



TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

PZ Cussons supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) that businesses address and report on the financial impact of climate change on their business.

Introduction

At PZ Cussons, we recognise that climate change requires us to act. We need to ensure we protect and prepare ourselves as a business, as well as reduce our own contribution to global greenhouse gas emissions. To achieve this, we understand it is key that our internal and external stakeholders understand the potential risks and opportunities that climate change presents for our operations and strategy, and how we are managing this.

In this context, and in accordance with UK regulatory requirements, we support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This section outlines our progress to date and our planned activities for FY23.

The Board has approved this TCFD statement and considers it to comply with all the recommendations and requirements set out in the relevant regulations, save for quantification of the financial impact and targets which are currently in development within the Company as we evolve our tools and metrics to report against these requirements. We anticipate reporting against these matters in our next TCFD statement to be included in our FY23 annual report and accounts.

Climate risk governance

Sustainability is a key pillar of PZ Cussons' strategy. At the end of FY21 the Company had announced our ambition to certify all our businesses as B Corps by 2026. A Chief Sustainability Officer was appointed in September 2021 to have overall leadership of the delivery of this strategy under the supervision of the Board. During FY22 we conducted a materiality assessment and climate change was identified as a key component in our sustainability strategy.

The sustainability strategy is overseen by an ESG Committee comprising of the Board with the following responsibilities:

- 1) Reviewing, approving and discussing PZ Cussons' sustainability strategy, goals and implementation plans, including the plans to achieve a B Corp certification by 2026.
- 2) Through the Remuneration Committee, to establish a link between ESG outcomes and the LTIP (Senior Management Long-Term Incentive Plan) – the ESG component of the LTIP is 20% and is aligned to our sustainability goals.

- 3) Through the Audit & Risk Committee to review and approve reporting plans.
- 4) The Executive accountable to the Committee is the Chief Sustainability Officer who is a member of the Executive Leadership Team and reports directly to the Chief Executive Officer.

Management of climate-related risks is handled as part of our Group-wide risk management process and through the TCFD reporting process. All Company risks are reviewed by the Board at least once per year.

Scenario analysis

Scenarios and approach

We have identified climate change as a key business risk. To better understand the potential impacts, we have conducted a scenario analysis. PZ Cussons used three scenarios to stress test the resilience of its business.

Transition risks will be assessed against a Low Carbon World Scenario (<2°C), which represents the most ambitious outcome for transition to a low carbon economy. As a result, policy, technology, market and reputational risks would be most significant.

Transition risks were identified by considering possible risks and opportunities for PZ Cussons in the short and medium term resulting from changes expected under Low Carbon World-aligned scenarios and assumptions. Sources included the International Energy Agency (IEA), the Network for Greening the Financial System (NGFS), the Shared Socio-economic Pathways (SSP) and the Intergovernmental Panel on Climate Change (IPCC). Potential metrics to assess each risk have been identified.

We believe that the mitigation plans that are in place will provide business and organisational resilience to these short-medium term risks.

Physical risks were tested against a Low Carbon World (<2°C), Intermediate (~3°C) and Hot House World (4°C+) scenarios. Chronic and acute physical risks are most significant under a Hot House World scenario, which represents a worst-case scenario for climate change.

Physical risks were assessed by modelling the exposure of PZ Cussons’ facilities across manufacturing, storage and distribution operations globally using widely recognised modelling tools in the insurance industry employing climate data. We also assessed the risk to selected global key suppliers of raw and packaging materials and finished goods. Exposure was assessed for a range of acute and chronic climate risks under RCP2.6 (<2°C) and RCP8.5 (4°C) against short-, medium- and long-term time horizons. We are now mapping the detail of these physical risks, the resilience of the organisation and putting in place mitigation plans which will be disclosed in FY23.

Identification of risks and mitigations

We have subsequently engaged subject matter experts (both internal and external) to examine and start to quantify the identified transition and physical risks and put in place mitigating actions. These risks will then be managed through our Company risk management system. The climate risks and opportunities considered are as follows:

Physical risk	Chronic	Drought stress, heat stress, precipitation stress, fire and weather
	Acute	Flood (including river, coastal and sea level rise), windstorm (including extratropical and tropical cyclone)
Transition risk	Policy & Legal	Pricing of GHG emissions, mandates and regs on PZ products, enhanced emissions reporting obligations, building code requirements and climate change litigation
	Technology	Cost to transition to lower emissions technology
	Market	Changing consumer preferences, increased cost of raw materials and cost of capital
	Reputation	Employee risk and investment risk

As an example of the planning to date, we include below a selection of our most material risks, their descriptions and status of mitigation planning. We are still in the process of assessing the financial impact of those risks and setting metrics and targets against them. These will be disclosed in our FY23.

