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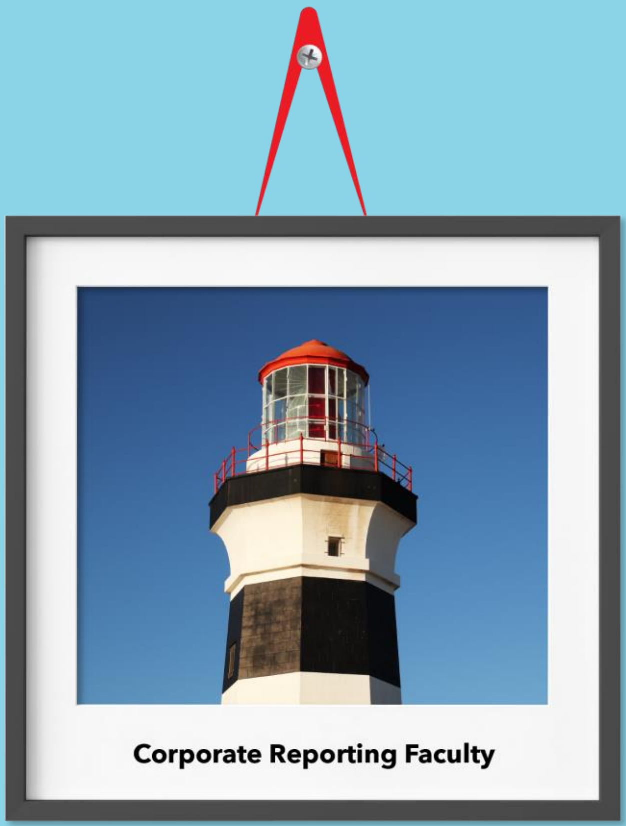

Getting started with climate reporting Part 2

26 September 2023

This webinar will commence shortly ……

Introduction

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Today's presenters

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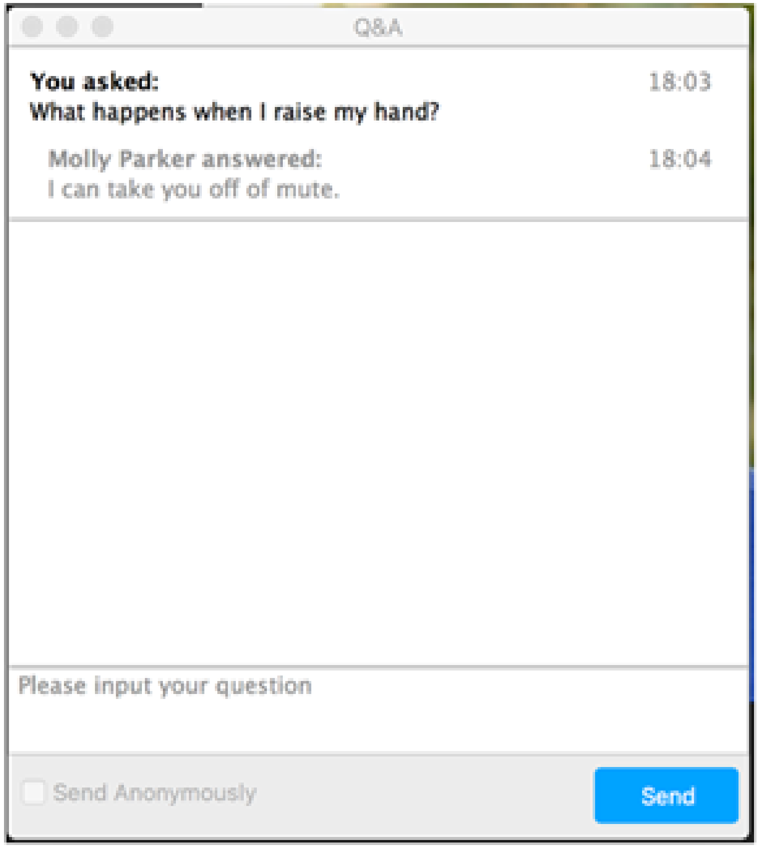
Ask a question and access resources



