# MATERIAL CLIMATE DISCLOSURES: PROXY REPORT

PIRC

## BHP Group Ltd

MEETING DATE: Weds, 30 October 2024
MEETING TYPE: AGM
SECTOR: Diversified Mining
FYE: 30 June 2024

ISSUE DATE: 18 October 2024

## Vote recommendations

**1. To consider the Financial Statements for BHP Group Limited and reports of the Directors and the Auditor for the year ended 30 June 2024..... NO VOTE**

**13: Approval of the 2024 Climate Transition Action Plan (non-binding advisory vote)..... OPPOSE**

**Principal climate-related risk:** Our evaluation indicates that the principal financial climate-related risk for BHP relates to the transition in steel making (scope 3). This industry, which is the company's largest end customer, is a material producer of GHG emissions. It is considered probable that a combination of government and end customer action will lead to a shift to lower climate-emitting technologies, such as Electric Arc Furnace (EAF) technology. At present the company's evaluations assume a continuation of variants on the high-emitting Blast Furnace - Blast Oxygen Furnace (BF-BOF) technology. Without remedial action, this shift would expose the BHP to material financial risk as much of its production is not the higher grades of ore that would be required.

**Four pillar framework:** Our analysis, based on a four pillar framework (see detailed analysis for more information), specifically identified the following:

| Pillar | Expectations met | Comments |
|---|---|---|
| **Pillar 1:** Identification of material climate-related matters | Yes | Company meets the criteria contained within Pillar 1 as set out in their TCFD reporting |
| **Pillar 2:** High-level transition strategy | No | Shareholders will likely require more detail from the company on the assumptions and analysis that contributed to the scenarios selected for the 2024 Climate Transition Action Plan. Given the importance of iron ore EBITDA to the BHP group, different outcomes in terms of dominant steel making technologies could result in materially different financial outcomes for the company. In addition, while the company has a net zero goal by 2050 on both its operational (scopes 1 and 2) and value chain (scope 3) emissions, the scope 3 target is sufficiently caveated that it could be considered an aspiration rather than a target. In addition, it does not have a medium-term target (2030) that comprehensively covers scope 3 emissions. |
| **Pillar 3:** Financial disclosure | Mostly | While the company provides reasonable disclosure with regard to the analysed scenarios (both the likely and the 1.5C cases), we consider that many shareholders will find the financial disclosure in the report and accounts less than required given the issues raised on the potential suitability of the selected scenarios discussed in pillar 2. |
| **Pillar 4:** Audit disclosure | Mostly | While the audit report is satisfactory in that it reviews the financial disclosure by the company in its 2024 report and accounts, it does not critically review the appropriateness of the scenarios used (see pillar 2). |

## Item 1: To consider the Financial Statements for BHP Group Limited and reports of the Directors and the Auditor for the year ended 30 June 2024.

**Summary:** While BHP provides detailed disclosure of the expected financial impact of the material climate-related matters (using scenario analysis), we expect shareholders to have concerns about the scenarios included for evaluation (see item 13 below).

The company's most likely scenario implies a projected global temperature

increase of around 2C by 2100, which is above the level that most shareholders consider to be aligned with the objectives of the Paris Agreement and related government commitments and targets. Furthermore, the company indicates that the net present value of their portfolio under the 1.5C scenario would be approximately the same as under the current base case.

The reason for this is that both scenarios assume that the majority of future steel making will take place using the BF-BOF technology, which produces materially more GHG emissions than alternatives such as EAF.

While the company may be correct in their assumption that BF-BOF based technology will continue to dominate, the GHG implications of such an outcome are such that social and political pressure to shift to EAF or other lower emissions technologies can only be expected to rise. Such a change could potentially happen during the next decade. Given the long life of most of the company's coal and iron ore assets, this could materially impact their future value.

This appears to expose the company to material financial risk if either government action or end customer investments resulted in a different technological outcome. Given the possible scale of this financial risk we expect shareholders to engage to require the company to also evaluate a less favorable technological scenario.

## Item 13: To approve the 2024 Climate Transition Action Plan

**Summary:** while the company has materially improved its climate-related disclosures in the latest Climate Transition Action Plan (2024), as we highlight in relation to item 1, we expect shareholders to have some concerns regarding the scenarios identified.

The company's strong degree of confidence that the impact on the portfolio's estimated net present value under the different scenarios is small appears to stem from their view that a high percentage of global steel making (their largest end use customers) will continue to come from variations on the Blast Furnace - Basic Oxygen Furnace (BF-BOF) technology.

