

3 Risk Management

Climate-related risks are considered one of our principal risks and this is reflected in our financial reporting. The process for identifying climate-related risks is integrated into our risk management framework.

As part of the climate change scenario analysis exercise, a multi-function working group was established in 2022. This comprises members from finance, divisional management, risk and internal audit, and the GST. This working group is a subset of the GMC.

In identifying and assessing climate-related risks to the Group's operations, assets, and reputation, we used primarily a top-down approach. Given the Group's decentralised structure, we consider this approach more appropriate for assessing climate-related risks, particularly physical ones. However, we have also taken a bottom-up approach by factoring in the feedback from our operating businesses where appropriate.

The scenario analysis working group conducted a top-down review of the Group's climate-related risks and opportunities in order to identify new or emerging risks and opportunities. The assessment considers two categories of climate-related risks: the transition to a low carbon economy (transition risks) and risks associated with the physical impacts of climate change (physical risks). The risks assessed for both the RCP2.6 and RCP8.5 scenarios were drought, heat stress, wild fires, precipitation, river and coastal flood, and tropical cyclones.

How we identify and prioritise climate-related risks

To assess transition risks, we engaged with each operating business to better understand the preferences of our customers, suppliers and employees and the challenges they face in tackling climate change. The outcome was factored in during the risk identification process. Each risk was discussed and scored based on the probability and magnitude of potential financial impact, and the multiplication of the two scores determined the materiality of the risk. Through this process, the most material risks were identified. Those risks that were deemed to be quantifiable were included in the financial modelling. Existing mitigations and progress made were also factored in during the quantification process. Cost and benefit analysis for the mitigations of each quantifiable risk was carried out. A five-year cash flow forecast was modelled for both RCP2.6 and RCP8.5 scenarios.

TCFD recommended disclosures

- Describe the organisation's process for identifying and assessing climate-related risks
- Describe the organisation's process for managing climate-related risks
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Further information



Read more about our **Risk management** on **pages 68 to 72**

For physical risks, we used the WTW Climate Diagnostic Analytical Tool to help us with scenario analysis. We assessed our resilience in a time horizon between 10 and 80 years for relatability with asset lifespan, as recommended by TCFD. The WTW Climate Diagnostic Analytical Tool considered insured asset value and combined exposure to extreme weather events (acute risks) and to gradual changes in weather patterns (chronic risks) for each of our 64 facilities globally, including warehouses and offices. Based on the insured asset value and risk exposure, each site scored between 1 and 5 (5 being the highest risk). For those with the highest scores, mitigation plans were drawn up, and associated costs were assessed and factored into the scenario financial models.

Once the climate-related risks were identified and prioritised, the financial impact of the key risks up to 2030 was modelled and assessed for both RCP2.6 and RCP8.5 scenarios. The key climate risks, mitigation plans, and the net financial impact in both scenarios were presented and discussed at the GMC before being reviewed by the Sustainability Committee, which also included the Chairs of the Audit Committee and Remuneration Committee.

How we manage climate-related risks

We use the scenario analysis to inform our decision-making in the following areas:

- Strategic and financial planning
- Capital investment
- Acquisition suitability assessment
- Goodwill impairment assessment
- Insurance
- Lease renewals and procurement of new leases

Climate-related risks are managed as part of the Group risk management process, alongside other strategic and operational risks and, as with all matters in the Group Risk Register, these risks are reviewed annually. Action plans to mitigate such risks are managed and reported at Group level, whereas the responsibility for

implementing the plans is delegated to the management of the operating businesses. A bottom-up review of climate-related risks is carried out by the management of each business as part of their annual enterprise risk management exercise (please refer to pages 68 to 72 for further details of our risk management processes).

The GST conducts annual reviews with operating business management at the end of each financial year regarding progress against their ESG objectives. This is then reported to and discussed with the GMC and Sustainability Committee. The operating businesses report on ESG progress, including carbon reduction actions, in quarterly business reviews chaired by the divisional heads. The GST also provides progress updates to the Sustainability Committee at each Committee meeting.

Climate-related risks and mitigation progress are monitored by the Risk and Internal Audit team on an ongoing basis, which updates the Audit and Risk Committee at each meeting. The GST is responsible for identifying existing and new regulation applicable to the Group. It is supported by the Group's auditors and external consultants in this regard, and provides updates to the GMC and Sustainability Committee.

Local management are responsible for identifying new business opportunities in target markets, and report on progress to divisional heads on a quarterly basis. Local management are also responsible for identifying opportunities to reduce carbon emissions, such as the installation of electric heat pumps, with emissions reported to the GST quarterly.