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Contents

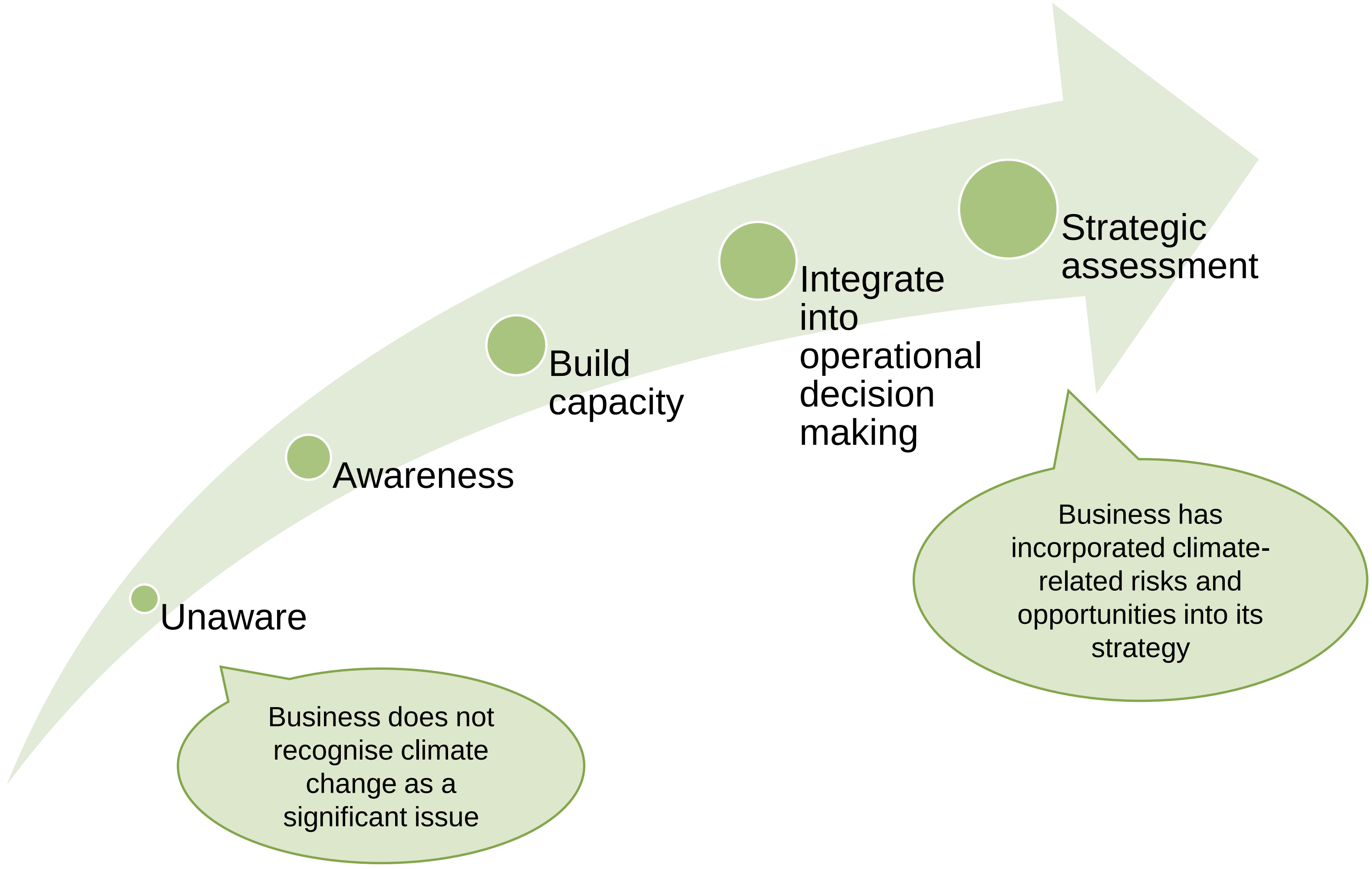
Regulatory Requirements Recap

Regulatory Requirements – A Recap

The regulations provide for 8 disclosure requirements across
Governance, Strategy, Risk Management, and **Metrics and Targets.**

1. Company's governance arrangements regarding assessing and managing climate-related risks and opportunities (CRROs).
2. Principal CRROs arising from operations, and the time periods by reference to which they are assessed.
3. Actual and potential impacts of the principal CRROs on the business model and strategy.
4. Analysis of the resilience of the business model and strategy, taking into consideration different climate-related scenarios.
5. How the company identifies, assesses, and manages CRRs.
6. How processes for identifying, assessing, and managing CRRs are integrated into the overall risk management process.
7. Targets used to manage CRRs and to realise CROs and a description of performance against those targets.
8. KPIs used to assess progress against these targets the calculations on which the KPIs are based.

Climate reporting is a journey…



Source: Transition Pathway initiative's State of transition report 2021

Describing your governance

Governance

1 Company’s governance arrangements regarding assessing and managing climate-related risks and opportunities (CRROs).

Core goal

- Allows a user to understand how climate-related risks and opportunities are identified, considered, and managed.

Disclosure requirements

- Which person or committee has responsibility
- Frequency of considerations
- Extent of Board consideration

Other considerations

- Current skillset
- Training and external assistance

Example disclosures

CLIMATE RISKS AND TCFD

Why does it matter?

We recognise that climate change is a pressing global issue and as a company we are committed to promoting a sustainable environment and to provide updates on our progress in doing so. To that end, we are pleased to issue our report in response to the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations.

What have we done?

The TCFD recommendations encourage companies to disclose information on their financial risks and opportunities due to climate change, and how they are being managed. During 2022 we further developed our approach to assessing the impact of climate change on our business operations, strategy, and financial planning.

