ASX and KPMG webinar on climate disclosures

Climate disclosures in the annual report

Webinar

December 2020

—

kpmg.com.au

Your presenters are…

Mark Spicer

Michael Suffield

John Johansson

Why are we here today?

Objectives of today's session

- Understand the key climate risks and how they impact the Materials sector
- Understand the requirements, recommendations, and expectations relating to climate financial disclosures
- Review examples of good practice within the current market

Investors and climate disclosures

Investors are demanding more transparent climate disclosures

- 42% of Australian investment managers screen against the UN Principles for Responsible Investment (PRI) which mandates reporting in line with the Taskforce on Climate-related Financial Disclosure (TCFD)[1]
- 76% of Australian and New Zealand investors considers Enterprise, Social and Governance (ESG) factors as part of their investment analysis and decision[2]
- Climate Action 100+, a group of 545 investors with nearly US$52tn asset under management are working to curb emissions, improve governance and strengthen climate-related financial disclosures amongst large corporate emitters[3]
- Superannuation fund Aware (formerly First State Super) has created a series of new listed equities benchmarks that will support its goal of net zero emission by 2050. The new series benchmarks reduces its carbon footprint by 40%[4]

1. Responsible Investment Association Australasia (RIAA). Benchmark report from 2020
2. Investor Group on Climate Change (IGCC) on ESG Integration. Full Disclosure: Improving Corporate Reporting on Climate Risk report from 2020
3. climateaction100.org
4. Aware media release dated 25 November 2020: Aware Super's new share market benchmark reduce carbon footprint of equities portfolio by 40%

Agenda

	Time (mins)
Climate risk impact on business	15
Disclosure considerations	15
Good practice	15
Q&A	10

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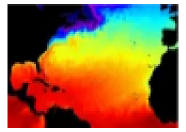
Climate change is a now issue

Climate policy

Warmest oceans on record could set off a year of extreme weather

The high temperatures could offer clues on the ferocity of the Atlantic hurricane season and the eruption of wildfires from the Amazon region to Australia.

Apr 20, 2020 | Brian K. Sullivan



Climate change: 2020 set to be one of the three warmest years on record

How do we know the temperature for 2020 when the year isn't over yet? To work out the annual rise in temperatures for their State of the Climate ...

