Company Reporting Common Practice report
Climate Change Disclosures

This report was first published on the Croner-i Tax and Accounting Platform in July 2019.

Background, purpose and scope

Climate change is one of the biggest global topics currently being discussed in the media, with governments across the world being called to action by both climate scientists and the public.

The initiatives and strategies being undertaken by governments relating to climate change and the environment are complex and varied. The UK Government has already committed to a target of net zero emissions by 2050, which will require significant investment in green and low-carbon technologies, services and infrastructure. Part of the UK Government's approach to achieving this target for businesses was the release of the '[Green Finance Strategy]' on 2 July 2019 by the Department for Business, Energy and Industrial Strategy (BEIS). This policy paper sets out 'a comprehensive approach to greening financial systems, mobilising finance for clean and resilient growth, and capturing the resulting opportunities for UK firms'.

As part of the Green Finance Strategy, the Government is planning to introduce requirements by 2022 for publicly listed companies and large asset owners to disclose how climate change risk impacts their activities. These disclosures would be based on those currently recommended by the international Task Force on Climate-Related Disclosures (TCFD). The Government has established a taskforce which is currently considering the most effective way to approach these disclosures, where they should be made and whether they should be made mandatory.

The TCFD was established by the Financial Stability Board, an international body, in 2015. Its purpose is to enhance transparency on the financial risks and opportunities from climate change. The suggested disclosures established by the TCFD are recommended to be implemented by all organisations, but in particular those with public debt or equity, asset managers, and pension plans. The TCFD's disclosure recommendations were formally endorsed by the UK Government in 2017, and they are currently applied by companies on a voluntary basis.

An additional reporting scheme relating to environmental information is the CDP Climate Change Project. This is a global disclosure system, where companies self-report in order to measure and manage their environmental impact, and are given a grading which can be disclosed in the annual report. The CDP Climate Change project aligns its information requests with the TCFD disclosure recommendations.

The TCFD released their latest status report in June 2019 which gave an overview of climate-related disclosures given in annual reports of listed groups between 2016–2018. From this they noted that the inclusion of recommended disclosures had increased, but was still considered too low for investors, and more clarity was needed around potential financial impacts to make the disclosures 'decision useful'.

In this context, this Common Practice report summarises the results of our review of the latest 2018 and 2019 financial statements of 20 UK listed companies for the inclusion of disclosures relating to climate change. The companies were selected at random from a variety of industries such as retail, mining, aerospace and banks. The list of annual reports reviewed detailing company name, period end, auditor and industry classification can be found on page 7.

Key findings

Although many companies mentioned climate change (in the strategic report only), there were few who provided detailed disclosures around this, and the focus tended to be on the measures a company had or will take to minimise its environmental impact, rather than the risks and opportunities for a company from climate change itself, which is the focus of the TCFD recommendations.

Only one company provided disclosures clearly based on the TCFD recommendations. However, almost half of the companies reviewed were reporting under the CDP Climate Change Project which has aligned its reporting with the TCFD recommendations. Therefore, if the UK Government does require climate change disclosures to be made in annual reports that are in line with the TCFD recommendations, this may not be too onerous for those already part of the CDP scheme.

- There are currently no mandatory disclosures directly related to climate change.
- 85% of companies mentioned climate change in the strategic report.
- 47% of these references to climate change occurred within a sustainability section in the strategic report.
- 59% of companies had only brief coverage of climate change, 29% had more detailed discussion, and the remainder fell in the middle.
- 30% of companies mentioned TCFD or TCFD disclosures, but only one company was clearly applying the TCFD disclosure recommendations.
- 45% of companies disclosed that they were signed up to the CDP Climate Change Project (CDP).
- Every company reviewed had complied with the legal requirement to include details of their greenhouse gas emissions, and 75% of companies reported a decrease in emissions year on year.
- Climate change was not noted as a material risk in the auditor's reports or financial statements of any company. One company noted climate change as being a material risk from a sustainability strategy perspective.