This expectation is not one shared by all analysts of the industry. And it is not an outcome that is aligned with either the Paris Agreement (and related government commitments and targets), with planning scenarios such as those from the IEA, or with the longer-term plans of some of their end customers, the steel producers. This is a relatively straightforward shortfall to at least partly remedy, especially given the good level of disclosure with regards to Pillars 1 and 3.

In that regard, we note that BHP meets our requirements on Pillar 1 (identification of material climate-related matters). BHP reports against various international standards including the recommendations of the TCFD. It also provides a detailed mapping of the recommendations against the disclosures in its 2024 report and accounts, and the 2024 Climate Transition Action Plan.

With regard to Pillar 2 (high-level transition strategy), in addition to the points above, we note that while the company has long-term targets in relation to scope 1, 2 and 3 emissions (net zero by 2050), they do not have concrete mid-term targets that comprehensively covers scope 3 emissions. And what goals they do have appear to be largely reliant on the actions of others. In addition, we note that the company's most likely scenario implies a projected global temperature increase of around 2C by 2100.

With regard to Pillars 3 and 4, the disclosure is detailed, but not complete with regard to targets and scenarios used.

Given these concerns, and despite the clear improvement since the last Climate Transition Action Plan (3 years ago), we consider that the shortfalls in the Pillar 2 disclosure are sufficient to justify an oppose vote on this item.

**Recommendation**

Support/Abstain/**Oppose**

**About the report**

This report evaluates how well BHP Group Plc's (BHP) financial disclosures of their key material climate-related matters (risks and opportunities) are aligned with investor expectations. Good disclosures in this regard are essential if shareholders are to make informed investment decisions, and they further act to give a structure to efficient engagement.

Our proxy voting and engagement recommendations are formulated for a standard investment fund or shareholder that has a meaningful focus on the mitigation and management of climate risk. We recognise that other funds, including those that have a stronger net zero focus, may take a different line on some issues, especially the absence of a detailed plan to reach net zero by 2050. For these shareholders, we refer to our detailed analysis below, which should assist in identifying proxy voting actions appropriate to shareholder or fund objectives.

We note that item 1 (to consider the Financial Statements for BHP Group Limited and reports of the Directors and the Auditor for the year ended 30 June 2024) is a non-voting item. And that the appointment of the auditor is not an item for this year's AGM. As such we expect investors to focus their climate transition related voting attention on item 13 (Approval of the 2024

Climate Transition Action Plan).

Despite this, we still consider that investors should give due consideration to the extent to which the company has made sufficient disclosures in its financial report, Directors' Report, Auditor's Report, plus associated presentations etc, to allow them to make a meaningful judgement as to the impact of the Climate Transition Action Plan and how it is integrated into the companies broader financial strategy.

# Annex: Supporting analysis

## Summary

While BHP has improved its material climate-related disclosures we still consider that insufficient detail is currently provided to allow shareholders to make better investment related decisions. In particular, while the company has identified that the potential long-term risk (>5 years) from various climate-related transitions on the group's activities is high, this materiality does not seem to flow through into the company's financial disclosures on potential asset impairments and contingent liabilities. Neither does it appear to make a material contribution to the company's broader financial strategy.

The company's strong degree of confidence that the risks can be managed appears to stem from their view that a high percentage of global steel making (their largest end use customers) will continue to come from variations on the Blast Furnace - Basic Oxygen Furnace (BF-BOF) technology. This includes a shift, broadly starting post 2030, to modified BOF plus Carbon Capture Utilisation & Storage (CCUS), and the use of low GHG hydrogen. Such a scenario would likely result in a continuing demand for the company's metallurgical coal and iron ore, which together contributed (2024a) c. US$22 billion of the group's US$29 billion of EBITDA.

However, this scenario is not a consensus position among industry participants. Many analysts expect other technologies to become more dominant over time, particularly those that utilise the Electric Arc Furnace (EAF) technology. In part, the attractiveness of these alternative technologies is that they produce materially less GHG emissions than the BF-BOF based solutions. From the perspective of BHP they also require higher grades of input raw materials, which could potentially be problematic for the company given their current production profile.

The shift to EAF-based technologies could be further accelerated if governments and end users more aggressively target 2C or even 1.5C outcomes, which would be aligned with the Paris Agreement objectives.

Given these factors, it is not unreasonable for investors to require BHP to provide greater disclosure on the assumptions they have used for the 2024 Climate Transition Action Plan, and to explore with more prominence the potential financial impacts of the BF-BOF dominant scenario not coming to fruition.

As such we consider that, when viewed from a shareholder perspective, the 2024 Climate Transition Action Plan fails to deliver on one of its key requirements, to inform investors of the material climate-related risks and opportunities that the company faces, *and* the financial implications of the

decisions the board and management have made.

