdrawal</th>
<th>Seawater Withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>0</td>
<td>1,132</td>
</tr>
<tr>
<td>2020</td>
<td>4,799</td>
<td>3,095</td>
</tr>
<tr>
<td>2019</td>
<td>8,369</td>
<td>7,271</td>
</tr>
<tr>
<td>2018</td>
<td>6,261</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>19,303</td>
<td>11,340</td>
</tr>
</tbody>
</table>

5. World Resources Institute Aqueduct Water Risk Atlas – Baseline water stress measures the ratio of total water withdrawal to available renewable surface and groundwater supplies.
Segro (2021 ARA, pp55, 98) discloses a variety of climate metrics as part of its TCFD disclosure and provides detail on the physical climate change risk exposure at the asset level.

Following on from the physical risk materiality analysis opposite, in 2021, we have conducted scenario analysis to assess more precisely the physical risk to assets of a 4.5°C increase in global temperatures (the ‘business as usual’ outcome) and in line with IFCP 8.5, 2040. We prioritised analysis based on this scenario as it is the most appropriate current ‘worst case’ scenario. In 2022, we intend to carry out a ‘best case’ scenario analysis in line with IFCP 2.5, equivalent to a 1.5°C increase in global temperatures.

The table below shows the potential Physical Climate Risk Exposure metrics and outcomes based on percentage floor area and percentage rental value at risk.

**PHYSICAL CLIMATE CHANGE RISK EXPOSURE AT ASSET LEVEL**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Metrics</th>
<th>Percentage of Floor Area (at 100%)</th>
<th>ERV at Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flooding</td>
<td>1 in 100 year flood risk</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Water Stress</td>
<td>“Very High” Water Stress Risk</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Sea Level Rise</td>
<td>Coastal/selected frequency</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Wildfires</td>
<td>Days with high wildfire score &gt; 10</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Heat Stress</td>
<td>Energy Demand Score &gt; 50</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>

The data above does not take into account the mitigation measures that have already been carried out in the development or refurbishment cycles. As part of our sustainable development objectives, assessments are carried out prior to development and adaptation measures, including but not limited to those listed below, are carried out accordingly.

**APPLYING THE ANALYSIS TO STRATEGIC PLANNING**

In terms of decision-making, we consider climate-related issues within the following time horizons:

- **Short term up to 12 months, in line with the budget setting carried out annually in the autumn.**
- **Medium term up to 3 years, in line with the Medium Term Planning carried out annually in the autumn.**
- **Long term up to 10 years, in line with capital investment appraisal cash flows. We assume a 60 year life span for our newly-developed properties.**

**CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED**

To enable our stakeholders to consider and compare our reporting, we contribute to a number of externally-recognised initiatives including GRESB, CDP and DJSI Sustainability Index and the FTSE4Good Index. We also discuss metrics in line with externally-recognised frameworks including Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI) and the EPA Best Practices Recommendations on Sustainability Reporting.

In order to ensure that we also report on those issues that we can have a direct impact upon, we use our materiality assessment to identify the key metrics that are material to the business. Below are the climate related metrics and targets which we are working to achieve.

Those in bold will be incorporated into the Responsible SECGO elements of the annual bonus of all employees from 2022.
Figure 14
National Express (2021 ARA, pp38-39, 98-99) includes a table that shows the overall group targets through to 2025 and progress to date from the baseline year. More detail on these targets and on performance against them is set out in the detailed environmental data disclosures at the end of the ARA. The disclosure cross refers to the remuneration committee report which explains that the committee revisited the ESG measures to ensure they were appropriate.

(c) Executive Directors’ 2022 Long-Term Incentive Plan (LTIP) awards
Executive Directors’ LTIP awards for the 2022 financial year will provide a maximum opportunity of 200% of salary for the CEO and 100% of salary for the CFO. For the CFO, this is a reduction from the 200% of salary grant level in 2021.

Performance will be assessed against the following measures:

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Threshold (25% weighting for TSR and EPS, 0% for other measurements)</th>
<th>Target (50% weighting)</th>
<th>Maximum (100% weighting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR vs. FTSE 250 Index</td>
<td>25%</td>
<td>Median</td>
<td>Upper quartile</td>
<td></td>
</tr>
<tr>
<td>EPS (p)</td>
<td>25%</td>
<td>21.7p</td>
<td>24.9p</td>
<td>29.5p</td>
</tr>
<tr>
<td>ROCE*</td>
<td>25%</td>
<td>9%</td>
<td>10.5%</td>
<td>12%</td>
</tr>
<tr>
<td>CO2 emitted per million passenger km – reduction in CO2 emitted per million passenger km by 2024 relative to 2019 base year</td>
<td>12.5%</td>
<td>8.4%</td>
<td>9%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Fleet transition – number of additional zero emission vehicles in service or on order by 31 December 2024</td>
<td>12.5%</td>
<td>480</td>
<td>600</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Recognising the “Environmental leader” outcome of Evolve, the Committee revisited the ESG measures to ensure they are appropriate. During consultation with shareholders, many highlighted their desire for ESG measures to remain a key part of Executive Directors’ overall remuneration but also emphasised a desire that any metrics remain objective, measurable and stretching. The Committee concluded that although the overall weighting of the ESG element, 25% of the total award, was appropriate, it should also measure fleet transition rather than solely CO2 emitted per million passenger km (as had been the case before 201). This will provide additional focus on fleet transition, which is an area that is a particular long-term focus for both shareholders and many of our wider stakeholders.

The Committee will continue to review best practice in this area and evolve the incorporation of ESG measures into variable remuneration arrangements.