The New York Times

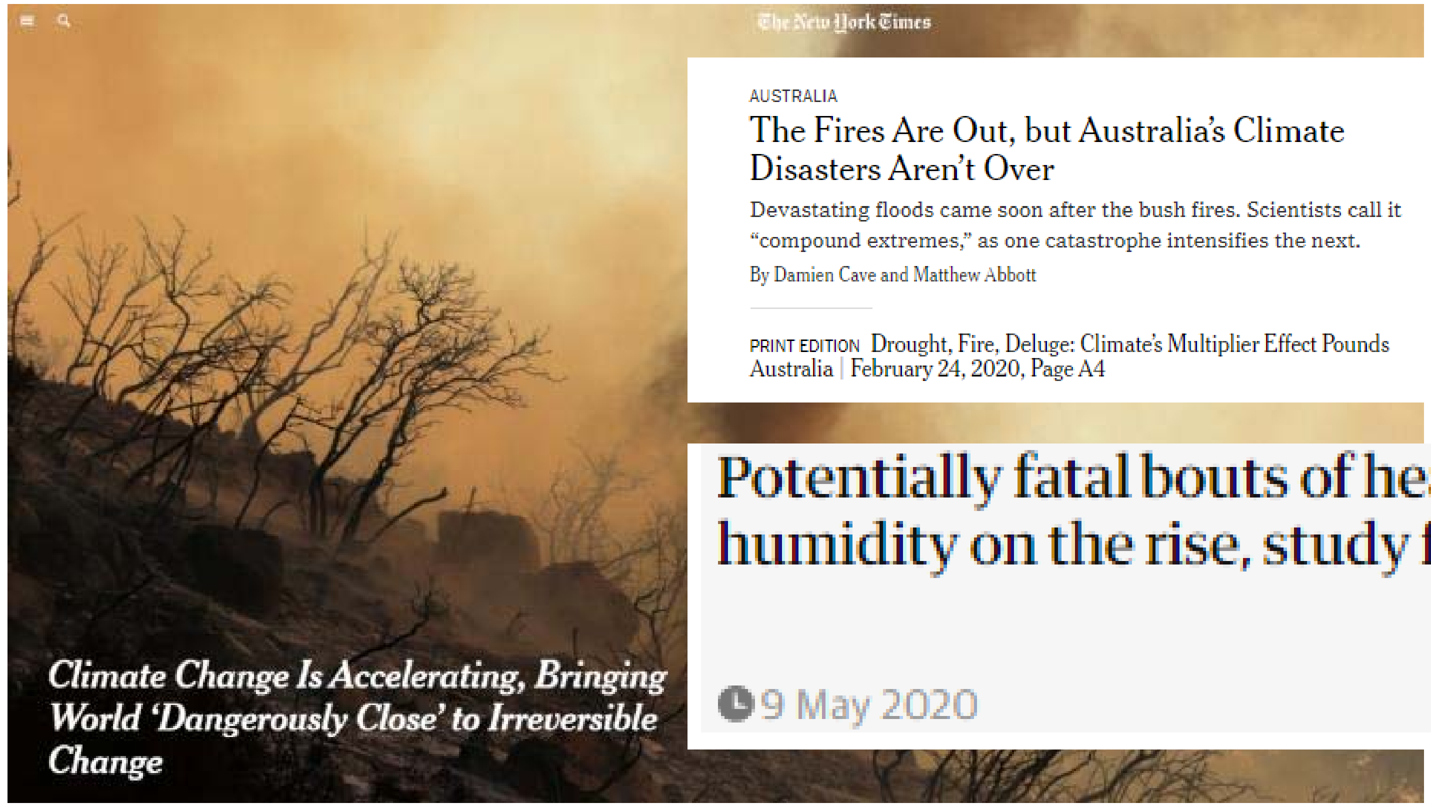
AUSTRALIA

The Fires Are Out, but Australia's Climate Disasters Aren't Over

Devastating floods came soon after the bush fires. Scientists call it "compound extremes," as one catastrophe intensifies the next.

By Damien Cave and Matthew Abbott

PRINT EDITION Drought, Fire, Deluge: Climate's Multiplier Effect Pounds Australia | February 24, 2020, Page A4



Potentially fatal bouts of heat and humidity on the rise, study finds

9 May 2020

One climate crisis disaster happening every week, UN warns

Scientists link record-breaking hurricane season to climate crisis

Evidence is not so much in the number of tropical storms the Atlantic has seen, but in their strength, intensity and rainfall

Climate is gaining attention!

"Climate change poses a material risk for the economy and financial markets over a long horizon.....
Climate change is a challenging risk to assess but an increasingly necessary one."

Guy Debelle – Deputy Governor, RBA

How are you responding to these risks in your business?

Business and investment community increase focus

WEALTH MATTERS

A Call for Investors to Put Their Money Toward a Green Future

BlackRock CEO Larry Fink puts climate change at center of megafund's investment strategy

Investors scared off by Australia's climate wars

Can legal action force governments and businesses to respond to climate change?

