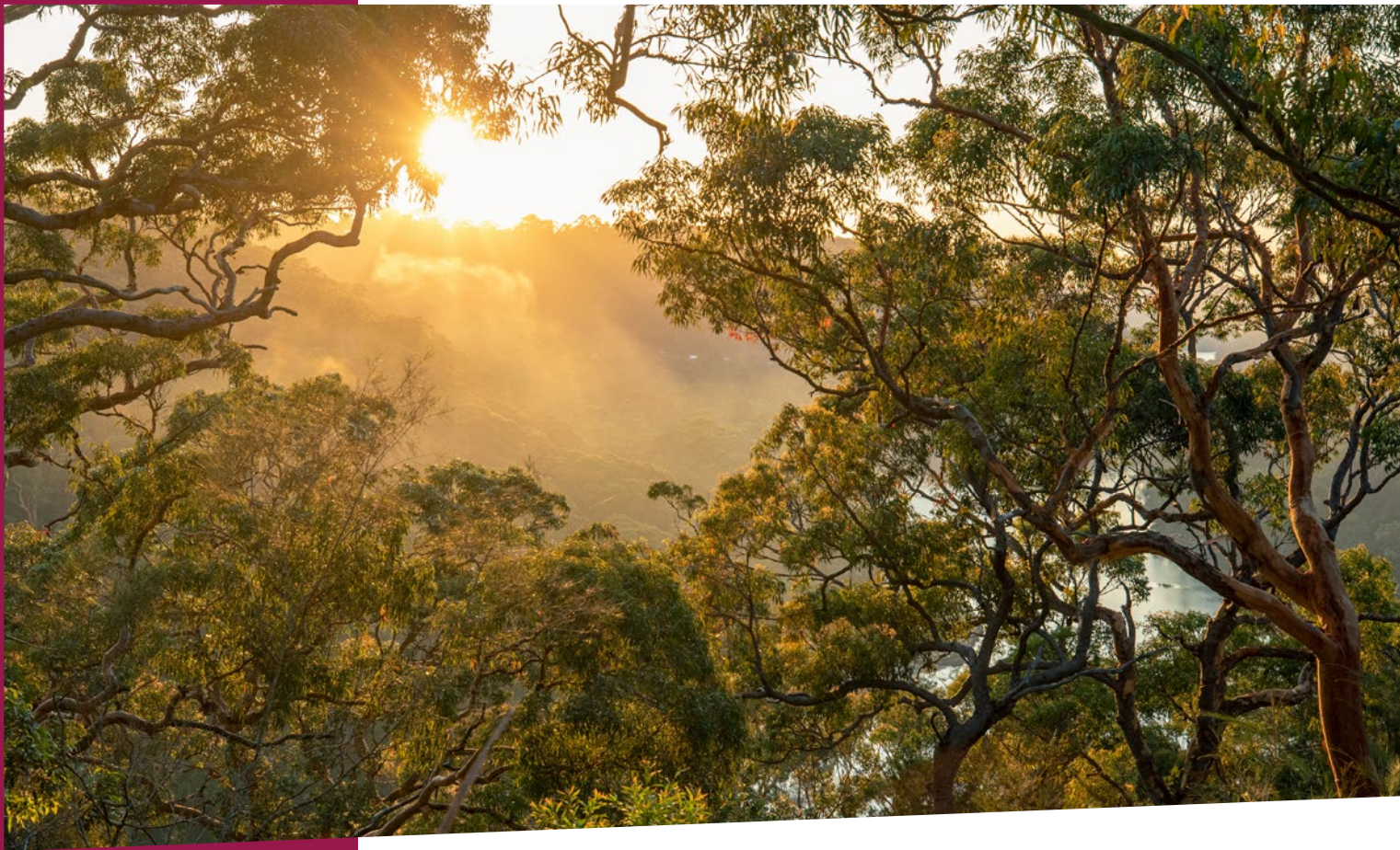


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Sustainability Reporting - AASB S2 Climate-Related Disclosures - Strategy