As an early adopter of decarbonisation targets, the Group initially set KPIs designed to meet the IPCC goal of controlling the increase in global warming to below 2°C. These new targets introduce Net Zero targets for the Group for the first time, as well as new targets for fleet decarbonisation at the divisional level, where our vehicles currently generate around 95% of the Group’s Scope 1 and 2 emissions.

At the Group level, we have launched a new target to achieve net zero (Scope 1 & 2) by 2040. Delivery of our Group-wide targets will be achieved through our ambition to replace all carbon emitting vehicles – see page 32 for full details of our zero emission targets, and for details of ZEVs we are currently operating. Going forward we will report externally in our annual report on the number of ZEVs that the Group is operating.

metrics and targets used to assess climate-related risks and opportunities
To limit the effects of climate change, the Group will focus on reducing its carbon footprint by monitoring metrics and setting emissions reduction targets.

In 2019, the Group adopted a set of intensity base metrics which are measured year-on-year and are used as the basis for three absolute science-based targets on GHG emissions, using the Sectoral Decarbonisation Approach (SDA) methodology. These targets have not yet been registered with the SBTi as the Group is first required to complete its Scope 3 footprint. These metrics or key performance indicators (KPIs) measure the level of carbon emissions from our vehicles and our sites. Our KPIs were chosen to meet the, then-prevailing, IPCC goal of controlling the increase in global warming to below 2°C. We aim to achieve these SDA KPIs over an initial seven-year performance period, 2019 to 2025, with 2018 being the baseline year. The three science-based targets sit alongside more traditional targets for onsite (Scope 1 & 2) emissions, landfilled waste disposal and water usage.

The performance against KPI intensity targets for 2020 and 2021 has been materially impacted by the significant reduction in passenger numbers and mandatory requirements limiting occupancy, both of which reduce the environmental efficiency relative to normalised operation. While absolute emissions have materially improved as we travelled significantly fewer miles and sites have been closed for long periods, our intensity metrics have worsened (i.e. emissions per passenger km have increased), driven by lower occupancy across the business and a mix away from long distance coach businesses and into urban bus businesses.

Please see page 98 to 99 for information on how our GHG reduction metrics and increase in zero emission vehicles are used as a remuneration metric in relation to the Executive Directors’ and senior managers’ LTIP scheme.

The table below shows the overall Group targets through to 2025 and our progress to date from our baseline year of 2018. More detail on these targets and on performance against them is set out in the detailed environmental data disclosures on pages 221 to 223.

<table>
<thead>
<tr>
<th>Reduction target description (metric)</th>
<th>Base year (2018)</th>
<th>2025 target</th>
<th>Required % reduction from 2018</th>
<th>2021</th>
<th>% change from base year</th>
<th>% change YOY (2020-2021)</th>
<th>Required % reduction to meet target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traction Energy (vehicle fuel and electricity) Million mWh/mplkm</td>
<td>66.92</td>
<td>58.72</td>
<td>(12.25%)</td>
<td>86.19</td>
<td>28.8%</td>
<td>20.7%</td>
<td>(51.9%)</td>
</tr>
<tr>
<td>Traction Carbon Emissions (Scope 1 &amp; 2) CO2e/mplkm</td>
<td>17.67</td>
<td>15.45</td>
<td>(12.52%)</td>
<td>24.15</td>
<td>36.7%</td>
<td>8.4%</td>
<td>(96.8%)</td>
</tr>
<tr>
<td>Total Scope 1 &amp; 2 Emissions CO2e/mplkm</td>
<td>19.29</td>
<td>18.45</td>
<td>(14.56%)</td>
<td>25.34</td>
<td>31.2%</td>
<td>5.9%</td>
<td>(34.9%)</td>
</tr>
<tr>
<td>Site Scope 1 &amp; 2 Emissions (building use only) CO2e</td>
<td>41,566</td>
<td>38,199</td>
<td>(9.35%)</td>
<td>31,083</td>
<td>23.8%</td>
<td>(13.3%)</td>
<td>Met</td>
</tr>
</tbody>
</table>

As an early adopter of decarbonisation targets, the Group initially set KPIs designed to meet the IPCC goal of controlling the increase in global warming to below 2°C. These new targets introduce Net Zero targets for the Group for the first time, as well as new targets for fleet decarbonisation at the divisional level, where our vehicles currently generate around 95% of the Group’s Scope 1 and 2 emissions.

At the Group level, we have launched a new target to achieve net zero (Scope 1 & 2) by 2040. Delivery of our Group-wide targets will be achieved through our ambition to replace all carbon emitting vehicles – see page 32 for full details of our zero emission targets, and for details of ZEVs we are currently operating. Going forward we will report externally in our annual report on the number of ZEVs that the Group is operating.

Continuing the journey towards TCFD compliance
Centrica (2021 ARA pp32, 57 and 81) discloses the development and publication of its Climate Transition Plan as a principal decision within its section 172(1) statement. Centrica notes that it will put the plan to a shareholder vote at the 2022 AGM and among the factors its Remuneration Committee will consider when making the 2022 remuneration awards includes progress against its Climate Transition Plan.

**Launching our Climate Transition Plan**

In 2021, we set out how we plan to deliver our net zero targets whilst ensuring a fair and affordable transition for all.

- For customers, we will accelerate the delivery of energy efficiency and optimisation services, low carbon technologies and cleaner energy. This includes 2022 aspirations to double the number of homes customers to 0.2 million, achieve zero carbon installations of up to 130,000 EV charge points and 22,000 heat pumps, while remaining a leader in the supply of zero-carbon electricity for homes and investing up to £100 million in low carbon and transition assets each year.

- Within our business, our ambition is to build a zero carbon fleet in the UK by 2025 and cut our UK property emissions by a further 10% by 2030.