How do we ensure good governance?

The Board views oversight and effective management of environmental, social and governance related risks as essential to the Group's ability to execute its strategy and achieve long term sustainable growth. The Board receives quarterly updates on progress around ESG focus areas including climate related risks and opportunities. In addition, the annual budget process now includes consideration of operating company level carbon reduction plans, and we will be introducing a similar focus into the 2023 strategic planning process which covers a five year timeframe. The evaluation of potential acquisitions also includes assessment of the impact on our carbon reduction targets. The Audit Committee is responsible for overseeing the management of climate related risks and opportunities and associated metrics and targets. In addition, the Risk Committee is responsible for identifying and assessing climate related risks and opportunities and during the year we developed and implemented an approach to support this assessment.

PLC Board

- Responsible for approving and overseeing the Group's ESG targets
- Receives six-monthly updates on ESG progress from the ESG Committee
- Has oversight of TCFD reporting and disclosures (through the Audit Committee and Risk Committee)

ESG Committee

- Responsible for defining and delivering the Group's ESG approach and 2040 goals
- Formed in 2021, meeting every six weeks to review and oversee progress against ESG targets
- Use of third party specialists to provide additional insight and training (including climate change issues)
- Members include: Group CEO / Executive Chair, Group CFO, Head of Talent, Group Company Secretary, Group Head of Sustainability and other senior management

Risk Committee

- Responsible for the methodology to identify and assess climate related risks and opportunities
- Agrees TCFD metrics and targets with ESG Committee
- Reports significant climate related risks and opportunities and corresponding mitigation plans to the Audit Committee for consideration
- Further details about the Risk Committee can be found on page 61.

Source: Hill & Smith PLC Annual Report and Accounts 2022
[Hill & Smith PLC - Reports and presentations (hsgroup.com)]

These examples are not intended to represent "best practices" nor demonstrate disclosures that fully meet the associated recommended disclosure(s). Instead, the examples are provided to assist you with generating ideas for your own disclosures.

Describing your principal climate-related risks and opportunities

Principal climate-related risks and opportunities

1. Principal climate-related risks and opportunities are those which have the potential to have a significant negative or positive impact on the company or LLPs business model and/or strategy
2. In describing the actual or potential impact, a business should consider both the actions that are being put in place now and contingency plans for actions which may be taken in the future
3. Determination of materiality for climate-related issues should be consistent with how materiality of other information included in financial statements are determined
4. Ensure the relationship between climate-related risk disclosures and other risk disclosures in the annual report is clear
5. Ensure that the discussion of risks and opportunities is balanced, not placing undue emphasis on any opportunities disclosed

Example disclosure – Linkage to principal risk disclosures

3. Competitive markets

Risk rating
HIGH

Impact: Medium Likelihood: High

Risk appetite
Receptive

Link to strategy
Customer satisfaction
Complexity reduction
Innovation
Sustainability
Talent & engagement
Digital

Links to other risk elements
Global macro-economic uncertainty & political instability
Margin erosion
Organic growth
ESG/Climate Change

Competition in our core markets, from both existing and new competitors could create strong pricing pressures, potentially resulting in lost sales and reduced profits.

No change

This year IMI Critical has seen a significant increase in Aftermarket orders for parts and upgrades, however climate change transitional risks could see a decline in the Oil & Gas sector in the medium-term.

We have an M&A strategy which looks to apply our expertise in attractive markets, in established and adjacent sectors with a strong link to our Better World strategy. This has been demonstrated through the recent purchases of Adaptas, Bahr Modultechnik, CorSolutions and Heatmiser.

Our Growth Hub aims to create significant customer-pull and uncover new opportunities by solving our customers' key problems, through advanced applications engineering, helping us deliver more competitive products such as Adaptix, Hydrogreen, EroSolve, VIVO Electrolyser and TA Smart.

We monitor competition risk monthly by reviewing progress against our strategic growth plans and the performance of our peers.

Robust contractual terms ensure material price inflation is passed onto the end customer. The nature of IMI Critical's long-term projects enables efficient hedging of foreign currency and commodity prices.

We maintain strong brands and defend our trademarks and brands and continue to develop our market leading applications engineering expertise.

Our Value Today initiatives aim to maintain or even strengthen our competitive position through innovative solutions from Growth Hub, continuous process improvement, growth in the Aftermarket and an acceleration of IMI Hydronic's HVAC solutions due to the greater demand for energy efficiency.

Source: IMI Plc, Annual Reports and Accounts 2022 (imiplc.com)

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What timeframes should you use to assess climate-related risks and opportunities?

Climate-related risks and opportunities may arise in the short term, medium term, or over a period of time which may be outside your usual planning cycle.

You should consider all relevant time horizons, not just those that are usually considered for budgetary, strategy or planning purposes. For example, you could consider:

- Life of assets
- Length of financing arrangements
- The profile of climate-related risks you face
- Sectors and geographies you operate in
- Nature of your business and operations

Disclosures should explain how you have determined the time periods that you are treating as short, medium and long term

Describing your risk management process

What to think about when describing your process?