Guidance and tools from Croner-i

- Our Company Reporting service is an independent research service which reports on the constantly changing IFRS financial reporting practices of public companies. As well as monthly Common Practice Reports such as this example, monitor reports are published weekly which review the Annual Report and Financial Statements of a specific group for changes in disclosures, compliance with IFRS requirements and changing policies and practice.
- Preparing IFRS Accounts explains the current set of international accounting standards as applied in the UK, focusing on the disclosure requirements for each standard.
- The Model Accounts product allows users to quickly and easily understand the way in which both primary statements and notes might typically be reflected in a variety of different account types under UK GAAP and IFRS.
- Croner-i Disclose is a web-based software tool to assist in the production of accurate financial statements by providing detailed disclosure checklists for a variety of different entities and reporting frameworks, including IFRS (EU in the UK) and requirements for listed entities.

Analysis

What are the requirements?

There are currently no mandated disclosures related specifically to climate change. However, as noted above, the Government has endorsed the voluntary disclosures recommended by the TCFD.

There are four key elements to the TCFD disclosure requirements:

Governance – regarding climate-related risks and opportunities.

Strategy – actual and potential climate-related risks and opportunities on an organisation's business, strategy and financial planning.

Risk management – processes used to identify, assess and manage risks.

Metrics and targets – those used to assess and manage relevant climate-related risks and opportunities.

The TCFD recommend that the disclosures are included in annual financial filings.

The TCFD released their latest status report in June 2019 which gave an overview of climate-related disclosures given between 2016–2018. Despite recommending that disclosures are included in annual financial findings, the review covered annual reports, integrated reports, sustainability reports and climate-specific reports to get a full picture of what companies are disclosing. In total, 1,100 large companies were reviewed across multiple sectors and across 142 countries. It was found that 785 organisations across 49 countries had adopted the TCFD recommendations, which was a 50% increase from September 2018.

This latest review highlighted three key findings:

1. The average number of recommended disclosures had increased by 29% from 2.8 in 2016 to 3.6 in 2018. The level of disclosure is still considered to be too low overall for investors as the TCFD recommend 5 disclosures when there is no material risk and 11 disclosures when there is a material climate-related risk. Of a number of preparers surveyed as part of the review, 3 out of 5 companies viewed climate-related risk as material.
2. There is concern that the disclosures which were given were not 'decision-useful'. The TCFD considers that more clarity is needed around the potential financial impact.
3. Where companies were using scenarios i.e. what might happen if global temperatures were to rise by 1.5 degrees, 2 degrees, 3 degrees etc., the majority of companies did not disclose information on the resilience of their strategies, despite these scenarios being used to assess resilience.

The next TCFD status report will be released in September 2020.

Greenhouse gas emissions

One of the metric disclosures required is the scope 1, 2 and 3 greenhouse gas emissions, and related risks. The disclosure of emissions is currently required of quoted companies under the *Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008*.

Schedule 7 Pt. 7 requires quoted companies to disclose the annual quantity of emissions in tonnes of carbon dioxide equivalent, including the calculation method and a ratio expressing the emissions in relation to a quantifiable factor associated with the company's activities.

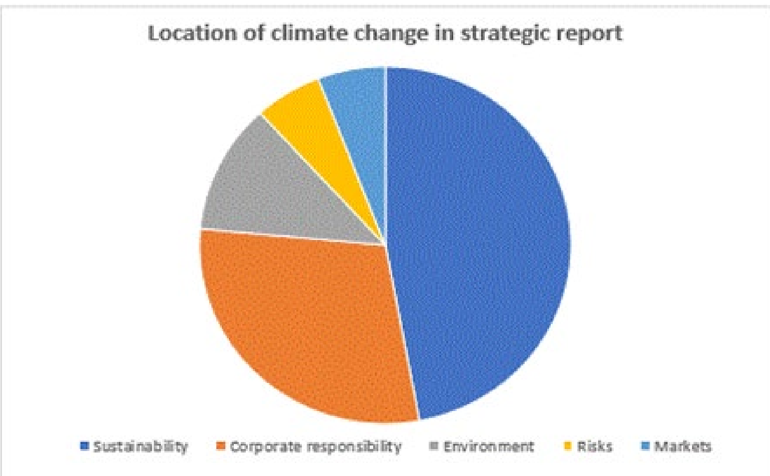
Although this greenhouse gas disclosure is included in this common practice report, we have not covered it in great depth. This is because it is just one small aspect relating to climate change and is different in focus to the TCFD disclosures which relate to how climate change itself may impact the business.