At the same time, we plan to progress our strategic transformation to sell our remaining activities in oil and gas exploration and production and redirect investment into assets that drive the transition forward – from sourcing up to 800MW of low carbon and transition assets including solar and battery storage by 2030, to exploring the conversion of our Rough gas storage facility to store hydrogen.

These aspirations provide great opportunities for us and our customers, but they will be challenging and require us, our customers, and the wider energy system to change.

**And for it to be a success, we will also need to ensure we don’t lose anyone behind. So we will continue to change the needs of our customers and support those who struggle with their energy bills, create thousands of high-quality inclusive green jobs, back sustainable initiatives in communities and collaborate for a lower carbon supply chain.**

The Climate Transition Plan will go for shareholder advisory vote at the AGM in 2022.

**Continuing the journey towards TCFD compliance**

Centrica developed and published its Climate Transition Plan setting out the key steps we plan to take to help our business, our customers and the wider energy system decarbonise.

**Consideration of stakeholders and outcomes:**

<table>
<thead>
<tr>
<th>Decisions considered by the Board</th>
<th>Key stakeholder interests considered</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centrica’s strategy and purpose are rooted in providing energy services and solutions that help our customers live sustainably, simply and affordably. In support of this, our People &amp; Planet Plan sets out our net zero targets, and how we will continue to develop the diverse and inclusive team that’ll help us get there. Our Climate Transition Plan is the next step, explaining how we intend to achieve these goals to become a net zero business by 2045 and help our customers be net zero by 2050, while ensuring a fair and affordable transition for all.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing dialogue with key stakeholders confirms a growing desire to understand more about how companies are strategically responding to climate change, including how they’ll mitigate climate impact whilst enhancing long-term commercial resilience. For example:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investors: Institutional investors requested that Centrica develop and publish a Climate Transition Plan.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers: Our goal is to help our customers be net zero by 2050.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colleagues: Taking a lead role in the growth of green jobs whilst continuing to embrace a diverse mix of people and skills needed for a greener future.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers: Part of future-proofing our business against climate change is to ensure we have a reliable and responsible supply chain for customers.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government and Regulators: We want and need governments, regulators and policymakers to work with us to deliver the necessary changes that’ll be needed to achieve our climate change goals, and specifically help us get our customers to net zero in a way that’s affordable and fair. We engage responsibly with key decision makers on issues we believe are critical for shaping the energy landscape our customers need.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communities and NGO: Community action and engagement is essential for ensuring a successful transition.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Implementation in the next financial year**

For the 2022 award, the factors that the Committee will consider include, but are not limited to the following:

- A review of overall financial performance over the three-year vesting period;
- Whether there have been any sanctions or fines issued by a Regulatory Body (participant responsibility may be allocated collectively or individually);
- Whether a major safety incident has occurred which may or may not have consequences for shareholders;
- Whether there has been material damage to the reputation of the Company (participant responsibility may be allocated collectively or individually);
- Whether there has been failure to make appropriate progress against our Climate Transition Plan which sets out our ambition to be a net zero business by 2045 and help our customers be net zero by 2050;
- Whether return on capital with reference to the cost of capital;
- TSR performance over the vesting period, including with reference to the wider energy sector;
- Management of customer numbers over the vesting period; and
- Progress against broader ESG commitments.

The Remuneration Report has been approved by the Board of Directors and signed on its behalf by:
Unilever (Climate Transition action plan, pp47, 51) sets out a range of targets and actions designed to deliver an emissions reduction pathway consistent with the 1.5° ambition of the Paris Agreement.

**Figure 16**

For at least the next decade, the focus of our targets is emissions reduction, not balancing emissions with carbon credits, sometimes known as offsetting. While we have set interim emissions reduction targets, we have not set interim ‘net zero’ targets. Such targets would create tension between investing in offset purchases and investing in GHG reductions in the value chain, which we believe would be counterproductive.

<table>
<thead>
<tr>
<th>Our plan</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Our operations</strong></td>
<td><strong>Net Zero by 2039</strong></td>
<td><strong>Scope 1 &amp; 2 emissions reduction against a 2019 baseline</strong></td>
<td><strong>Halve the footprint of our products by 2030 against a 2010 baseline</strong></td>
</tr>
<tr>
<td></td>
<td><strong>100% renewable grid electricity (achieved January 2030)</strong></td>
<td><strong>Eco-efficiency programmes to reduce energy demand</strong></td>
<td><strong>Align capital expenditure with our 1.5°C pathway</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Transition to 100% renewable heat by 2030</strong></td>
<td><strong>Estimated 40-50% reduction in logistics emissions by 2030</strong></td>
<td><strong>Phase out high-impact HFC refrigerants from cooling systems</strong></td>
</tr>
<tr>
<td>Our value chain</td>
<td><strong>Integrated GHG roadmaps for all key materials and ingredients</strong></td>
<td><strong>Zero deforestation by 2023 in palm oil, tea, soy and cocoa</strong></td>
<td><strong>Halve food waste in our operations by 2025</strong></td>
</tr>
<tr>
<td>Our brands and products</td>
<td><strong>Up to 60% reduction in product GHG emissions through concentration and compaction</strong></td>
<td><strong>Replace fossil-fuel derived carbon with renewable or recycled carbon by 2030 in home care formulations</strong></td>
<td><strong>100% EVs or hybrids in our global car fleet by 2030</strong></td>
</tr>
<tr>
<td>Our wider influence on society</td>
<td><strong>Step up in climate advocacy ahead of COP26 - and beyond</strong></td>
<td><strong>Disclose all principal trade associations</strong></td>
<td><strong>Help protect and regenerate 1.5 million hectares of land, forests and oceans by 2030</strong></td>
</tr>
<tr>
<td>Governance, data and disclosure</td>
<td><strong>AGM advisory vote every three years</strong></td>
<td><strong>Annual reporting on our progress</strong></td>
<td><strong>Share the carbon footprint of every product we sell</strong></td>
</tr>
</tbody>
</table>

- **€1 billion Climate & Nature Fund**
- **1.5°C aligned Science Based Target**
- **Reduce emissions from aerosol propellants in North America**
Figure 17
Anglo American (2021 ARA, pp102-103) includes reference to its Climate Change Report and CDP Climate Response 2020, where it provides detailed disclosure in addition to the TCFD disclosures included in the ARA.