By Jacqueline Peel
Posted 13 Feb 2020, updated 14 Feb 2020

Central banks tune in to climate change

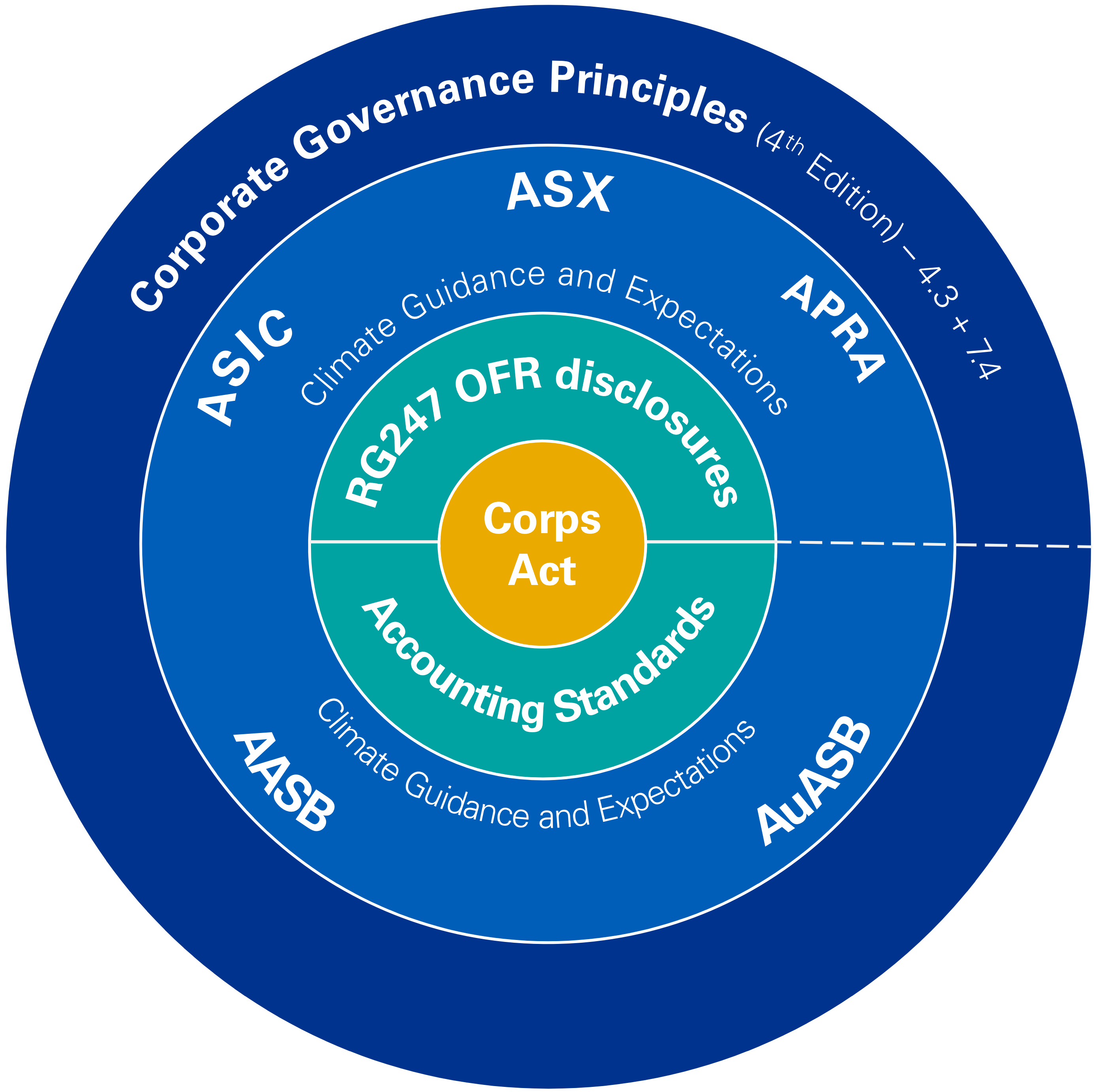
New IMF chief Kristalina Georgieva announced that the IMF 'is gearing up very rapidly to integrate climate risks into our surveillance work'.

Banks struggle to produce useful climate-risk reporting data

World's largest asset manager BlackRock joins $41 trillion climate-change investing pact