With regard to climate-related targets, we note that the company's scope 3 emissions, dominated by the processing of its iron ore and metallurgical coal into steel, account for 97% of its total emissions footprint. BHP has a net zero goal by 2050 on both its operational (scopes 1 and 2) and value chain (scope 3) emissions. However, they caution "achievement of this goal [scope 3] is uncertain", it being largely reliant, in their view, on the actions of others. The company has a medium-term target to reduce operational (scope 1 and 2) GHG emissions by at least 30% from 2020 levels by 2030. However, it does not have a medium-term target that comprehensively covers scope 3 emissions. Its most important goal in this regard is "by 2030 to support industry to develop steel production technology capable of 30% lower GHG intensity relative to conventional blast furnace steel making".

**Taking these factors into consideration, we consider that an oppose recommendation is justified.**

## Background

The report is part of a wider pilot project to inform companies as to investors disclosure requirements, and to act as a guide to shareholders, and their proxy voting advisors, as they consider their voting intentions at company AGMs. In the case of BHP, this is to be held on Wednesday, 30 October 2024. It also aims to inform investor engagement with the company. Investors increasingly expect diversified miners such as BHP to anticipate and prepare for the upcoming climate-related changes.

The key change, from both a GHG emissions perspective, and for its potentially negative impact on the company's long-term financial performance, relates to the use by others of coal and iron ore produced by BHP in steel making. While a reduction in use of these mined materials will be primarily driven by actions of governments, steel companies, and end use customers (such as automotive OEMs), this does not remove from BHP the need to prepare, and where possible positively contribute to the process.

In addition, the sustainability translations are not just about risk management. Diversified miners such as BHP have opportunities to provide the raw materials needed for the sustainability transitions to take place. In their case, this is mainly about copper and potash, although other minerals could become important over time. The balance of the company's portfolio is important.

These material climate-related risks and opportunities are not just an issue for Sustainability and Impact funds, they are increasingly a concern for all investors.

This proxy voting report is solely focused on how well, or otherwise, BHP makes financial and non-financial disclosures in relation to material climate-related matters.

Our analysis currently only covers issues relating to Item 1 (to consider the Financial Statements for BHP Group Limited and reports of the Directors and the Auditor for the year ended 30 June 2024) and Item 13 (to approve the 2024 Climate Transition Action Plan). While Item 1 is non-voting, and Item 13 is only advisory, we still see them as important for shareholders, including as an important element in the engagement process.

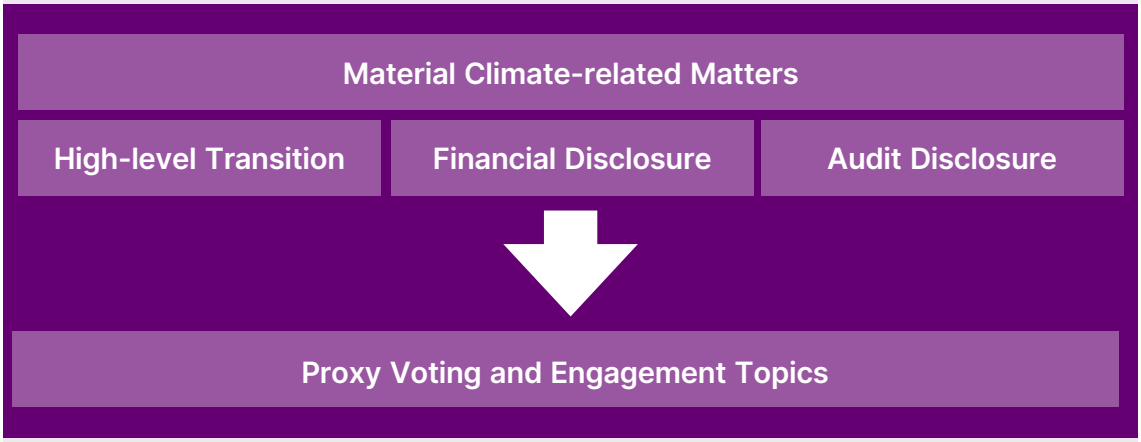
As the analysis is focused on sustainability-related disclosures, it does not make vote recommendations based on the scale of ambition of the company's climate targets. Nevertheless, it does outline an assessment of target alignment with Paris goals which investors may wish to factor into their voting choices.

Further extensions of our work are planned to cover the appointment of directors, lobbying, and management remuneration.