Disclosures related to the recommendations of the TCFD

Anglo American’s response to the risks posed by climate change is multi-disciplinary and is covered throughout our reporting suite – including the Integrated Annual Report, the Sustainability Report, our Climate Change Report, published in October 2021, and our 2020 CDP Climate Change response. In line with our US listing rules, we confirm that the disclosures included in the Integrated Annual Report 2021 are consistent with the TCFD Recommendations and Recommended Disclosures.

While we endeavour to include as much information as possible on our approach to climate change in the Integrated Annual Report, the Climate Change Report offers more comprehensive disclosure, including details on the assumptions behind our scenario analysis and approach to achieving our greenhouse gas emission reduction ambitions.

Goverance

Disclose the organisation’s governance around climate-related risks and opportunities.

Recommended disclosures

- Describe the Board’s oversight of climate-related risks and opportunities.
- Describe the management risks and opportunities associated with climate-related risks and opportunities.

References

- Integrated Annual Report, Page 14 describes the insights the Board takes into account when reviewing and endorsing the Group’s long term strategy and related decisions. Climate change considerations are included within the material risks (pages 16-17), our capital allocation decisions (pages 18-19), and within our principal risks – specifically risks 7, 12 and 13 (pages 66-67). Page 21 shows the key decisions made by the Board in relation to our climate change targets and ambitions. Pages 44-45 describe our policies and governance processes related to climate change. Page 125 describes the decisions and actions taken by both the Board and its Sustainability Committee in the year.
- Integrated Annual Report, Page 35 gives further details on the Group’s climate change policy approach, including reference to our industry association memberships. Page 37 describes the Board’s climate change capability.

b) Describe the organisation’s processes for identifying and assessing climate-related risks.

References

- Integrated Annual Report, Page 14 describes the insights the Chief executive and management take into account when formulating the Group’s long term strategy. Climate change considerations are included within the material risks (pages 16-17), our analysis of global trends (pages 18-19), our capital allocation decisions (pages 38-39) and within our principal risks (pages 66-67). Pages 44-45 describe our policies and governance processes related to climate change, including climate-related risks within the executive remuneration (Page 142) of the Remuneration Report detail against a climate-related target and the impact on executive remuneration in the year.
- Integrated Annual Report, Page 35 gives further details on the Group’s climate change policy approach, including reference to our industry association memberships, as well as overview of governance and management systems related to climate change. Page 37 identifies management responsible for the oversight and delivery of the Group’s climate change goals and ambitions and details the role of the Group’s Climate Change Steering Committee.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning where such information is material.

Recommended disclosures

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
- Describe the key climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

References

- Integrated Annual Report, Page 18 describes the content and impacts of climate change on both Anglo American and the mining industry, as well as the opportunity the Group believes it can take through its strategic, climate, Pages 24-29 describe the Group’s portfolio strategy and management process.
- Climate Change Report, Pages 17-19 describe the transitional and physical impacts we believe climate change will have on our business.

b) Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.

References

- Integrated Annual Report, Pages 24-29 describe the Group’s portfolio strategy and how that has been influenced by the threat of climate change. Pages 30-37 describe the technological innovations being delivered across the Group to reduce energy and water consumption and page 40 describes the efforts of our Marketing business to deliver products that help enable our customers to achieve their climate change ambitions. Pages 56-59 describe how climate change considerations are embedded in our capital allocation decisions.

Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Recommended disclosures

- Describe the organisation’s processes for identifying and assessing climate-related risks.
- Describe the organisation’s processes for managing climate-related risks.

References

- Integrated Annual Report, Page 43 describes our approach to climate-related risks. Pages 60-67 describe the Group’s risk identification process and how our detailed climate change risks and rates direct our management and mitigate those risks. Our portfolio pages 22-29 and innovation (pages 30-39) of the Group’s climate change policy approach, including reference to our industry association memberships, as well as overview of governance and management systems related to climate change. Page 37 identifies management responsible for the oversight and delivery of the Group’s climate change goals and ambitions and details the role of the Group’s Climate Change Steering Committee.

Metrics and targets

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

Recommended disclosures

- Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and management process.
- Describe the targets used by the organisation to manage climate-related risks and opportunities.

References

- Integrated Annual Report, Pages 22-29 describe the Group’s portfolio strategy and how that has been influenced by the threat of climate change. Pages 45-47 show the metrics used by the Group when assessing climate-related risks and opportunities. Climate Change Report, Pages 29-30 describe the metrics used by the Group when assessing climate-related risks and opportunities.
- Integrated Annual Report, Pages 45 shows our Scope 1, 2, and 3 GHG emissions. Pages 282 shows current and historical Scope 1 and 2 emissions by business unit.
- Climate Change Report, Pages 22-25 show our Scope 1 and 2 GHG emissions and detail the ways in which we believe we will meet our emission reduction targets. Pages 26-30 show our Scope 3, 4, and 5 GHG emissions and detail the ways we believe we can meet our emission reduction targets.
- Integrated Annual Report, Pages 38 and 45 describe our climate-related risks and opportunities.
- Climate Change Report, Pages 22-25 show our Scope 1 and 2 GHG emissions targets. Pages 26-30 show our Scope 3, 4, and 5 targets.
Figure 18
Rentokil (2021 ARA, pp106-109, 155) reports that its AC reviewed management’s analysis undertaken to link the expected levels of climate risk and climate change impacts to accounting standards and recommended to the board a paper on climate change reporting in the 2021 financial statements. The outcomes of management’s analysis are set out in the basis of preparation note.