Published: Jan. 14, 2020 at 8:55 a.m. ET

Regulators – climate is on the agenda



TCFD Recommendations

Director's Report

- ASIC highlights climate as a matter for discussion in OFR

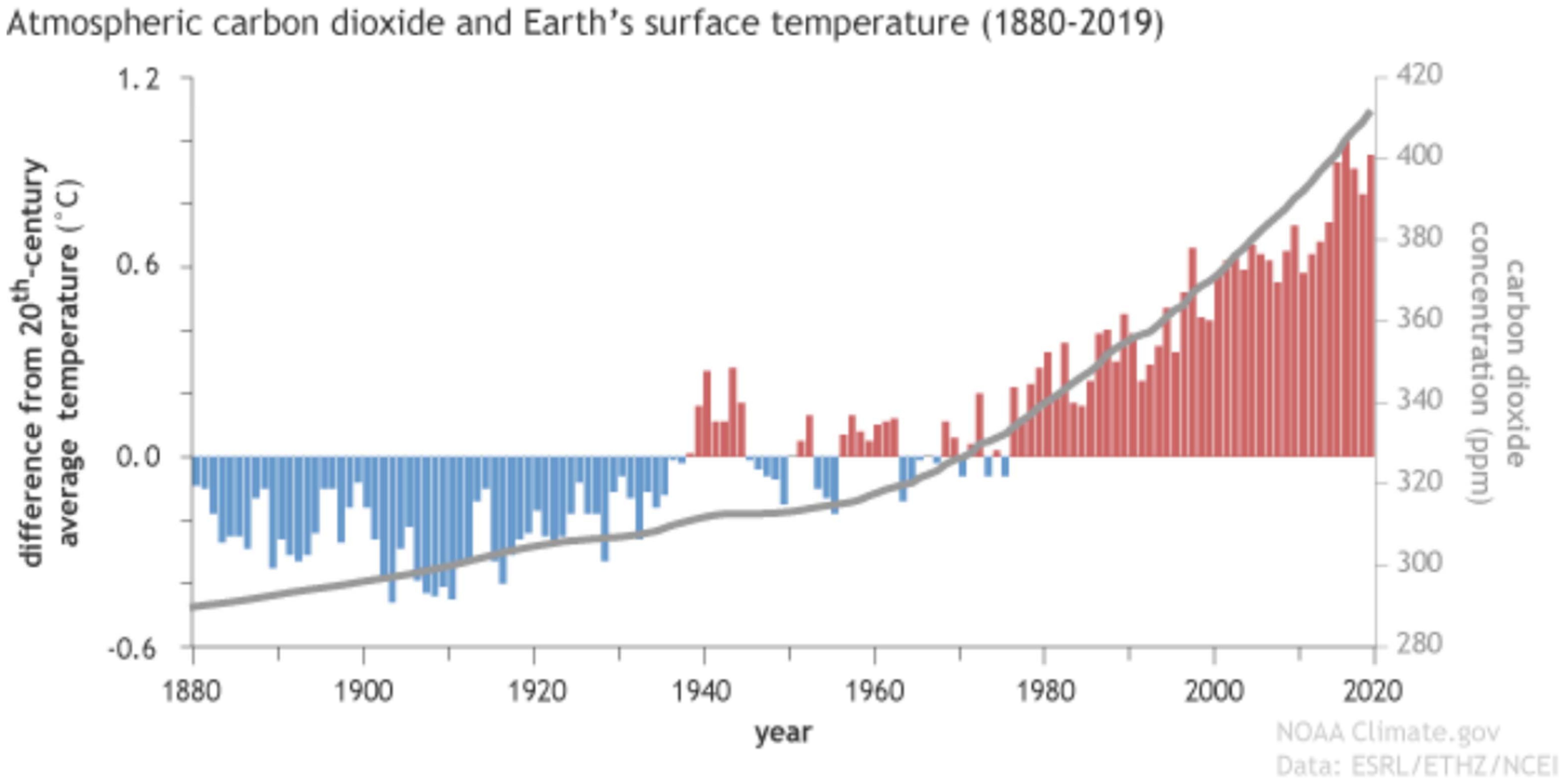
Financial Report

- ASIC focus area
- AASB/AuASB expects disclosures in financial statements

> *"It is increasingly obvious that climate change is and will inevitably affect the economy, and it is increasingly difficult…for directors of companies of scale to pretend that climate change will not intersect with the interested of their firms. In turn, that means that the exposure of individual directors to climate change litigation"*
>
> – Noel Hutley SC

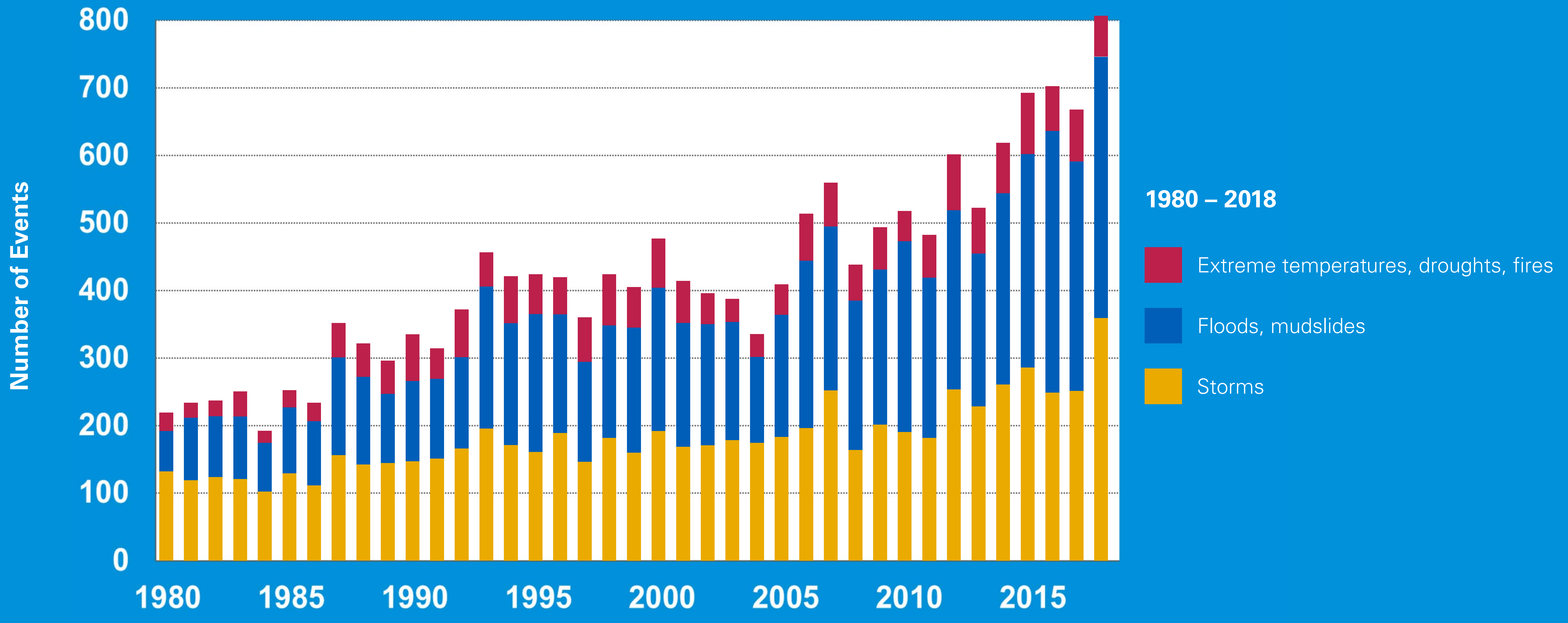
How can climate change impact on business?