How do you identify, assess and manage climate-related risks and opportunities?

Identified at Group or Subsidiary levels?

How often is this refreshed?

What systems and processes are used?

Integrated into the existing risk management process?

Better disclosures…

1. Are clear on the relative size and importance of climate-related risks to other risks
2. Connect to existing risk disclosures
3. Clearly define and describe materiality relating to the risk assessment
4. Explain how processes and controls are integrated into existing risk management processes

Introduction to scenario analysis

What is scenario analysis?

Identify current state

Project future state based on selected scenarios

For example:
- 1.5 degrees

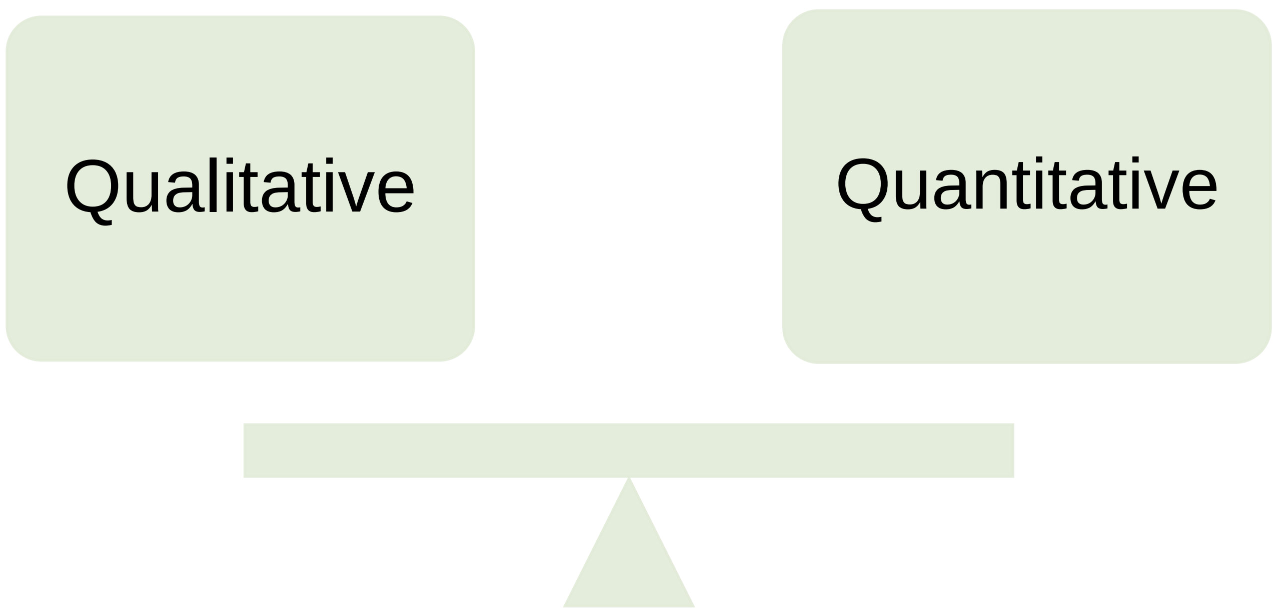
Identify assumptions that may impact the strategy

For example:
- Government Policy
- Macro-Economic Trends
- Energy Pathways
- Technology

Project future state based on different scenarios

Weighing up your approach…

Under CFDs, the approach to scenario analysis should be at least qualitative.



Example disclosure – evolution of scenario analysis…

2019

The main impacts of the 2°C scenario were as follows:

- Carbon pricing is introduced in key countries and hence there are increases in both manufacturing costs and the costs of raw materials such as dairy ingredients and the metals used in packaging.
- Zero net deforestation requirements are introduced and a shift to sustainable agriculture e.g. Climate Smart Agriculture, puts pressure on agricultural production, raising the price of certain raw materials.

The main impacts of the 4°C scenario were as follows:

- Chronic and acute water stress reduces agricultural productivity in some regions, raising prices of raw materials.
- Increased frequency of extreme weather (storms and floods) causes increased incidence of disruption to our manufacturing and distribution networks.
- Temperature increase and extreme weather events reduce economic activity, GDP growth and hence sales levels fall.