Climate change reporting
As previously described, the Audit Committee considered climate change risk and its inclusion in the year-end audit report during the year. The Company’s 2020 Annual Report was included in the sample for the FRC’s thematic review of entities’ reporting on streamlined energy and carbon reporting (SECf) disclosures. The FRC carried out a limited scope review with no queries or questions being raised and the Company was featured as an example of better disclosure in the review when it was published in September 2021. However, it is increasingly understood that climate change can affect a number of areas of financial statements and the FRC included as one of its key disclosure expectations in its annual review of corporate reporting for 2020/21 that material climate change policies, risks and uncertainties discussed in narrative reporting should also be appropriately considered and disclosed in the financial statements.

Management, therefore, undertook a full review taking into account the current understanding of the impact of climate change on our business as a whole (see page 62), the dynamic of our business models and their impact on the risk, and any applicable Accounting Standards. Analysis was undertaken to link the expected risk levels and climate change impacts to these Accounting Standards and a review of the balance sheet, key revenue streams and impacts of the Group’s 2040 net zero commitment was completed. As detailed on page 155, overall the analysis demonstrated that the Group is not materially exposed to climate change events due to its disaggregated nature and it was, therefore, proposed that only two areas should disclose climate change impacts in the Financial Statements, with additional disclosure in the basis of preparation section in the Notes to the Financial Statements and the intangible asset impairment review process (see page 155 and 176). The Audit Committee considered the review and approach proposed and recommended these to the Board of Directors, which approved them at its meeting in December 2021.

Climate change
The Group operates across many markets around the world and is impacted by physical events caused by climate change and also contributes to climate change through its carbon emissions. The Group also has a net zero commitment for 2040 and this plan will require operational changes in how we service our customers and deal with the effects of climate change.

As part of its discussion of the audit strategy for 2021, the Audit Committee considered climate change risk and its inclusion in the year-end audit report at its meeting in July 2021. Climate change risk was also considered as part of the review of Group risks in November and, in December 2021, the Audit Committee received a presentation from the Chief Financial Officer and the Group Financial Controller outlining the accounting considerations and climate change reporting in the Company’s Financial Statements (see also page 107 on climate change reporting).

Spotlight
Considering risk in detail
Our Group Risk Committee meets four times a year and, at the meeting in October 2021, Julie Southern, Non-Executive Director and Chair of the Audit Committee, joined the meeting to engage with colleagues on the current and emerging risks being considered. Items on the agenda for the two-hour meeting included a deep dive on IT risk presented by the Global Head of Information Security and the Chief Information Officer, a thematic review of litigation risk and mitigation by the Group General Counsel & Company Secretary, and a detailed discussion on climate change risk and reporting, including how this should be presented in the Financial Statements of our 2021 Annual Report. The meeting provided Julie with the opportunity to observe the management process when considering key risk areas, with sufficient time to ask questions and debate approach. The discussion on climate change was reflected in the final paper on climate change reporting in the 2021 Financial Statements that was submitted to the Audit Committee and Board for its consideration and approval in December 2021.

General accounting policies

Basis of preparation
The Group has engaged in a detailed review of expected climate change impacts on the business and its assets and liabilities to establish any adjustments required and what reporting is necessary in its Financial Statements for 2021 under a 1.5°C degree pathway. A summary of the review of how this has been included in the Financial Statements should be read in conjunction with the climate change evaluation and risk assessment on page 62 of the Responsible Business section.

This process has been completed to ensure material accuracy of the financial reporting and that disclosure of relevant information complies with the requirements of IAS 1.

The process has involved a detailed review of material revenue segments, balance sheet line items and each element of the Group’s commitment to reach net zero by 2040, to identify if any of these items is expected to be materially impacted in a negative or positive way by weather, legislative, societal or revenue/cost changes. The conclusions of this process have been reviewed and agreed by the Audit Committee and Board on 9 December 2021.

The conclusion of the review was that, while there will undoubtedly be impacts on the Company, the highly disaggregated nature of the operations of the Group significantly reduces the risk profile of the Group to impacts from weather-related changes. The changes necessary to achieve net zero will not have a materially adverse impact on the cash flows of the Group and indeed, warmer climates may present some opportunities as disclosed on page 58 to 65 of this report. Societal and legislative impacts are not considered to have a material impact on any one segment such that we need to break out reporting in a different way to previous years. Judgements are not considered to be significant, although clearly understanding of climate change is developing with time. The area with the most judgment is goodwill impairment testing and a description is given in Note 82 of the incremental processes undertaken to assess the climate change impact on the valuations. Management review has concluded that there is no material impact and that no further disclosure is required.
Figure 19
Drax (2021 ARA, p209) discusses a significant estimation uncertainty in respect of useful economic life estimates and quantifies the potential impacts on depreciation.

Significant estimation uncertainty
Asset lives are reviewed annually at each balance sheet date, taking into consideration the impact of climate and environmental change. See note 2.4 for further details.