Relationship CO_2-e and Global Temperature



Key Sources of Greenhouse Gases (CO_2-e)

Worldwide Extreme Weather Catastrophes



Types of Risk – Physical risk

Risk	Description	Potential financial impact
Acute	event-driven, including increased severity and frequency of extreme weather events, such as cyclones, hurricanes, or floods.	• Loss of assets/operations • Disrupted supply chains • Availability/cost of water • Increased cost of maintenance • Increased insurance premiums/ availability of premiums • Migration of growing areas
Chronic	longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.	

Types of Risk - Transition risk

Risk	Description	Potential financial impact
Policy risk	Policy actions that looks to constrain activity that contributes to adverse impact of climate change or support adaptation	• Increased operating costs • Write offs, asset impairments and early retirement
Legal risk	Increase likelihood of litigation associated with actual or potential losses associated with climate	• Increased costs/reduced demand/ fines resulting from judgements
Technology Risk	Technological improvements or innovations that support the transition to a lower-carbon, energy efficient economic system	• Write offs and early retirement of existing assets • Cap-ex in tech developments • Loss of demand
Market Risk	Varied and complex – includes shifts in demand and supply of products/services	• Reduced demand based on shift in consumer preferences
Reputation Risk	Changing perceptions of an organization's contribution to or detraction from the transition to a lower-carbon economy	• Reduction in capital availability • Decrease in productivity – staff quality/retention • Reduced demand based on consumer preferences

Task-force on Climate related Financial Disclosures

1. TCFD issued recommendations in 2017
2. Recommendations include:
   I. Identification/codification of types of Climate Risk
   II. How risk can result in financial impact
   III. Sectors most likely to be impacted
   IV. Disclosures

Adopted as global best practice

Referred to by ASIC, APRA, ASX, AASB AUASB

High level of take up in ASX reporting

Focus of global investors

Key impacted sectors

Finance	Energy	Transportation	Materials and Buildings	Agriculture, Food and Forestry Products
Banks	Oil and Gas	Air Freight	Metals and Mining	Beverages
Insurance companies	Coal	Passenger Air	Chemicals	Agriculture
Asset Owners	Electric Utilities	Transportation	Construction Materials	Packaged food and Meats
Asset Managers		Maritime Transportation	Capital Goods	Paper and Forest Products
		Rail Transportation	Real Estate management and Development	
		Trucking Services		
		Automobiles and components		

Impact on the Energy Sector

Energy	Expected relevant risks
• Oil and Gas	Policy risk
• Coal	Legal risk
• Electric Utilities	Technology Risk
	Market Risk
	Reputation Risk
	Acute
	Chronic

High Med Low

HEALTH WARNING:

You should consider how climate change impacts your individual business. Risks are unique to each business and sector.

Impact on the Finance Sector

Finance

- Banks
- Insurance companies
- Asset Owners
- Asset Managers

High Med Low

Expected relevant risks

- **Policy risk**
- **Legal risk**
- **Technology Risk**
- **Market Risk**
- **Reputation Risk**
- **Acute**
- **Chronic**

HEALTH WARNING:

You should consider how climate change impacts your individual business. Risks are unique to each business and sector.

Impact on the Materials and Building Sector

Materials and Building

- Metals and Mining
- Chemicals
- Construction Materials
- Capital Goods
- Real Estate management and Development

High Med Low

Expected relevant risks

Expected relevant risks
Policy risk
Legal risk
Technology Risk
Market Risk
Reputation Risk
Acute
Chronic

HEALTH WARNING:

You should consider how climate change impacts your individual business. Risks are unique to each business and sector.