Source: Unilever Annual Report and Accounts 2019
Unilever Annual Report and Accounts 2019

2021

Source: Unilever Annual Report and Accounts 2021
Unilever Annual Report and Accounts 2021

1.5°C scenario analysis financial quantification in current money

Financial quantification of the assessed regulatory and market risks

Risk	Potential financial impact on profit in the year if no actions to mitigate risks are taken[a] 2030	2039	2050	Key assumptions
Carbon tax and voluntary carbon removal costs 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 neutralisation of our residual emissions post 2039.	-€3.2bn to -€2.4bn	-€5.2bn to -€4.8bn	-€6.1bn	• Absolute zero Scope 1 and 2 emissions by 2030 • Scope 3 emissions exclude consumer use emissions • Carbon price would reach 245 USD/tonne by 2050, rising more aggressively in early years in a proactive scenario • The price of carbon offsetting would reach 65 USD/tonne by 2050 • Offsetting 100% of emissions on and after 2039

Land use regulation impact on food crop outputs
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.
	-€0.8bn to -€0.3bn	-€2.1bn to -€0.7bn	-€5.1bn to -€1.7bn	• By 2050, in a proactive scenario, land use regulation would increase prices by:
				  • Palm: ~28%
				  • Commodities and food ingredients: ~33%
				• By 2050, in a reactive scenario, land use regulation would increase prices by:
				  • Palm: ~10%
				  • Commodities and food ingredients: ~11%

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Who should be involved?

Scenario analysis – Key reminders

1. Scenarios should be sufficiently varied to cover a range of future outcomes relevant to the business
2. Disclose the scenarios used (including the source where appropriate) and why
3. Disclose the effect that operating within each scenario would have on the resilience of the current business model and strategy
4. Disclose the extent of the mitigating measures and residual risks and effects of climate change
5. Disclose the assumptions and estimates that underpin the scenario analysis exercise, including how and why if they have changed from the prior period.
6. Explain if there is divergence to the methodologies, assumptions and estimates used within industries and why they remain appropriate
7. Renewed at least every 3 years, unless there is a significant change in assumptions

Describing your metrics and targets

Metrics and Targets

7	Targets used to manage CRRs and to realise CROs and a description of performance against those targets.
8	KPIs used to assess progress against these targets the calculations on which the KPIs are based.

Core goal

- Allows a reader to understand how you measure climate-related performance, as well as your progress towards pre-defined targets.

Metrics and Targets

Disclosure requirements

- Explain targets and how it links with future operations and the related risk or opportunity.
- Timeframe to meet target – short, medium, long term.
- Describe how the target is monitored and assessed for progress.
- This description includes the KPIs used and their calculation methodology.
- Changes in KPIs – reason for change and why the new one is more effective.

Example disclosures

Net Zero Asset Owners Alliance (NZAOA) targets

Aviva has also set two sub-portfolio targets through the United Nations-convened NZAOA. These are outlined below along with the KPIs which are used to track them.

Net Zero Asset Owner Alliance-based target	Key performance indicator identified
25% reduction in real estate carbon intensity by 2025 from a 2019 base year	% reduction in direct real estate portfolio GHG emissions per square metre (m^2) from 2019 base year
25% reduction in weighted average carbon intensity for the listed equity and corporate bonds portfolio by 2025 from a 2019 base year	% reduction in listed equity and corporate credit weighted average carbon intensity (WACI) by revenue from 2019 base year

Table 3: WACI (tCO_2e/$m revenue) for credit and equities (shareholder and policyholder assets) by business[2] Source: Aviva/ MSCI[3]

Entity	2022	2021
Aviva total[5]	**120**	135
UK & Ireland Life	**116**	133
UK & Ireland General Insurance	**70**	84
Canada	**50**	46

Note 1 - Changes to metrics and comparative amounts

Metrics

In 2022 we have expanded the scope of metrics to include additional policyholder data. We have also considered the latest methodology published in 2022. As a result, the following metrics have been updated:

- Estimated financed emissions (note 5) - The weighted average carbon intensity metric for credit and equities shareholder assets, disclosed at 2021, is included in our Financed emissions note. The scope has been expanded to include policyholder data. Attributed emissions (being the Scope 1 and 2 indirect emissions from the investee companies) is now disclosed in addition to intensity.

Scope 1 and 2 - location-based emissions (tCO_2e)/ £m GWP	
Definition	GHG intensity calculated as total quantity of Scope 1 and 2 (location-based) emissions per £m gross written premiums (GWP).
Scope	This is reported for the period 1 January – 31 December. We include emissions from Group entities over which we have operational conti Overview'.
Units	Tonnes CO_2e (tCO_2e) / £ million GWP.
Calculation and reporting method	This GHG intensity is calculated as: total quantity of Scope 1 and 2 (location-based) emissions divided by £m GWP. A location-based met which energy consumption occurs. GWP is a financial measure disclosed in the Annual Report and Accounts. Data on Scope 1 and 2 (location-based) operational emissions are calculated based on the method highlighted in the external reporting criteria provided for Scope 1 and 2 operational emissions.
Source	Emission data is sourced from the Group's environmental system. GWP is a financial measure disclosed in the Annual Report and Accounts.