As disclosed on page 208, the Group has made an estimate regarding UELs. Given the continued focus on climate change, greener sources of energy and transitioning to a net zero economy, the power generation industry is going through a period of transformation, which can impact on the UELs of assets. As the Government’s net zero strategy continues to evolve and become clearer, particularly in relation to BECCS, the Group will continue to assess any potential impact of these developments and whether UELs would be required to be updated, particularly in relation to Drax Power Station. Accordingly, given the continued rate of change in these areas, this increases the risk that UELs will be updated in the near future as new information becomes available, and as such a change in UELs, particularly in relation to Drax Power Station’s biomass assets, has been disclosed as a key source of estimation uncertainty. If BECCS is deployed at Drax Power Station this could result in an extension of the end of station life. If the useful economic life of Drax Power Station was to increase by ten years, the impact on the depreciation charge for the year would be a decrease of approximately £19.4 million.
Figure 20

IAG (2021 ARA, pp212-213) brings together the various considerations into Note 4 Impact of climate change on financial reporting, which is split into two sections: Significant transactions and critical accounting estimates, assumptions and judgements in the determination of the impact of climate change and critical accounting estimates, assumptions and judgements – cash flow forecast estimation.

4 Impact of climate change on financial reporting

Significant transactions and critical accounting estimates, assumptions and judgements in the determination of the impact of climate change

As a result of climate change the Group has designed and approved its Flightpath Net Zero climate strategy, which commits the Group to net zero emissions by 2050. While approved business plans currently have a duration of three years, the Flightpath Net Zero climate strategy impacts both the short, medium and long-term operations of the Group.

The details regarding the inputs and assumptions used in the determination of the Flightpath Net Zero climate strategy include, but are not limited to, the following that are within the control of the Group:

- The additional cost of the Group’s commitment to increasing the level of Sustainable Aviation Fuels to ten per cent by 2030 and fifty per cent by 2050.
- The cost of incurring an increase in the level of carbon offsetting and carbon capture schemes and the impact of introducing more fuel-efficient aircraft and being able to operate these more efficiently.

In addition to these inputs and measures within the control of management, Flightpath Net Zero includes assumptions pertaining to consumers, governments and regulators regarding the following:

- The impact on passenger demand for air travel as a result of both passenger trends regarding climate change and government policies.
- Investment and policy regarding the development of Sustainable Aviation Fuel production facilities.
- Investment and improvements in air traffic management.
- The price of carbon through the EU and UK Emissions Trading Schemes (ETS) and the UN Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), and effective market-based policy measures in addition to the EU and UK ETS and CORSIA.

The level of uncertainty regarding the impact of factors increases over time. Accordingly, the Group has applied critical estimation and judgement in the evaluation of the impact of climate change regarding the recognition and measurement of assets and liabilities within the financial statements.

Critical accounting estimates, assumptions and judgements – cash flow forecast estimation

With the Flightpath Net Zero climate strategy assessing the impact over a long-term horizon to 2050, the level of estimation uncertainty in the determination of cash flow forecasts increases over time.

For those assets and liabilities, where their recoverability is dependent on long-term cash flows, the following critical accounting estimates, assumptions and judgements, to the extent they can be reliably measured, have been applied:

a) Long-term fleet plans and useful economic lives

The Group’s Flightpath Net Zero climate strategy has been developed in conjunction with the long-term fleet plans of each operating company. This includes the annual assessment of useful lives and the residual values of each aircraft type.

During the course of 2020 as a result of the impact of COVID-19, the Group permanently stood down 82 aircraft, their associated engines and related inventories. These permanently stood down aircraft were older-generation aircraft, that were less fuel efficient, more carbon-intensive and more expensive to operate than more modern models.

With the permanent standing down of these aircraft, coupled with the future delivery of 110 fuel-efficient aircraft as detailed in note 15, the Group considers the existing fleet assets align with the long-term fleet plans to achieve its Flightpath Net Zero strategy. All aircraft in the fleet, and those due to be delivered in the future, have the capability to utilise SAF in their operations without impediment. Accordingly, no impairment has arisen in the current or prior year as a result of the Group’s decarbonisation plans.

b) Impairment testing of the Group’s cash generating units

The Group applies discounted cash flow models, for each cash generating unit, derived from the cash flow forecasts from the approved three-year business plans. The Group’s Flightpath Net Zero climate strategy is long-term in nature and includes commitments that will occur at differing points over the time horizon. To the extent that certain of those commitments occur over the short-term, then they have been incorporated into the three-year business plans.

The Group adjusts the final year of the three-year business plan to incorporate the impacts of climate change that the Group can reliably estimate at the reporting date. However, given the long-term nature of the Group’s sustainability commitments, there are other aspects of these commitments that cannot be reliably estimated at the reporting date and have been excluded from these adjustments. These adjustments incorporate the increased utilisation of sustainable aviation fuel as well as price assumptions relating to sustainable aviation fuels and the price of carbon (both ETS and CORSIA), which are derived from externally sourced prices. Where the Group considers such costs will be recovered through increased passenger ticket fares, then a corresponding adjustment is made to increase passenger revenue.

As detailed in note 17, the Group applies a long-term growth rate to the adjusted three-year business plan, per CGU, and each of the long-term growth rates include a specific adjustment to reduce the rate to reflect the Group’s assumptions regarding the reduced demand impact arising from climate change. This demand impact is derived with reference to external market data.

Further, in preparing the impairment models, the Group cash flow projections are prepared on the basis of using the current fleet in its current condition. The Group excludes the estimated cash flows expected to arise from future restructuring, assets not currently in use by the Group and expected technological advancements in aircraft and other technologies not available at the reporting date. The Group excludes potential future legislation/regulation regarding carbon pricing and/or alternative schemes not currently enacted such as the implementation of carbon taxes.