Impact on the Agriculture, Food and Forestry Products Sector

Agriculture, Food and Forestry Products

- Beverages
- Agriculture
- Packaged food and Meats
- Paper and Forest Products

● High ● Med ● Low

Expected relevant risks

Policy risk	High
Legal risk	High
Technology Risk	Low
Market Risk	Med
Reputation Risk	Med
Acute	High
Chronic	High

HEALTH WARNING:

You should consider how climate change impacts your individual business. Risks are unique to each business and sector.

Impact on the Transportation Sector

Transportation

- Air Freight
- Passenger Air
- Transportation
- Maritime Transportation
- Rail Transportation
- Trucking Services
- Automobiles and components

High Med Low

Expected relevant risks

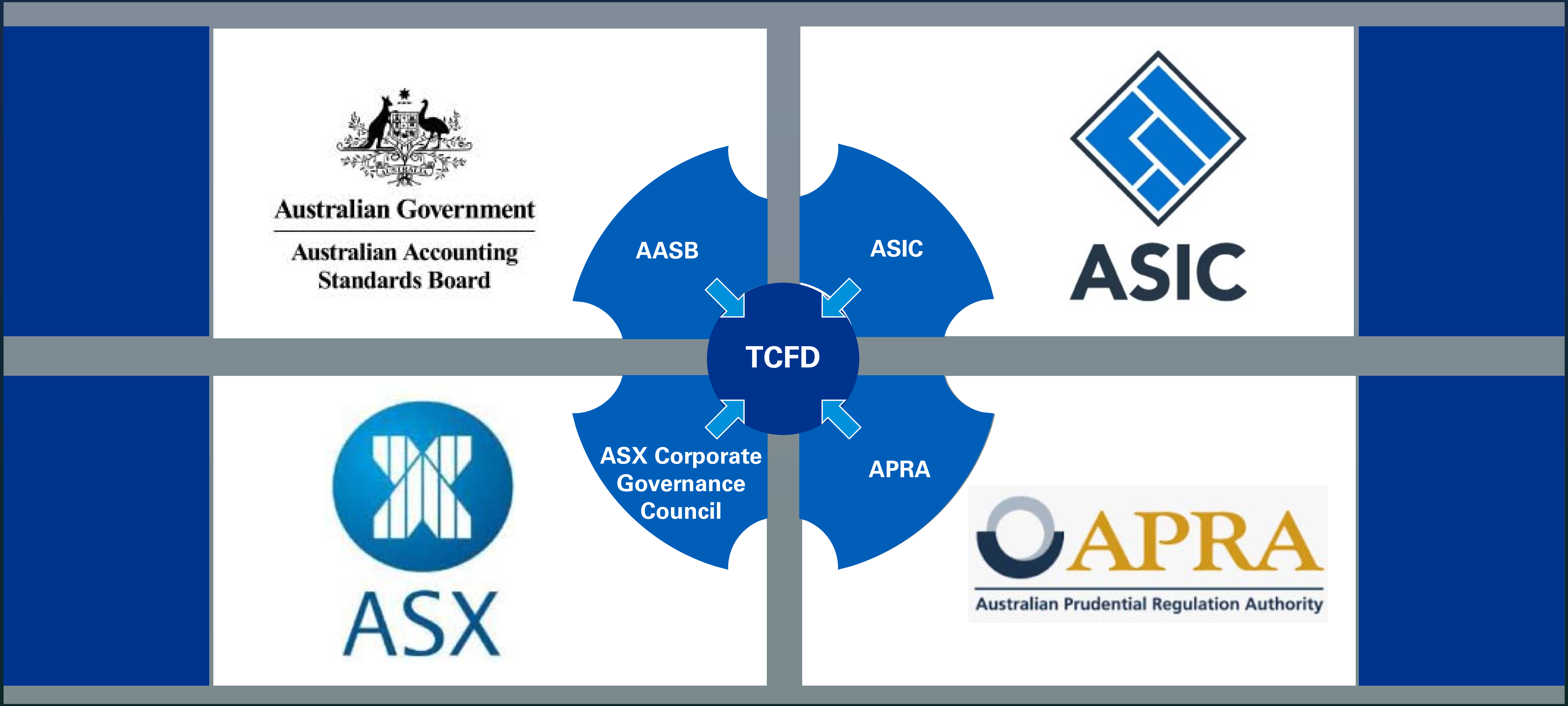
- **Policy risk**
- **Legal risk**
- **Technology Risk**
- **Market Risk**
- **Reputation Risk**
- **Acute**
- **Chronic**

HEALTH WARNING:

You should consider how climate change impacts your individual business. Risks are unique to each business and sector.