## Detailed analysis

The assessment and voting recommendations within this report are based on our four pillar analysis framework. The framework is designed to capture well-established expectations on climate-related targets and disclosures to enable investors to make informed investment and stewardship decisions.

This framework draws on the disclosure requirements set out in the IFRS standards S1 (General Requirements for Disclosure of Sustainability-related Financial Information), and S2 (Climate-related Disclosure), and the work of CA100+ as set out in their company and sector disclosure assessments (reference) and the Transition Pathway Initiative (TPI) online tool (reference). The framework also broadly mirrors the structure presented by the IIGCC as set out in their 2023 report *Investor Expectations of Corporate Transition Plans: From A to Zero*. (reference).



Our analysis only uses publicly available information, including from the company (including official reports as per the published AGM agenda, and presentations at relevant capital markets days etc), and reports and analysis by selected industry bodies and NGOs. Material we reference has not, unless specifically noted, been independently reviewed or verified. A full list of our sources is provided in the end notes. Specific sources for each element of our analysis are indicated in each section/pillar. Where possible, when analysing the financial impact on the company, we reference the company's audited annual financial report and accounts rather than the unaudited Climate Transition Action Plan.

Our analysis does not cover all climate-related disclosures. We instead focus on those we consider most important for shareholders and potential investors. Shareholders are referred to our Diversified Mining Sector Framework for detail on the material climate-related matters expected to impact the sector, and how these were translated into disclosure requirements.

**Important point** - The purpose of our analysis, and the related recommendations (proxy voting and engagement), is to encourage companies to provide a level of financial disclosure on material climate-related matters that allows shareholders to make better investment decisions. Nothing in our recommendations should be read as limiting the Board's discretion to take decisions in the best interests of our company.

## PILLAR 1

# Identification of material climate-related matters

**Why this pillar matters**: the processes a company follows for identifying climate-related risks, how they assess them, which ones they have identified as being material to them, their impact on the business, and how they have tested the reliance of their business to a 1.5C or sub 2C world, all form the foundation for the meaningful development of a climate-related strategy. In addition, an understanding of how the board is overseeing this process and how management is incentivised to deliver on the targets can give shareholders confidence that this is not a stand-alone, box-ticking process, but instead an integral element in the company's broader financial strategy.

The criteria in this pillar are derived from the widely used TCFD framework, which is now incorporated into the work of the IFRS Foundation.

| Disclosure | Is it met? | Details | Reference |
|---|---|---|---|
| 1.the company's processes for identifying and assessing climate-related risks. This should include management's role in assessing and managing climate-related risks and opportunities, and the board's oversight of climate-related risks and opportunities. | Yes | Outlines board, committee and management oversight. The company outlines transition and physical and adaptation risks. | Annual report: pages 43, 98-111 and CTAP pages 50-1 |
| 2. how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management. | Yes | Outlines risk management process (not specific to climate), including through sustainability committee. More climate-specific reporting is found in the CTAP. | Annual report pages 73 and 74 and CTAP page 52 |
| 3. the climate-related risks and opportunities the company has identified over the short, medium, and long term | Yes | Outlines short, medium and long-term risks (both transition and physical risks), including in tabular form on page 49. | Annual report and accounts: pages 49-51, 74-82, 162-65, CTAP pages 10-30 and 52 |
| 4. the impact of climate related risks and opportunities on the company's businesses, strategy, and financial planning | Yes | Financial statements cover impact of portfolio decisions, useful economic lives of PPE, and decarbonisation expenditure. Annual report includes impact on business, strategy and capital allocation and a section on the role of its commodities in the transition (e.g. transition materials). | Annual report and accounts: pages 43-59. 74-82, 162-65 and CTAP pages 10-54 |
| 5. the resilience of the company's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario. | Yes | The company commissioned three scenario analyses, including 1.8C by 2100. This appears focused on physical rather than transition risks. Its accounts highlight 1.5C scenario (deemed unlikely) and impact on demand for its products. It states that it is "impractical to fully assess all potential financial statement impacts in scenario analysis." More in-depth detail of 1.5C scenario found in its CTAP (p.31-8). | Annual report and accounts: pages 50-1 and 162-165 and CTAP pages: 31-8,42-45 and 61-2. |
| 6. who on the board has principal oversight of climate governance, and how material climate-related matters are considered including their contribution to overall company strategy. | Yes | The board has overall oversight of climate. The company outlines four committees to assist in relation to climate-related matters. The board are responsible for oversight of risks and climate strategy. | Annual report: page 43, and CTAP page 50 |
| 7. remuneration - how management will be incentivised to ensure delivery | Yes | Climate change targets included (10%) in Cash and Deferred Plan. Climate metrics do not appear to be included within the LTIP. CDP is maximum of 120% base salary, LTIP 200% of base salary. | Annual report: pages 116-17 |

**Our analysis:** BHP reports against various international standards including the recommendations of the TCFD (reference: 2024 report and accounts page 30). It also provides a detailed mapping of the recommendations against the disclosures in its 2024 report and accounts and the 2024 Climate Transition Action Plan (reference: 2024 report and accounts pages 43 & 44).