Given the inherent uncertainty associated with the impact of climate change, the Group has applied additional sensitivities in note 17 to reflect a more adverse impact of climate change than currently expected. This has been captured through both the downward sensitivities of the long-term growth rates, ASRs, operating margins and the increased fuel price sensitivity.

c) Valuation of employee benefit scheme assets

The Group’s employee benefit schemes are principally represented by the British Airways APS and NAPS schemes in the UK. The schemes are structured to make post-employment payments to members over the long term, with the Trustees having established both return-seeking assets and liability-matching assets that mature over the long term to align with the forecast benefit payments.

The assets of these schemes are invested predominantly in a diversified range of equities, bonds and property. The valuation of these assets ranges from those with quoted prices in active markets, where prices are readily and regularly available, through to those where the valuations are not based on observable market data, often requiring complex valuation models. The Trustees of the schemes have integrated climate change considerations into their long-term decision making and reporting processes across all classes of assets, actively engaging with fund and portfolio managers to ensure that where unobservable inputs are required into valuation models, that such valuation models incorporate long-term assumptions regarding the impact of climate change.

d) Recoverability of deferred tax assets

In determining the recoverable amounts of the Group’s deferred tax assets, the Group applies the future cash flow projections for a period of up to ten years derived from the approved three-year business plans. The Group applies a medium-term growth rate subsequent to the three-year business plans, specific to each operating company. In considering the impact of the Group’s Flightpath Net Zero climate strategy, management adjusts this medium-term growth rate, where applicable, to incorporate the impacts on both revenue and costs to the Group.
Figure 21
Rolls Royce (2021 ARA, pp58-60) explains that whilst it is unlikely that physical and transition risks will arise during the 18-month period being assessed for going concern, both physical and transition risks have been considered. The viability statement includes reference to the TCFD scenario in which climate change increases costs, reduces sales volumes and disrupts supply chains.

### Liquidity and borrowings

10 October 2020, the Group had liquidity of £8bn, including cash and cash equivalents of £2.6bn and undrawn facilities of £5.4bn.

The Group’s committed borrowing facilities at 31 December 2021 and 31 August 2023 are set out below. None of the facilities are subject to any financial covenants or rating triggers which could accelerate repayment.

<table>
<thead>
<tr>
<th>Facility</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>£8,000,000</td>
</tr>
<tr>
<td>RCF Facility</td>
<td>£4,000,000</td>
</tr>
<tr>
<td>RBL Facility</td>
<td>£1,000,000</td>
</tr>
<tr>
<td>EIB Facility</td>
<td>£1,000,000</td>
</tr>
<tr>
<td>RBC Facility</td>
<td>£1,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>£8,000,000</td>
</tr>
</tbody>
</table>

### Impact of climate change

The Directors believe that the most material risks to Rolls-Royce as a result of climate change are to the Group, primarily within Civil Aerospace, due to continued travel restrictions and world-wide quarantine requirements imposed by governments across the globe. The spread of vaccination programmes, efficacy of vaccines and differing governmental testing and quarantine requirements mean that uncertainty remains in the short term over the timing of recovery of demand in particular. In relation to the civil aviation industry. This has been considered by the Directors in assessing the adoption of the going concern basis in the Consolidated Financial Statements. Recognising the challenges of reliable estimating and forecasting the timing of recovery of demand, the Group has modelled two forecasts in its assessment of going concern which have been endorsed by the Directors, along with a likelihood assessment of these forecasts, being:

- Base case, which reflects the Directors current expectations of future trading; and
- Severely but plausible downward forecast, which envisions a ‘stressed’ or ‘worst-case’ situation.

Since the start of the pandemic, the Group has taken actions to reduce cash expenditure and maintain liquidity. The Group raised £3.6bn additional funding during 2020 through a combination of equity and debt. In March 2020, the Group announced a £2bn (£3bn) loan facility, 30% of which is guaranteed by UK Export Finance (UKEF), repayable in March 2024, and in August 2020 extended its £550m unsecured bank loan facility by a maturity date of 15 October 2022.

### Viability

The viability assessment considers liquidity over a longer period than the going concern assessment. Our downscale scenario to use the same assumptions as the going concern statement in 2024 to 2036 assumes a slower recovery back to 2019 levels over a longer period.

Consistent with previous years, we have assessed our viability over a five-year period which is in line with our five-year forecasting process. We continue to believe that this is the most appropriate time period to consider as, inevitably, the degree of certainty reduces over any longer period.

In making the assessment, we have used the same base case, the same severe but plausible downscale scenario and have then extended our assessment over five years. We have created three new but plausible scenarios which capture the potential impact of our principal risks and the controls in place to mitigate them can be found on pages 52 to 57. We have selected (i) severe principal risks that could have the most material impact to liquidity in the next five years in a severe but plausible scenario. In addition to the downscale (worst-case) scenario, the risks chosen and scenarios used are as follows: business continuity, the loss of a key asset of our supply chain resulting in an inability to fulfill civil workloads orders for 12 months, compliance, a breach resulting in fines (greater than those agreed as part of our DPA) and loss of new business with governments and state owned companies. Political risk, a trade war between major trading blocs resulting in supply chain disruption and a loss of sales into impacted markets for six months. Climate change, the impact of climate change increasing our costs, reducing sales volumes and disrupting our supply chains (this scenario is discussed in more detail in our TCFD section and is a significant Civil航空航天 product safety event resulting in additional costs, penalties and lower service reversals.

The cash flow impacts of these scenarios were overlaid on the five-year forecast to assess how the Group’s liquidity would be affected. The scenarios assume an appropriate management response to the specific events which would be undertaken and also consider specific activities to improve liquidity such as raising additional funds, reducing expenditure and divesting parts of our businesses.