Disclosing Climate-related impacts

Recommendations



External Reporting

Disclosures in the 'Front-end'

Governance

- Oversight
- Monitoring
- Verification of accuracy

Business Model

- Description of business model
- Impact

Strategy

- Consideration of short and longer-term
- Strategic response

Disclosures in the 'Front-end'

Risk Management

- Climate-related risks
- Climate risk may also be a component of a broader risk
- How embedded into the risk management

Performance and Outlook

- Identify underlying drivers
- Linked company
- Metrics and targets

Financial statement disclosures?

What disclosures are material to the financial statements?

Could investors reasonably expect climate-related risks to have a significant impact on the entity and would that risk qualitatively influence investor's decisions, regardless of the quantitative impact on the financial statements?

Yes

Have these risks affected any of the amounts recognised or disclosed in the financial statements?

Yes

Determine relevant disclosures

No

Disclose why no impact

No

Are climate-related risks likely to have a material impact in the entity's specific circumstances?

Yes

Consider the risks to determining amounts recognised and make relevant disclosures

No

No disclosures necessary

If information on climate-related risks are not already disclosed, should they be?

Source: Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2

Climate-related risk & financial statement disclosures

Areas where climate risk may have some form of impact on the recognition and measurement of assets and liabilities now or in the future

- **Asset useful lives**
- **Non-financial assets values – Impairment**
- **Financial asset values – Expected credit losses (ECLs)**
- **Provisions and contingent liabilities**
- **Onerous contracts**
- **Financial instrument (investment) risk exposures**
- **Fair Value measurement**

Who is doing this already?

What we've seen in the market

Australia

78% of ASX100 companies acknowledge climate change as a financial risk

58% report using the TCFD

32% include climate risk in their annual report

20% use scenario analysis to quantify risks

Climate Risks Reporting in the Annual Report

Climate change resilience

South32 has been actively addressing risks associated with climate change for several years. By using climate change scenarios, we can identify opportunities and threats to our portfolio and operations.

We assess these risks through a framework that includes policy, market and physical factors.

RISK EXPOSURE TREND 2020

↑

OPPORTUNITIES

We regularly assess our customer and broader stakeholder preferences, as well as developments in policy and competitive technologies, to ensure our products remain in demand and resilient. Our pipeline of development options and exploration programs include commodities with a favourable outlook in a low carbon future, with a bias to base metals.

THREATS

Failure to build the resilience of our business to the physical impacts of climate change, reduce our emissions and respond to changes in policy and technology could negatively impact our supply chain, business continuity and access to key inputs (such as water), our communities, costs, legal exposure, demand for our products, stakeholder confidence and ultimately shareholder returns. Refer to related risks of 'Security of supply of logistics chain and critical services', 'Unexpected major events or natural catastrophes' and 'Portfolio composition'.

OUR RESPONSE INCLUDES:

- We seek to understand our portfolio performance in a range of future climate scenarios, considering both opportunities and threats;
- We identify potential controls in the short, medium and long-term to improve the climate change resilience of our portfolio;
- We support the Paris Agreement objectives and are committed to achieving net zero carbon emissions by 2050;
- We identify and implement greenhouse gas reduction projects and energy planning, with our emissions reduction targets linked to remuneration;
- We use climate modelling data to inform us of the level of risk to our operational plans;
- We prioritise our land management efforts to improve resilience, including minimising land disturbance and maximising rehabilitation efforts; and
- We're transparent in our disclosure of climate change-related opportunities and threats in our annual reporting, which is aligned to the re... detail...

Front-end Update on impact of climate change to the business, both threats and opportunities

Financial Statements consider climate change on ore reserves, including an assessment of operating costs and extreme weather events