**Summary: The company meets the criteria contained within Pillar 1.**

## PILLAR 2

# High-level transition strategy in relation to material climate-related matters

**Why this pillar matters:** this indicator shows how advanced the companies are in using the analysis set out in pilar 1 to set appropriate net zero targets, and how they have turned their targets into credible strategies. Targets are the tangible reflection of the aims of the company as regards their response to the sustainability transitions that are having significant and material impacts on the way that the company can and will operate in the future. They show that a company's goals are specific, rather than vague 'promises' of some action at an undefined or distant date.

Where possible, it is helpful to shareholders if the company targets are verified by an independent body such as the Science Based Targets initiative (SBTi). In the case of diversified miners there is not yet an agreed framework, although there is one for the steel sector.

## Disclosure tested against relevant criteria

**Criteria 2.1 (key disclosure):** have they set out the assumptions made regarding future climate-related targets (including associated regulatory requirements and incentives) covering the company's own objectives and those actions expected from governments and customers? Shareholders will want to see that the company has a clear plan to manage any expected decrease in demand for key products including, but not limited to coal and iron ore, and describe the implications for these plans of reduced or accelerated actions by governments and customers. This should include clear timescales for action. In addition, the company should provide a clear linkage between their climate-related transition strategy and the wider company strategy including medium and long-term financial guidance

**Our analysis:** The company has set out in some detail the assumptions and scenarios they have used in estimating the possible actions they could take to reduce scope 1 and 2 GHG emissions (reference: Climate Transition Action Plan 2024 pages 10 to 18) and scope 3 emissions (reference: Climate Transition Action Plan 2024 pages 19 to 30). With regard to scope 3 emissions, the analysis is focused on steel making, direct suppliers and shipping. These together make up the majority of the company's scope 3 emissions.

With regard to steel making, the company sets out, again in some detail, the potential ore based steel making technological pathways, highlighting their potential to cut GHG emissions, and their current state of technological preparedness (reference: Climate Transition Action Plan 2024 page 22).

They also test the resilience of their business model, coming to the conclusion that even under the 1.5C scenario the portfolio remains resilient. They state that:

> ***"the net present value of our portfolio under our 1.5 C scenario is approximately the same as under the current base case of our planning range". They go on to state that "the value of our copper, potash and nickel assets increases relative to our base case, and offsets the effect to our portfolio from some downside risk to steelmaking coal".***

We note that while the company indicates graphically the net present value of the portfolio as against the planning range base case (suggesting that the impact on iron ore demand is a small positive and the impact on coal demand is a slightly larger negative), the graph has no scale. As such it is difficult for investors to identify with any accuracy the financial range of outcomes under the two scenarios. (references: Climate Transition Action Plan 2024 page 34).

We additionally note that:

> ***"the modeled outputs of our planning range result in global CO2 emission pathways implying a projected global temperature increase of around 2C by 2100" (reference: Climate Transition Action Plan 2024 page 32).***

Those shareholders who are aligning their portfolios with the Paris Agreement targets may wish to seek clarification of exactly what this implies i.e. does "around 2C" mean above or below?

More broadly, we expect that shareholders will have follow up questions on the conclusions of the analysis. The company's strong degree of

confidence that the impact on the portfolio's estimated net present value under the different scenarios is small appears to stem from their view that a high percentage of global steel making (their largest end use customers) will continue to come from variations on the Blast Furnace - Basic Oxygen Furnace (BF-BOF) technology. This includes a shift, broadly starting post 2030, to modified BOF plus Carbon Capture Utilisation & Storage (CCUS), and the use of low GHG hydrogen.

This expectation is not one shared by all analysts of the industry. As the recent review of the 2024 Climate Transition Action Plan by ACCR highlights:

> ***"this assumption is increasingly contestable due to advancements in EAF technology. Modern EAFs, operated by major steel producers, have demonstrated the ability to manufacture high-quality steel, with casting, rolling and finishing playing a greater role in determining quality rather than furnace types. For example: ArcelorMittal's XCarb steel, produced using recycled steel and EAFs, will supply General Motors with automotive steel, and ArcelorMittal Dofasco facility is set to produce 2.4 million tonnes of high quality steel using DRI-EAF steelmaking."***

This is an important issue on which shareholders are likely to seek further detailed clarification. The use of a different 1.5C scenario could have material impacts on the net present value of the portfolio, both in terms of demand for coal and iron ore, and the specific impacts on the BHP portfolio.