### General

On the basis described above, the Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities that fall due over the next 12 months. In making this statement, the Directors have made the following key assumptions:

- The Group is able to refinance existing debt facilities and extend existing available facilities as required. Debt maturities over the assessment period are as follows:
  - The £1.00bn Bank Loan Facility maturing in 2024
  - The £0.50bn Secured Bank Facility maturing in 2025
  - The £0.25bn Unsecured Bank Facility maturing in 2026
  - The £375m Bridge Loan maturing in 2025
- The Group has access to global debt markets and expects to be able to refinance these debt facilities on commercially acceptable terms
- The Group’s medium and long-term financing plans are designed to allow for periods of adverse conditions in large capital markets but not a prolonged period (e.g. 12 months) where debt markets were effectively closed to the Group.
- Improbable scenarios do not occur. Improbable scenarios include: a combination of severe and plausible risks impacting at the same time or where management actions do not mitigate an individual risk to the degree assumed; and
- That in the event of one or more risks occurring (which has a likelihood sever of effect on the Group of potential actions such as but not limited to restricting capital and other expenditure to only essentials and reducing or eliminating discretionary spend, reserving pay, delay, raising additional funds through debt or equity raisings, exercising disposals and undertaking further restructuring) would be taken on a timely basis if necessary.

The Group believes that the early warning mechanisms to identify the need for such actions and, where required, to execute those actions are in place. The annual consolidated financial statements for the year ended 31 December 2021 have been approved by the Directors; the auditors agreed that the consolidated financial statements were prepared in accordance with the relevant applicable financial reporting framework and that the financial statements have been prepared in accordance with the Companies Act 2006 and other applicable legislation and regulations.
Appendix: Listing Rule and associated Listing Rule Guidance

Listing Rule LR 9.8.6R (8)

In the case of a listed company incorporated in the United Kingdom, the following additional items must be included in its annual financial report:

A statement setting out:

(a) whether the listed company has included in its annual financial report climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures;
(b) in cases where the listed company has:
   (i) made climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures, but has included some or all of these disclosures in a document other than the annual financial report:
      (A) the recommendations and/or recommended disclosures for which it has included disclosures in that other document;
      (B) a description of that document and where it can be found; and
      (C) the reasons for including the relevant disclosures in that document and not in the annual financial report;
   (ii) not included climate-related financial disclosures consistent with all of the TCFD Recommendations and Recommended Disclosures in either its annual financial report or other document as referred to in (i):
      (A) the recommendations and/or recommended disclosures for which it has not included such disclosures;
      (B) the reasons for not including such disclosures; and
      (C) any steps it is taking or plans to take in order to be able to make those disclosures in the future, and the timeframe within which it expects to be able to make those disclosures; and
(c) where in its annual financial report or (where appropriate) other document the climate-related financial disclosures referred to in (a) can be found.

FCA guidance to Listing Rule LR 9.8.6R (8) (“LR Guidance”)

LR 9.8.6BG 21/12/2020

For the purposes of LR 9.8.6R(8), in determining whether climate-related financial disclosures are consistent with the TCFD Recommendations and Recommended Disclosures, a listed company should undertake a detailed assessment of those disclosures which takes into account:

(1) Section C of the TCFD Annex entitled “Guidance for All Sectors”;
(2) (where appropriate) Section D of the TCFD Annex entitled “Supplemental Guidance for the Financial Sector”; and
(3) (where appropriate) Section E of the TCFD Annex entitled “Supplemental Guidance for Non-Financial Groups”.

LR 9.8.6CG 01/01/2022

For the purposes of LR 9.8.6R(8), in determining whether climate-related financial disclosures are consistent with the TCFD Recommendations and Recommended Disclosures, the FCA considers that the following documents are relevant:

(1) the TCFD Final Report and the TCFD Annex, to the extent not already referred to in LR 9.8.6R(8) and LR 9.8.6BG;
(2) the TCFD Technical Supplement on the Use of Scenario Analysis;
(3) the TCFD Guidance on Risk Management Integration and Disclosure;
(4) (where appropriate) the TCFD Guidance on Scenario Analysis for Non-Financial Companies; and
(5) the TCFD Guidance on Metrics, Targets and Transition Plans.

LR 9.8.6DG 21/12/2020

For the purposes of LR 9.8.6R(8), in determining whether climate-related financial disclosures are consistent with the TCFD Recommendations and Recommended Disclosures, a listed company should consider whether those disclosures provide sufficient detail to enable users to assess the listed company’s exposure to and approach to addressing climate-related issues.

A listed company should carry out its own assessment to ascertain the appropriate level of detail to be included in its climate-related financial disclosures, taking into account factors such as:

(1) the level of its exposure to climate-related risks and opportunities; and
(2) the scope and objectives of its climate-related strategy,

noting that these factors may relate to the nature, size and complexity of the listed company’s business.

LR 9.8.6FG 01/01/2022

Where making disclosures on transition plans as part of its disclosures on strategy under the TCFD Recommendations and Recommended Disclosures, a listed company that is headquartered in, or operates in, a country that has made a commitment to a net zero economy, such as the UK’s commitment in the Climate Change Act 2008 (2050 Target Amendment) Order 2019, is encouraged to assess the extent to which it has considered that commitment in developing and disclosing its transition plan. Where it has not considered this commitment in developing and disclosing its transition plan, the FCA encourages a listed company to explain why it has not done so.

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5 Some of the changes take effect for periods beginning on or after 1 January 2022; transitional rules are set out in LR TR 17 Transitional Provisions in relation to climate-related financial disclosures under LR 14.3.27R and LR 9.8.6R(8) – FCA Handbook

6 See section 2.1

7 See section 2.2
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