In addition, these disclosures have now been replaced with those set out in *Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018* which apply from 1 April 2019. We will be looking in depth at these new requirements in a common practice report next year, once annual reports including these new disclosures are available.

Is climate change included in the annual report?

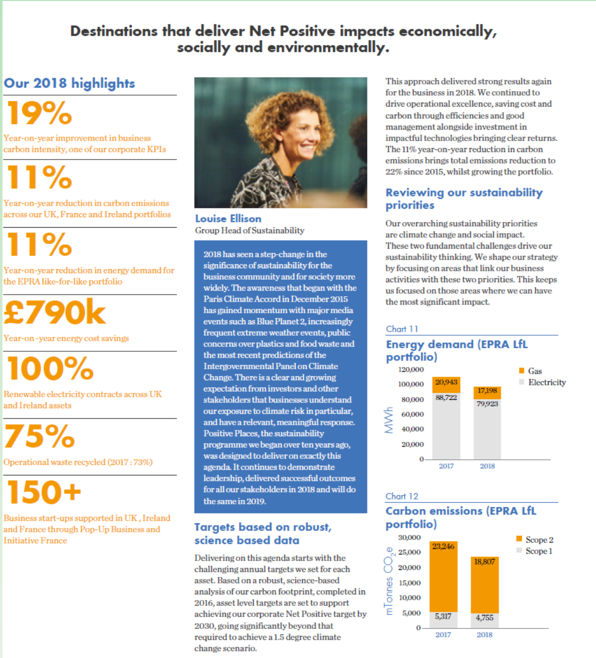
Out of our sample companies, 85% had some mention of climate change in every case in the strategic report.

The area within the strategic report in which climate change was discussed varied. Within a 'Sustainability' section was most frequent at 47%, and 'Corporate Responsibility' was the second most popular with 29% of companies including the climate change information in such a section.



The discussions and disclosures regarding climate change varied across the companies. Some included detailed discussion that outlined how they were approaching the issue of climate change, whether it affected their business and/or what they were doing to tackle the issue of climate change. Other companies mentioned it very briefly as something that they are considering, monitoring or in relation to making improvements in carbon emissions or other environmental issues.

Extract 1: Hammerson Plc



Destinations that deliver Net Positive impacts economically, socially and environmentally.

Our 2018 highlights

19%
Year-on-year improvement in business carbon intensity, one of our corporate KPIs

11%
Year-on-year reduction in carbon emissions across our UK, France and Ireland portfolios

11%
Year-on-year reduction in energy demand for the EPRA like-for-like portfolio

£790k
Year-on -year energy cost savings

100%
Renewable electricity contracts across UK and Ireland assets

75%
Operational waste recycled (2017 : 73%)

150+
Business start-ups supported in UK , Ireland and France through Pop-Up Business and Initiative France

Louise Ellison
Group Head of Sustainability

2018 has seen a step-change in the significance of sustainability for the business community and for society more widely. The awareness that began with the Paris Climate Accord in December 2015 has gained momentum with major media events such as Blue Planet 2, increasingly frequent extreme weather events, public concerns over plastics and food waste and the most recent predictions of the Intergovernmental Panel on Climate Change. There is a clear and growing expectation from investors and other stakeholders that businesses understand our exposure to climate risk in particular, and have a relevant, meaningful response. Positive Places, the sustainability programme we began over ten years ago, was designed to deliver on exactly this agenda. It continues to demonstrate leadership, delivered successful outcomes for all our stakeholders in 2018 and will do the same in 2019.

Targets based on robust, science based data

Delivering on this agenda starts with the challenging annual targets we set for each asset. Based on a robust, science-based analysis of our carbon footprint, completed in 2016, asset level targets are set to support achieving our corporate Net Positive target by 2030, going significantly beyond that required to achieve a 1.5 degree climate change scenario.

This approach delivered strong results again for the business in 2018. We continued to drive operational excellence, saving cost and carbon through efficiencies and good management alongside investment in impactful technologies bringing clear returns. The 11% year-on-year reduction in carbon emissions brings total emissions reduction to 22% since 2015, whilst growing the portfolio.