As the company points out in their risk analysis:

> ***"A rapid shift to alternative steelmaking technology pathways (including electric arc furnace (EAF) and direct reduced iron (DRI) steelmaking) may reduce anticipated demand for our steelmaking coal and may result in the early closure or divestment of our steelmaking coal mines" (reference: Report and Accounts 2024 page 80).***

With regard to the BHP portfolio, a recent Institute for Energy Economics and Financial Analysis report 'Opportunities and challenges for the Pilbara amid the accelerating steel technology transition' highlighted:

> ***"Australia, and Western Australia's Pilbara region in particular, has long dominated the global iron ore trade, with the world's largest iron ore reserves and more than 50% market share of global exports. The majority of this share is in the form of mid-range quality iron ore, suitable for blast furnace technology that currently dominates steelmaking importing nations like China, Japan and South Korea."***

A key question for the Pilbara is the practicality of improving the mostly hematite-goethite iron ore reserves in that area to a grade high enough for use in DRI-based steelmaking. Producing DRI/HBI needs high-quality iron ore with at least 67% of iron, while the Pilbara ore's iron content average is closer to 60%. Pilbara ores tend to have higher impurities which, along with the presence of goethite, make it less suitable for DRI-based steelmaking compared to the high-grade output produced by companies such as Vale in Brazil.

In its latest Climate Change Report, Pilbara iron ore giant Rio Tinto noted:

> ***"Our Pilbara blend products have been optimised for the blast furnace process route and have impurities that might be more difficult to manage in emerging green steel technologies. These impurities must be removed upfront via beneficiation or during processing."***

Shareholders will be aware that the Pilbara is an important asset for BHP. Of the group's total iron ore production in 2024 of 260Mt, West Australia Iron ore (WAIO) which includes Pilbara, delivered 255Mt. (reference: Report and Accounts 2024 page 84).

**Criteria 2.2:** do they have a net zero target/commitment by no later than 2050, in line with global commitments to cap global warming to below at least 2C. And do they have intermediate targets that put them on a pathway to a realistic delivery of their longer-term targets.

**Our analysis:** We note that the company's scope 3 emissions, dominated by the processing of its iron ore and metallurgical coal into steel, account for 97% of its total emissions footprint. This calculation is based on 2024 reported operational (scope 1 and 2) GHG emissions of 9.2 MtCO2e, and reported value chain (scope 3) emissions of 377 MtCO2e (reference: Climate Transition Action Plan 2024 page 8).

Given this, we consider that it is appropriate for shareholders to primarily consider actions that would reduce the company's scope 3 emissions, as these are likely to be the primary concern of regulators, governments and customers. And within this, to specifically target actions that would reduce emissions involved in steel making, which are estimated to be c. 83% of the total scope 3 emissions. This is based on reported steel making emissions being 314.4 MtCO2e (reference: Climate Transition Action Plan 2024 page 43).

**Summary: With regard to criteria 1 (key disclosure) we consider that shareholders will likely require more detail from the company on the assumptions and analysis that contributed to the scenarios selected for the 2024 Climate Transition Action Plan. Given the importance of iron ore EBITDA to the BHP group, different outcomes in terms of dominant steel-making technologies could result in materially different financial outcomes for the company.**

**With regard to criteria 2 (important disclosure), while the company has a net zero goal by 2050 on both its operational (scopes 1 and 2) and value chain (scope 3) emissions, the scope 3 target is sufficiently caveated to really be considered an aspiration rather than a target. In addition, it does not have a medium-term target (2030) that comprehensively covers scope 3 emissions, although it does have goals for supporting the efforts of others with regard to steel making, direct suppliers and shipping.**

**These shortfalls in disclosure are both individually sufficient to justify an oppose recommendation.**

PILLAR 3

## Financial disclosure

**Criteria:** does the company disclose, in its Annual Report & Accounts and related documents, the impact on the company's key financial metrics of the anticipated material climate-related matters? This should include analysis of how the company will financially be impacted by anticipated climate changes (including but not limited to changes in regulation and customer behaviour), and the financial impact of delivering the company's climate-related targets. Plus, the company should disclose, via the notes to the accounts, the expected financial impact if they were required to align with the 1.5C scenario.