Source: Aviva plc Climate-related Financial Disclosure 2022
[Our reports - Aviva plc]

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Metrics and Targets – Thematic Review

FRC Thematic Review

- Combined FRC and FCA – TCFD by premium listed companies

Improvement from prior year

- Incremental improvements and increased transparency
- Room for improvement – company-specific metrics and targets, better linkage, explain year-on-year movements

Adequate disclosure of plans

- Metrics unclear and limited explanations of performance
- Expected steps, highlighting areas of judgement and uncertainties

Consistent and comparable metrics

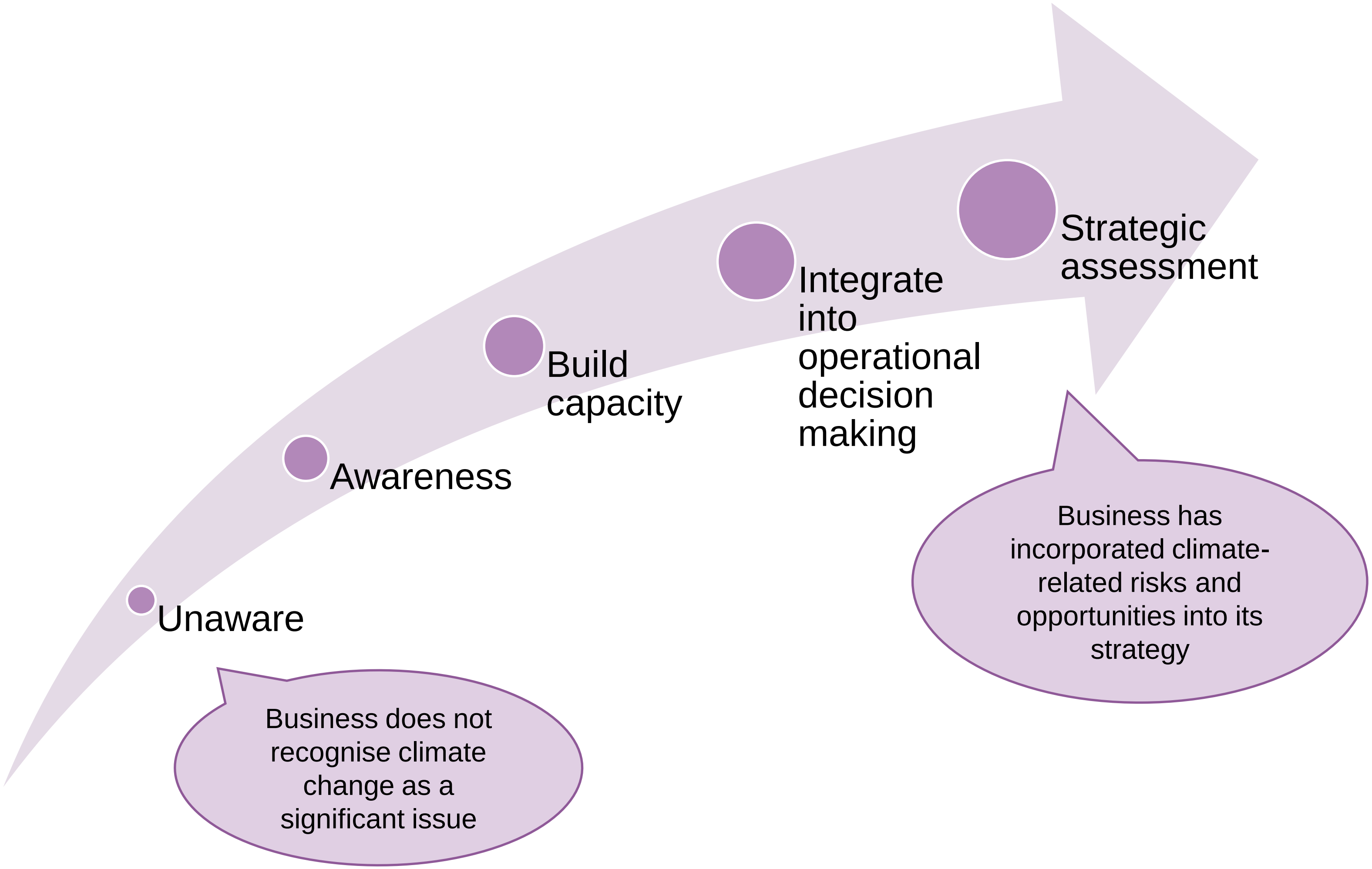
- Direct comparisons are challenging due to methodological differences
- Cross-sector and industry-specific metrics

Explain impact of targets on financials

- Difficult to determine the extent to which impact of targets had been considered