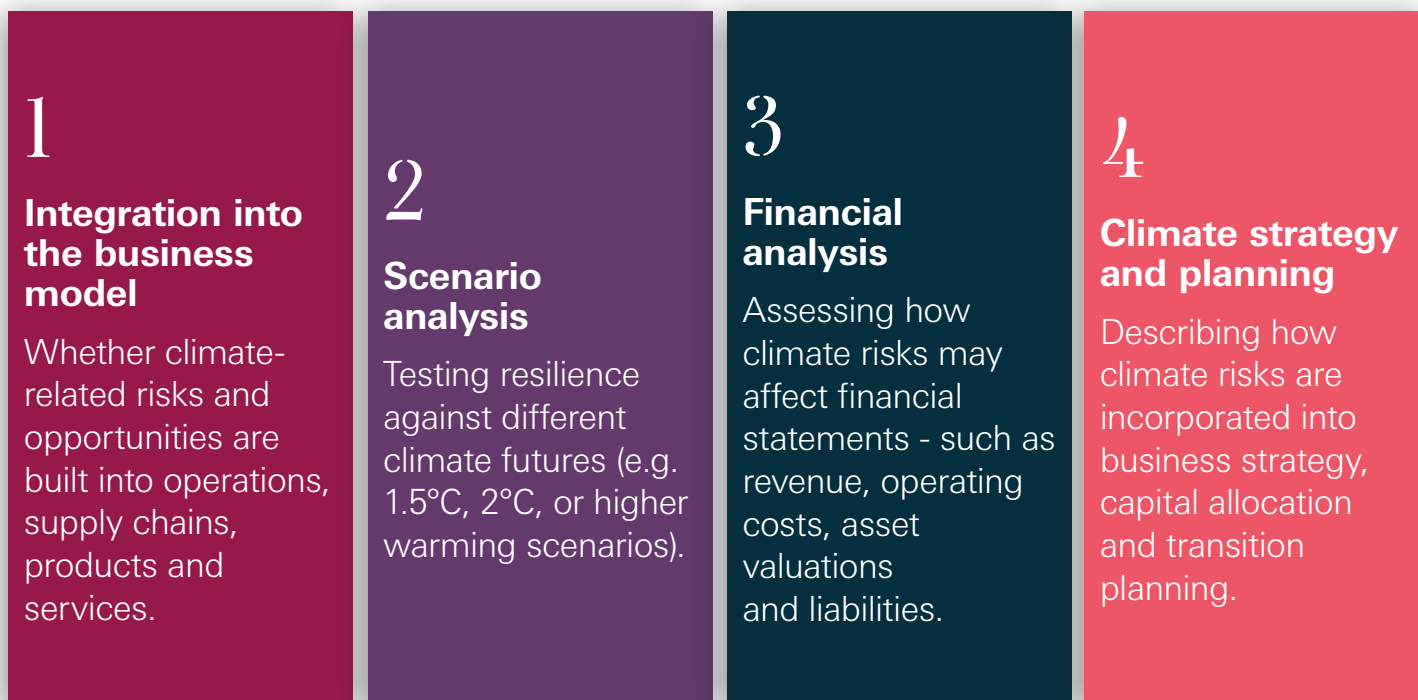
Effective climate strategy connects risk, opportunity, and financial outcomes - not just compliance.

Since 1 January 2025, Australia's new sustainability reporting framework under AASB S2 Climate-related Disclosures requires entities to report on their Strategy. This section of the Sustainability Report explains how climate-related risks and opportunities are integrated into a business model, how resilient the organisation is under different climate scenarios and how these risks may affect financial performance over time.

These disclosures are not optional. Directors must take responsibility for ensuring the Strategy section is accurate, transparent and supported by evidence.

What disclosures must be made?

The Strategy section must include information on:



Practical examples

Scenario analysis could include:

- > **Physical risk scenario** - A logistics company modelling the impact of more frequent flooding events on distribution centres and delivery times.
- > **Transition risk scenario** - A manufacturing business testing the effect of a sudden carbon price increase on energy costs and competitiveness.
- > **Opportunity scenario** - A renewable energy developer modelling demand growth under a net-zero transition pathway.

Financial analysis may cover:

- > **Revenue impacts** - declining demand for high-emission products, or growth opportunities in low-carbon services.
- > **Asset valuations** - impairments where carbon-intensive assets may become stranded (e.g. coal-fired plants).
- > **Costs** - higher insurance premiums, compliance costs, or capital expenditure to adapt operations.
- > **Financing** - access to green financing products or potential increases in borrowing costs if climate risks are unmanaged.

Next steps

> Review your business model

- **Supply Chains:** Assess vulnerability to climate shocks (extreme weather, flooding, droughts) that may disrupt supplies or logistics. Map exposure to regions with high transition or physical risk.
- **Customer Demand:** Evaluate how shifting consumer preferences (e.g., demand for low-carbon products, sustainable sourcing) and regulation (e.g., carbon labelling, emissions standards) could impact revenues.
- **Product Development:** Identify opportunities to innovate with climate-resilient or decarbonised products/services that meet evolving market and regulatory needs.

> Undertake scenario analysis

- **Climate Futures:** Run scenarios based on the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) pathways (e.g., orderly transition, disorderly transition, “hot house world”).
- **Stress Testing:** Model impacts under a range of carbon price trajectories, extreme weather events, or energy transitions.
- **Resilience Testing:** Test whether operations and supply chains hold up under physical risks (flooding, cyclones, heatwaves) and transition risks (policy, technology shifts).

> Perform financial impact assessments

- Map potential impacts across revenue, costs, assets and liabilities.
 - » Shipping/Fuel: Likely to rise under carbon taxes, fuel levies, or if routes are disrupted by climate events.
 - » Upgrading, decarbonising or retrofitting assets may require significant capital outlays.
 - » Exposure to stranded assets (e.g., carbon-intensive infrastructure).
 - » Insurance availability and premiums - some high-risk assets may become uninsurable.

> Integrate into strategic planning

- Ensure climate considerations form part of capital allocation, investment decisions and transition planning.

> Prepare documentation

- Explicitly document assumptions around energy prices, carbon pricing, physical risks and customer behaviour.
- Ensure the most appropriate data sources are being utilised
 - » International Energy Agency (IEA)
 - » Network of Central Banks and Supervisors for Greening the Financial System (NGFS)
- Modelling processes to support director declarations and avoid liability.
- Ensure modelling processes are transparent, auditable and defensible.
- Support board-level declarations and reduce liability risks by evidencing assumptions.