**Why this pillar matters:** appropriate financial disclosure is essential if investors are to make informed investment decisions based on their understanding of a company's strategy regarding material climate-related matters. How the company reports the value of its assets can tell investors a lot about the assets' long-term earnings capability, and if the climate-related transition will diminish this potential.

## Disclosure tested against relevant criteria

**Criteria 3.1:** a detailed discussion on the remaining useful asset lives for Property, Plant and Equipment (including mineral assets) and intangible

assets, and the underlying assumptions used to make these calculations. This should include expected decommissioning costs and timings for those assets facing material and permanent reductions in demand for their output, and the underlying assumptions used to make these calculations. Where relevant, the company should also set out a detailed breakdown of the other investments that will be needed to support the transition, including expected timing. This should include, where relevant, any projects undertaken in association with customers.

**Our analysis:** The company sets out its expected financial impacts from climate-related transitions and other factors in note 13: impairment of non-current assets, note 15: closure and rehabilitation provisions, note 16: climate change, and potentially in note 3: exceptional items and note 34: contingent liabilities. In line with the assumptions and scenarios set out in pillar 2, the company has not identified any disclosable impairments, liabilities etc. under the planning range most likely case.

**Criteria 3.2:** Taking the material climate-related risks the company faces as set out in earlier pillars, describe how the company has considered these risks in preparing the financial reports, and the assumptions and inputs used to identify the impact on the balance sheet and/or the company's contingent liabilities including future profitability, capex levels, implications for debt levels and Property, Plant & Equipment values/impairments

**Our analysis:** The company sets out in some detail how it has considered the material climate-related risks in relation to the financial impact of portfolio decisions, the impact of transition risks on asset carrying values, physical climate-related risks and asset carrying values, the application of carbon pricing assumptions and acquisition of carbon credits, the useful economic lives of property, plant and equipment, expenditure on operational (Scopes 1 and 2 from operated assets) decarbonisation, expenditure to support value chain (Scope 3) decarbonisation, and the timing, scope and expected cost of closure and rehabilitation activities. As we note above, in line with the assumptions and scenarios set out in pillar 2, the company has not identified any disclosable impairments etc under the planning range most likely case. (reference: report and accounts 2024 pages 164-167).

**Criteria 3.3:** The financial implications if they were required, via regulation or other mechanisms, to deliver at a materially earlier point in time (normally no later than 2050), a transition strategy that is aligned with the 1.5C scenario.

**Our analysis:** Using the 1.5C scenario discussed in pillar 2, the company has carried out an analysis of the financial implications. This is discussed in note16:

climate change under the section titled 'Paris Agreement and 1.5°C scenarios'. The company discloses that:

> *"While GHG emissions intensity of steel production reduces significantly in the Group's 1.5°C scenario, underlying demand for steel (including the proportion from ore-based steel production) remains strong. As such, the price derived from the Group's 1.5°C scenario for iron ore remains materially aligned with the Group's base case assumptions and does not indicate an illustrative impairment.*
>
> *The assumptions within the Group's 1.5°C scenario result in a greater relative impact to steelmaking coal prices, compared to the base case assumptions. Under the Group's base case assumptions within the planning range, headroom in excess of US$6 billion exists between the carrying value of the Group's steelmaking coal assets and their estimated valuation. In a price-only sensitivity, using the prices derived from the Group's 1.5°C scenario, while current headroom would reduce, no illustrative impairment of the Group's steelmaking coal assets is indicated.*
>
> *In addition, to provide further analysis of the risk of potential impairment in a 1.5°C scenario, the Group has also performed a price-only sensitivity for steelmaking coal assets under a 1.5°C scenario published by Wood Mackenzie, a research and consultancy business for the global energy, power and renewables, subsurface, chemicals and metals and mining industries. This further analysis acknowledges the wide range of potential energy transition impacts for steelmaking coal. Under the Wood Mackenzie 1.5°C scenario, reflecting the prices outlined below, a price-only sensitivity would also reduce the current headroom on the Group's steelmaking coal assets, but does not indicate an illustrative impairment." (reference: report and accounts 2024 pages 167).*

No further detail appears to be provided.

**Summary: while the company provides reasonable disclosure with regard to the analysed scenarios (both the likely and the 1.5C cases), we consider that many shareholders will find the financial disclosure in the report and accounts less than required given the issues raised on the potential suitability of the selected scenarios discussed in pillar 2.**

PILLAR 4

## Audit disclosure

**Criteria:** do the auditors show, through their audit report, that they have fully reviewed and tested the assumptions used by the company in identifying the impact on their financial position from their material climate-related matters. Furthermore, have they validated that the assumptions and climate-related targets are consistent across all of the company's disclosures, and with the wider company strategy and financial targets.