Reviewing our sustainability priorities

Our overarching sustainability priorities are climate change and social impact. These two fundamental challenges drive our sustainability thinking. We shape our strategy by focusing on areas that link our business activities with these two priorities. This keeps us focused on those areas where we can have the most significant impact.

Chart 11
Energy demand (EPRA LfL portfolio)

MWh	2017	2018
Gas	20,943	17,198
Electricity	88,722	79,923

Chart 12
Carbon emissions (EPRA LfL portfolio)

mTonnes CO_2e	2017	2018
Scope 2	23,246	18,807
Scope 1	5,317	4,755

2018 materiality review

During 2018 we carried out a materiality review, engaging with key stakeholders to understand their perspective on sustainability and how that may have changed since our last review, four years ago.

Our discussions identified new and emerging issues for us to focus on within the key themes of climate change and social impact (see box) and confirmed that our key material sustainability issues remain:

- Energy security and demand
- Minimising use of resources
- Local community engagement

As we expected there was an increased focus on climate risk from our investor stakeholders. Understanding our exposure to these risks and having a clear strategy for managing them is expected as part of effective businesses management as set out in the recommendations of the Task Force for Climate-Related Financial (TCFD) Disclosures.

Related to this is an increasing concern amongst our investors with transition risk - how our assets and performance might be affected by regional, national and international policies implemented to mitigate climate change and its related impacts.

We are already experiencing this in the UK in the form of the Climate Change Levy, differential energy pricing for periods of peak demand and Clean Air Zone policies. Bristol is the first UK city to have set a target to be Carbon Net Zero by 2030, matching our target. In Ireland, the EU's Nearly Net Zero Energy Buildings requirements are being adopted early.

Our focus on energy management specifically addresses these risks and our development teams are experienced in reflecting tough targets in our planned schemes. Our Net Positive approach and thinking is being embedded into our City Quarters strategy, aligning our approach with these key stakeholder targets and ambitions.

Our material issues

Our 2018 materiality review confirmed that our sustainability strategy is focused on the right areas. It also revealed changes in stakeholder priorities.

Topics moving upwards include:

- Reporting and Governance
- Climate Risk
- Sustainable product
- Building labels
- Place making

New issues to emerge include:

- Air quality
- Carbon pricing
- Accessibility and demographic change
- UN Sustainable Development Goals

MORE For more on our materiality review see our 2018 Positive Places report at www.sustainability.hammerson.com.

Responding to the focus on climate risk

Having established a long term, consistent approach to addressing sustainability, we are already looking in detail at climate risk. We completed a climate risk assessment for our managed assets in 2018 using 2030 and 2050 climate scenarios. This means we understand where those risks lie for our assets. Two key areas were identified:

- potential over-heating during higher summer peak temperatures
- potential surface water flooding through extreme rainfall.

Our assets are not exposed to significant immediate climate risk. However, having completed this study we are now in a position to work with our suppliers to reflect the results in our planned maintenance work and business plans, ensuring the continued resilience of the portfolio in a timely, cost effective and managed way.

Increasing ESG reporting requirements

Another key insight from our materiality review was the significant increase in importance our investors are placing on clear environmental, social and governance (ESG) strategies and robust, detailed reporting.

Our long-term, strategic approach to sustainability places us at the forefront of our sector in being able to respond to this expectation in a positive way. We provide extensive reporting of our sustainability performance and outcomes annually along with updates on projects and initiatives through the year via social media and our Positive Places website.

We are benchmarked by a number of industry and investment benchmarks with consistently high performance within our sector (see Table 13).

Generating value for the business

Positive Places delivers both direct and indirect value for the business. Financial benefits flow directly to the Group through energy cost savings and income from renewable power generation. During 2018 energy efficiencies alone saved £790k for the business and our tenants, whilst reducing exposure to energy supply risk and carbon emissions. These benefits are driven by proactive management as well as investment in technology. All capital investments in environmental improvements are supported by a clear business case and return.

Indirect benefits include savings to service charge, boosting footfall and inspiring visitor loyalty with community engagement initiatives, all of which make our centres more attractive to retailers. Our strategy helps build our social capital as a trusted partner supporting our relationships with important stakeholders such as our investors, local authorities and community groups.