Risk Name	Risk Description	PZ Mitigation Plan
Mandates and regulations on our products	There is a risk of increasing regulatory pressure regarding the sustainability of materials used in the manufacturing of products. This includes the possibility of introduction of carbon footprint labelling, extended producer responsibility (EPR), plastic tax or bans on single-use plastics. This could be relevant to the Group as soon as the FY25 time horizon. Short/Medium-term risk	We monitor regulatory developments and work with the wider industry to prepare. This year we joined the EcoBeauty Score Consortium, which seeks to develop an industry-wide and standardised carbon-labelling methodology. We also updated our plastic packaging to include at least 30% PCR material in markets where plastic tax exists. We continue to develop our preparedness for the likely increased regulation in this space.
Pricing of GHG emissions	Carbon pricing already exists in some of the jurisdictions PZ Cussons operates in, including the EU and UK. Under both a 1.5°C and 2°C scenario, pricing of GHG emissions is expected to increase, which could impact PZ Cussons’ direct operating costs. Short/Medium-term risk	In our sustainability strategy we are setting ambitious targets to reduce GHG emissions throughout our value chain, reducing our vulnerability to possible future carbon taxes and voluntary offset markets. We also monitor government policies and climate change actions and take necessary steps to minimise the impact on our business.



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Risk Name	Risk Description	PZ Mitigation Plan
Enhanced emissions reporting obligations	<p>Emission reporting obligations are changing all over the world. Inadequate processes, systems and tracking could make adjusting to these changes in any geography difficult.</p> <p>PZ Cussons may have to increase its spending on emissions reporting and assurance in the upcoming years. In particular, the advancement of Scope 3 reporting and Net Zero transition plans would require further investment.</p> <p>Short-term risk</p>	<p>Subject matter experts have been identified and given responsibility for this within the existing Group talent pool. This group is being supported by external consultant resources as required to meet our business requirements.</p>
Building code requirements	<p>There may be costs associated with upgrading buildings and manufacturing sites to meet more stringent building codes and guidelines. For example, in the UK, all new buildings are expected to have an EPC rating of B by 2030.</p> <p>Short/Medium-term risk</p>	<p>PZ Cussons will ensure compliance with all building regulations, especially those that improve the energy efficiency of our assets that will also result in lower operational costs.</p>
Cost to transition to lower emissions technology	<p>Costs to transition to lower emissions technology include upgrading manufacturing sites, switching to or supplying infrastructure for electric vehicles, and sourcing lower emission utilities – particularly for processing recycled materials. Depending on the impact and urgency of these new technologies, PZ Cussons may have to plan capital investments in its infrastructure to implement these technologies and alternative energy sources to its current utilities.</p> <p>Medium-term risk</p>	<p>Together with our suppliers, we will review our supply chain to phase out our reliance on fossil fuels in line with our sustainability strategy. We will work with our sustainability partners to understand and develop cost-effective paths towards reducing our climate impact.</p>
Increased cost or non-availability of raw materials	<p>Water, forests, plastics and other resources will be affected by both physical and transition climate change risks. PZ Cussons could see the geographies and communities it operates in affected by changes. The costs suppliers face may carry over across PZ Cussons' supply chain. The impact on PZ Cussons will depend on its ability to pass costs to the consumer.</p> <p>Short/Medium-term risk</p>	<p>The Group has a strong focus on innovation which is driven through our responsible sourcing and design for cost. Our consumers and the environment are at the heart of everything we do so we always strive to ensure our costs and formulas are competitive to mitigate cost and sustainable impacts for our customer and consumers. Our strategic procurement teams aim to create a resilient sourcing programme that considers our suppliers and communities while ensuring we have compliance across our global supply base. We are committed to reducing our virgin plastic usage, sourcing palm from suppliers with NDPE commitments and only use certified paper(s) for our packaging.</p>

Risk Name	Risk Description	PZ Mitigation Plan
Cost of capital	<p>As credit ratings begin to incorporate climate change considerations, there is a risk of volatility in the cost and availability of capital.</p> <p>Short/Medium-term risk</p>	<p>We have put in place a comprehensive sustainability framework with stretching and ambitious long-term goals and have action plans, including budgeting, to deliver those goals.</p>
Employee risk	<p>As employees become increasingly concerned with climate change issues, negative publicity around failure to deliver on targets or failing to effectively incorporate climate change considerations into decision-making could make it difficult for PZ Cussons to attract and retain the best talent. This risk could increase as the millennial generation, which is typically more concerned with sustainability issues, make up a higher percentage of the workforce.</p> <p>Short-term risk</p>	<p>PZ Cussons is striving to professionalise sustainability as a key strategic function within the organisation to drive the sustainability agenda. This agenda includes a set of long-term environmental, social and governance goals; including our ambition to achieve B Corp certification by 2026 across all markets.</p>
Investment risk	<p>Failure to meet publicly stated sustainability goals (e.g. science-based targets, sustainability KPI targets or B Corp certification) and failure to meet disclosure requirements, poses a risk to PZ Cussons' revenue and investment streams as customers and investors increasingly expect high levels of sustainability performance from organisations.</p> <p>Medium/Long-term risk</p>	<p>Our sustainability plans are ambitious, yet achievable. We believe that meeting the stated goals will allow us to meet the evolving needs of consumers, while addressing other factors impacting our financial performance, such as changes in regulation.</p>
Acute/Chronic	<p>Physical risks resulting from climate change can be event driven (acute, e.g. hurricanes and flooding) or longer-term shifts (chronic, e.g. sustained heat stress) in climate patterns. Physical risks may have financial implications for PZ, such as direct damage to assets and indirect impacts from supply chain disruption.</p> <p>Long-term risk</p>	<p>PZ will analyse a variety of locations which are key to the business covering important parts of the value chain, our internal operations and important customer markets and use scenario analysis and climate modelling to better understand the range of physical risks that the Company is exposed to.</p>