**Why this pillar matters:** companies do not normally disclose all of the analysis and assumptions that go into their future strategy, as much of it remains commercially sensitive. Instead, shareholders rely on the auditors to check this analysis on their behalf.

### Disclosure tested against relevant criteria

**Criteria 4.1 (important disclosure):** clear disclosure in the audit report section of the Report & Accounts that the auditors have considered the material climate-related matters, preferably with them listed as a Key Audit Matter.

Our analysis: The auditors have declared that:

> ***"The Group has assessed climate-related risks as threats and opportunities that have the potential to impact the financial statements as outlined in Note 16 of the financial report. These risks and opportunities include both transition risks and physical risks arising from climate change and the transition to a low carbon economy (climate change).***
>
> ***Our audit, with the assistance of our climate change specialists, considered the climate-related risks and opportunities that have the potential to materially impact the basis of preparation, including the key judgements and estimates exercised by the Group in the preparation of the financial report.***
>
> ***The Group has incorporated its current climate change strategy, including Board approved commitments and actions in the basis of preparation of the financial report, reflecting the Group's best estimate of the potential impact to the financial statements as at 30 June 2024.***

> ***The impacts of climate change are most material to the judgements and estimates involved in the assessment of the carrying value of property, plant and equipment and the determination of closure and rehabilitation provisions." (reference: report and accounts page 202).***

Climate-related issues were assessed as part of some of the Key Audit matters including assessment of the carrying value of property, plant and equipment, and closure and rehabilitation provisions. No specific issues were raised in this regard (reference report and accounts pages 203 -204).

**Criteria 4.2 (Important disclosure):** confirmation (probably outside of the format audit report) that they have reviewed the company's climate-related targets, checked the assumptions that went into the targets and the transition strategy, and ascertained that the targets, strategy, and the assumptions are consistent with the wider company financial strategies and company guidance.

**Our analysis:** In accordance with standard audit procedure the auditors have not reviewed the company's climate-related material, including but not limited to the Climate Transition Action Plan 2024. The auditors have noted that:

> ***"The directors are responsible for the other information. The other information comprises the information included in the Company's 2024 annual report, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard."***

**Criteria 4.3 (important disclosure):** where they consider that there is a reasonable risk that regulatory or other targets could reasonably lead to reduced demand for some of the company's products, they should ensure that an appropriate contingent liability is clearly set out, including the assumptions used.

**Our analysis:** No material climate-related contingent liability or provision is recorded.

**Criteria 4.4 (important disclosure):** set out that they have reviewed the financial implications if the company was required, via regulation or other mechanisms, to deliver at a materially earlier point in time (normally no later than 2050), a transition strategy that is aligned with the 1.5C scenario, and the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

**Our analysis:** In accordance with standard audit procedure the auditors have not commented on the financial implications of a 1.5C scenario.

**Summary: the appointment of the auditor is not a voting item for the 2024 AGM and so this analysis is for information only.**

# PROXY VOTING ON MATERIAL CLIMATE DISCLOSURES

## 18 October 2024

## About the project

This report forms part of a project providing climate-related analysis and recommendations on how investors could be exercising their votes on standing items. The project is focused on ensuring issuers in high-emitting sectors are providing investors with sufficient material information on their climate strategies to make informed investment and stewardship decisions.

As material information will differ by industry, this report is based on an overarching framework (four pillars) but also the specific disclosures that investors should be expecting from companies in these industries. Given the work is focused on financial disclosures, the reports will make recommendations on items relating to the annual reports and accounts and audits.

### About PIRC

PIRC protects and enhances the long-term returns of major investors by promoting the highest corporate standards. Pensions & Investment Research Consultants Ltd (PIRC) is Europe's largest independent corporate governance and shareholder advisory consultancy with over 30 years' experience in providing stewardship and proxy research services to institutional investors on environmental, social and governance issues. For more information, please visit: www.pirc.co.uk or contact Paul Hunter (paul.hunter@pirc.co.uk).

### Project commissioning

ShareAction is an independent charity and an expert on responsible investment. They work to build a world where the financial system serves our planet and its people.

ShareAction sets ambitious standards for how financial institutions, through their investment decisions, can protect our planet and its people and campaign for this approach to become the norm. They convene shareholders to collectively push companies to tackle the climate crisis, protect nature, improve workers' rights and shape healthier societies. In the UK and EU, they advocate for financial regulation that has society's best interests at its core.

Find out more at shareaction.org | Search @shareaction on LinkedIn, X, Instagram and Facebook.

The analysis and recommendations contained within this report may not reflect the views of ShareAction.

### Disclaimer

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