Achieving positive environmental and social outcomes while lowering costs is an important part of making our venues the first choice for the best brands.

Table 13
ESG benchmarking scores

	2018	2017
Carbon Disclosure Project	B	B-
GRESB	Green Star 4, 75	Green Star 4, 77
FTSE 4 Good	Percentile 91, ESG Rating: 3.9/5	Percentile 91, ESG Rating: 3.6/5
Dow Jones Sustainability Index	66	63
EPRA sBPR	Gold Award	Gold Award
MSCI	AA	AA
OEKOM	C+	C+

29% of the companies which mentioned climate change also mentioned sources external to the annual report which contained further information on the company's approach to climate change. Apart from one, these were all companies which gave detailed or 'medium' climate change disclosures, indicating these were the companies that had given this area detailed consideration. An example of such an external reference can be seen from Marshalls Plc at Extract 2.

Extract 2: Marshalls Plc

TCFD disclosures

Out of the 20 sampled companies, 30% (6 companies) mentioned TCFD or their recommended disclosures. Half of these companies only noted the existence of TCFD and the recommended disclosures. Of the remainder, one company stated that it is reviewing the recommendations and will consider implementing these in the following year and one stated it is working to align its reporting to the TCFD recommendations. This company seems to have disclosed some climate change strategy points in accordance with the disclosures recommended by the TCFD, as it includes comments on the risks to the business and operational resilience.

The final of the six companies which mentioned TCFD in the annual report, Cobham Plc, has stated that the TCFD recommendations are one of the sources used when considering the corporate responsibility and sustainability strategy. There are also disclosures set out in the strategic report entitled 'TCFD disclosures' which follow the format of the TCFD recommendations. This can be seen at Extract 3.

Extract 3: Cobham Plc

Strategic Report — Corporate Responsibility and Sustainability continued

Task force on climate related disclosures (TFCD)

Governance

The Corporate Responsibility and Sustainability Committee, chaired by the CFO, has overall accountability for CR&S strategy, including climate change and carbon management. The Committee has responsibility for reviewing the effectiveness of controls in place for identifying and managing risks and opportunities, challenging Group performance and maintaining strategic and policy oversight.

Strategy

Climate change affects the Group's approach to meeting its strategic objectives. Climate change regulation, taxes, international agreements (such as the Paris accord) volatile energy costs and changes in weather conditions have all informed the Group's strategic decisions as Cobham adapts to changing operating environments. Investment in new technology that reduces size, weight and power consumption of products and carbon emissions is an important differentiator in the Group's markets.

Material issues identified include:

- GHG emissions from aircraft fuel combustion in Aviation Services (which represents the majority of the Group's GHG emissions);
- GHG emissions from electricity and fuel used in the lighting, heating, ventilation and cooling of its facilities and supply chain Group-wide;
- The impact of the size, weight and power efficiency of Cobham products upon the fuel consumption and GHG emissions of customer aerospace platforms; and
- Business interruption at its facilities, and those of its key suppliers, due to adverse weather events (e.g. flooding, wildfire).

Risk management

Risks and opportunities are monitored, prioritised and managed in a number of ways, including by the Group's insurance partner, in local risk registers and business unit SHE self-assessments. Failure to address environmental sustainability issues aligns with the Group's principal risks of failure to comply with laws and regulations and of significant business interruption (refer to page 39).

The Group addresses environmental sustainability issues by:

- Reducing environmental impacts from its operations wherever practicable;
- Reducing legacy aircraft fuel consumption via operational efficiency programmes and ultimately transitioning to more fuel-efficient aircraft where possible;
- Reducing its GHG emissions across a number of operating sites through practical energy efficiency measures, including lighting, heating, ventilation and air conditioning;
- Investing in design concepts to reduce the size and weight of products as well as energy consumption, with a corresponding reduction in environmental impacts;
- Reinforcing business continuity measures and effective emergency response planning, in preparation for adverse weather events and natural disasters; and
- Aligning the Group's environmental standards to the international environmental management system standard ISO14001 and encouraging business units to certify to the standard.