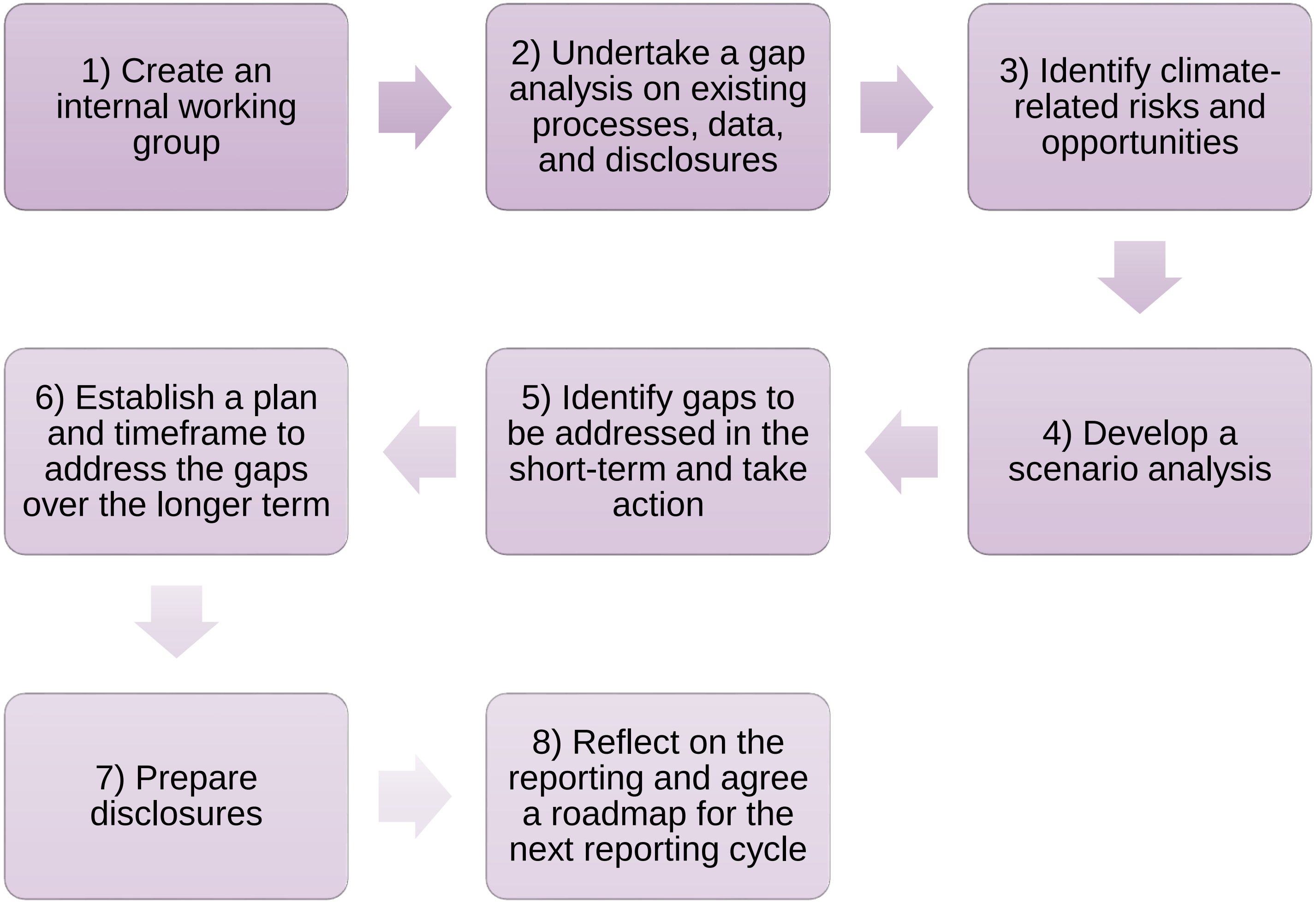
The climate reporting journey

Climate reporting is a journey…



Source: Transition Pathway initiative's State of transition report 2021

Creating an implementation roadmap



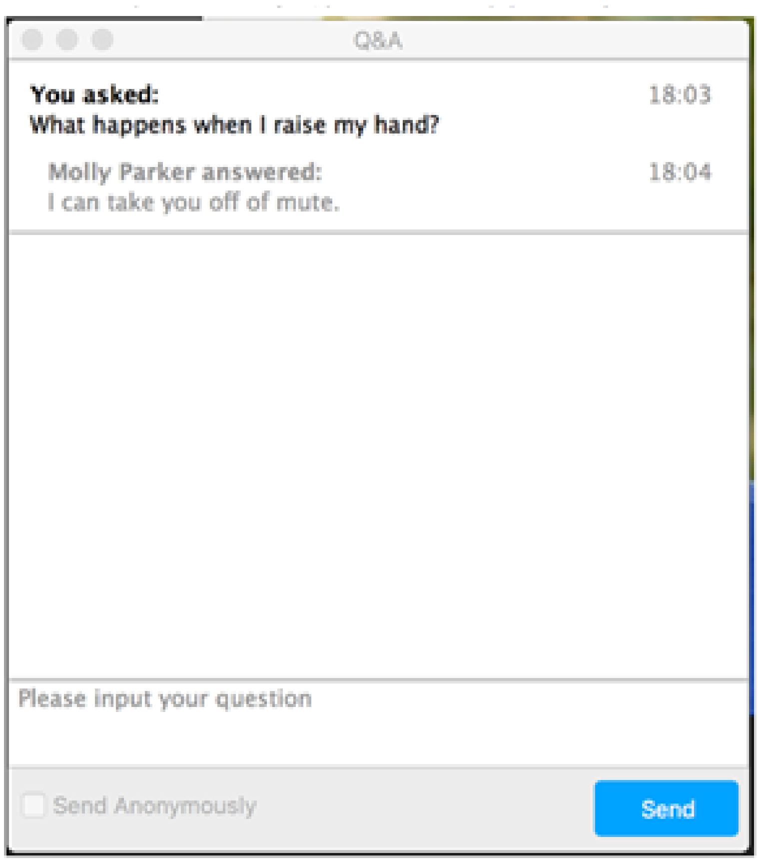
Poll question

Poll question

How would you describe your level of preparedness for getting started with climate reporting, either in your business or with your clients?

A. Completely prepared
B. Reasonably well prepared
C. Moderately well prepared
D. Prepared to a limited extent
E. Not prepared at all

Ask a question and access resources



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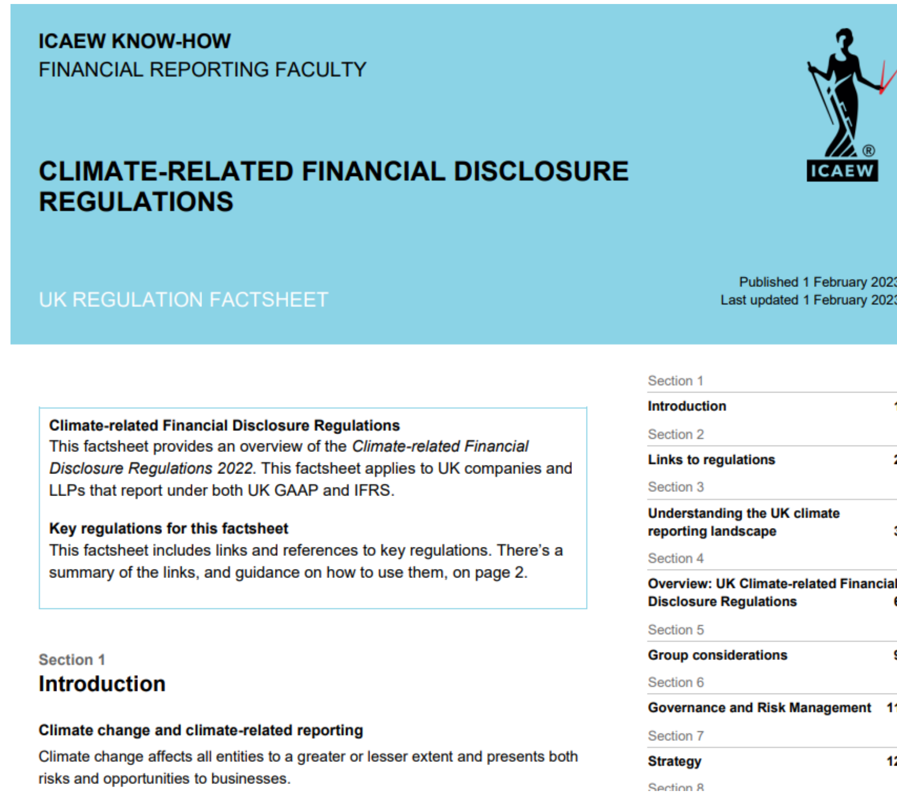
Faculty and other resources

- Non-financial reporting hub
  - icaew.com/nfr

- ICAEW factsheets
  - icaew.com/crffactsheets
  - Climate-related Financial Disclosure Regulations Factsheet

- Webinar recordings
  - icaew.com/crfwebinars
  - Getting started with climate reporting part 1

- TCFD guidance on scenario analysis
  - https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf



ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY

CLIMATE-RELATED FINANCIAL DISCLOSURE REGULATIONS

ICAEW

UK REGULATION FACTSHEET

Published 1 February 2023
Last updated 1 February 2023

Climate-related Financial Disclosure Regulations
This factsheet provides an overview of the *Climate-related Financial Disclosure Regulations 2022*. This factsheet applies to UK companies and LLPs that report under both UK GAAP and IFRS.

Key regulations for this factsheet
This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

Section 1
Introduction

Climate change and climate-related reporting
Climate change affects all entities to a greater or lesser extent and presents both risks and opportunities to businesses.

Did you know?

From 1 November 2023, ICAEW's revised Continuing Professional Development (CPD) Regulations bring in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at icaew.com/cpdchanges.

Questions

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Thank you for attending

Please take the time to fill out our short survey.

- Contact the Corporate Reporting Faculty.
- Tel: +44 (0)20 7920 8533
- Email: crf@icaew.com
- Web: icaew.com/crfac

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