Performance measurement

In 2018, a new five year reduction target of 15% was set for facility GHG emissions (excluding CAES). Performance remains on track to achieve this target through a number of planned energy-saving initiatives.

Further details on the Group's energy use and GHG emissions can be found in the Other Statutory Information report on page 82.

The Group measures and discloses its GHG emissions strategy, risks, opportunities and performance on **www.cobham.com/the-group/corporate-responsibility-and-sustainability** and through the annual Carbon Disclosure Project (CDP) investor climate change and customer supply chain surveys.

CDP is a not-for-profit charity that runs a global disclosure system for companies to report their carbon and other environmental impacts primarily for investor understanding of risks and opportunities. In 2018, Cobham achieved a 'B' Leadership rating from CDP, which was a reduction on the 'A' rating achieved in 2017. The reduction was mainly due to a shift in focus in the CDP methodology towards climate change. During 2019 actions will be defined to contribute to improving the rating through increased focus in this area.

Waste and Water

Reduction of operational environmental impacts, including hazardous and non-hazardous waste and water use, are also an important issue for Cobham.

In 2018, the Group's business units were challenged to develop a framework for a new set of intensity metrics to provide data to enable a reduction in waste production as well as water and energy consumption.

CDP Climate Change Project

Although there were very few companies which had committed to including TCFD disclosures in the annual report, 45% of companies have signed up to the CDP Climate Change Project (CDP). CDP is a global disclosure system, where companies self-report in order to measure and manage their environmental impact.

CDP has issued guidance noting how it has committed to aligning its reporting to the TCFD recommendations. In it, it sets out how the CDP questionnaire questions map to the TCFD disclosure recommendations.
Therefore, if the UK Government does introduce mandatory climate change disclosures in line with the TCFD recommendations, it may not be too onerous for those already part of the CDP scheme.

Greenhouse gas emissions reporting

Every company reviewed had complied with the requirements in the *Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008* to include details of their emissions, reported as tonnes of carbon dioxide equivalent. As would be expected, the volume of emissions varied from company to company, and depend to a large extent on what kind of industry the company is in. The commitment of many companies to show how they are improving their environmental impact was borne out in looking at the year on year emissions, as 75% of companies reported a decrease in emissions compared to the prior year.

Materiality of climate change

Climate change was not noted as a material risk in the auditor's reports or financial statements of any of the companies sampled. One annual report in the strategic report noted climate change as being a material risk from a sustainability strategy perspective (see Hammerson Plc – Extract 1). This same company also stated within 'Environmental key risks and uncertainties' that there are risks from environmental incidents such as extreme weather, flooding and energy supply issues which may adversely impact operations.

Annual reports reviewed

Company	Period end	Auditor	Industry classification
Aggreko Plc	31/12/18	PwC	Electrical Components
Bank of Georgia Group Plc	31/12/18	EY	Banks
Coats Group Plc	31/12/18	Deloitte	Diversified Industrials
Cobham Plc	31/12/18	PwC	Aerospace
Hammerson Plc	31/12/18	Deloitte	Retail REITs
Hastings Group Hold-ings Plc	31/12/18	KPMG	Property and Casualty Insurance
Hochschild Mining Plc	31/12/18	EY	Platinum and Precious Metals
Hunting Plc	31/12/18	PwC	Oil Equipment and Ser-vices
IMI Plc	31/12/18	EY	Electronic Equipment: Control and Filter
Inchcape Plc	31/12/18	PwC	Specialty Retailers
Marshalls Plc	31/12/18	Deloitte	Building Materials
Mediclinic International Plc	31/3/19	PwC	Healthcare Facilities
Metro Bank Plc	31/12/18	PwC	Banks
National Express Group Plc	31/12/18		Travel and Tourism
Pets At Home Group Plc	28/3/19	KPMG	Speciality retailer
Spirent Communica-tions Plc	31/12/18	EY	Telecommunications equipment
Tate and Lyle Plc	31/3/18	PwC	Food product
Tullow Oil PLC	31/12/18	Deloitte	Oil: Crude Producers
Vesuvius Plc	31/12/18	KPMG	Industrial suppliers
Weir Group PLC	31/12/18	PwC	Machinery: Industrial