13. IMPAIRMENT OF NON-FINANCIAL ASSETS CONTINUED

Key estimates, assumptions and judgements continued

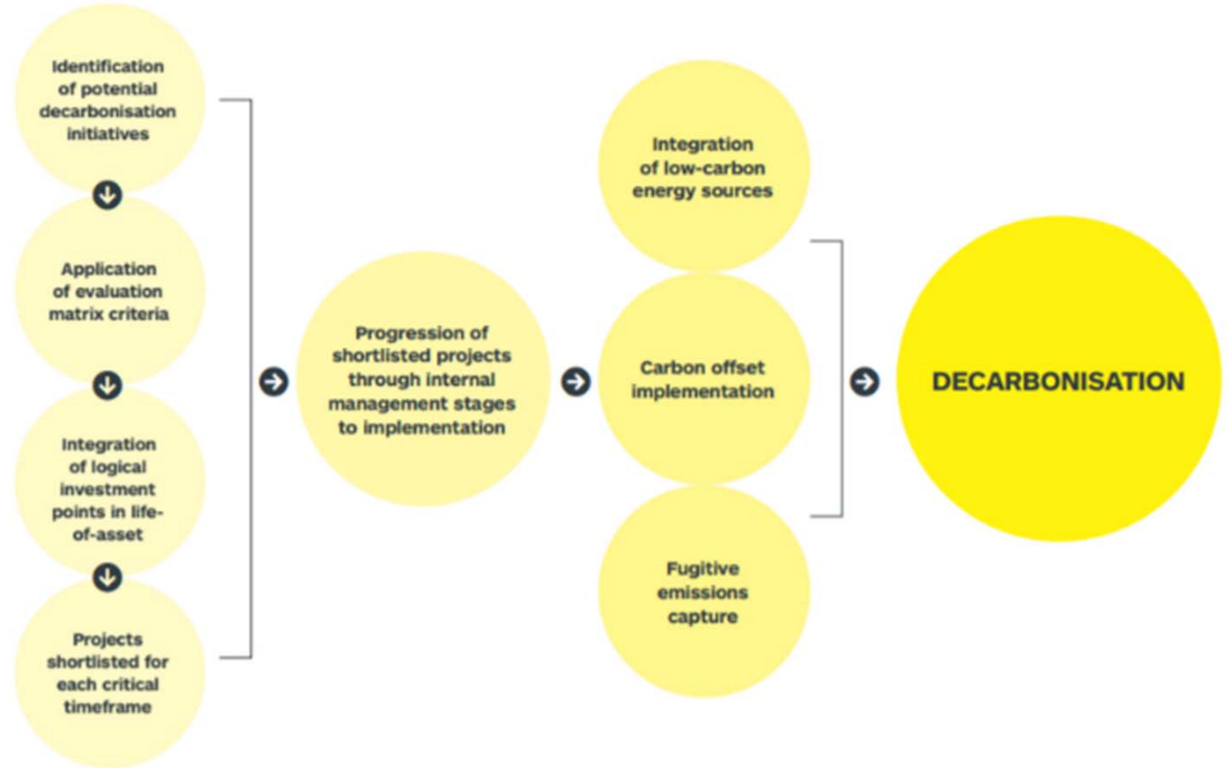
Because the economic assumptions used to estimate the Ore Reserves change from period to period ... cause additional geological data is generated during the course of operations, estimates of the Ore Reserves and Min... esources may change from period to period. The Group's planning processes consider the impacts of climate change on i... e Reserves, including assessments of operating costs and the impact of extreme weather events on the expectation of ... onomic extraction. Changes in reported Ore Reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset recoverable amounts may be affected due to changes in estimated future cash flows;
- Depreciation, depletion and amortisation charged in the Consolidated Income Statement may change on the units of production basis, or where the useful economic lives of assets change;
- Development and production stripping costs recorded on the Consolidated Balance Sheet or charged to the Consolidated Income Statement may change with stripping ratios or on a units of production basis of depreciation; and
- Decommissioning, closure and rehabilitation provisions may change where estimated Ore Reserves affect expectations about the timing or cost of these activities.

The carrying amount of associated deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

Detailed reporting within stand-alone report

Climate Change report – extract



Climate Risks Reporting in the Financial Statements

Detailed disclosures within a stand-alone report

ANZ's annual report provides a summary of its current and future climate-related risk focus areas

Our progress on the TCFD

	OUR PROGRESS TO DATE	FOCUS AREAS – 2021/22	BEYOND 2020 VISION
GOVERNANCE	• Board Risk Committee oversees management of climate-related risks • Board Ethics, Environment, Social and Governance Committee approves climate-related objectives, goals and targets • Ethics and Responsible Business Committee (executive management) oversees our approach to environment, social and governance (ESG) and reviews climate-related risks and opportunities	• Align with regulatory guidance on climate-related risk governance, including stress testing of selected portfolios	• An enhanced risk management framework that anticipates potential climate-related impacts, and associated regulatory requirements

16. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

The use of financial instruments is fundamental to the Group's businesses of providing banking and other financial services to our customers. The associated financial risks (primarily credit, market, and liquidity risks) are a significant portion of the Group's key material risks.

We disclose details of all key material risks impacting the Group, and further information on the Group's risk management activities, in the Governance and Risk Management section.

This note details the Group's financial risk management policies, processes and quantitative disclosures in relation to the key financial risks.

Key material financial risks	Key sections applicable to this risk
Overview	• An overview of our Risk Management Framework
Credit risk The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management

ANZ 2020 Financial Statements

Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws… including carbon pricing and climate change adaptation or mitigation policies.

Climate Risks Reporting in the Annual Report

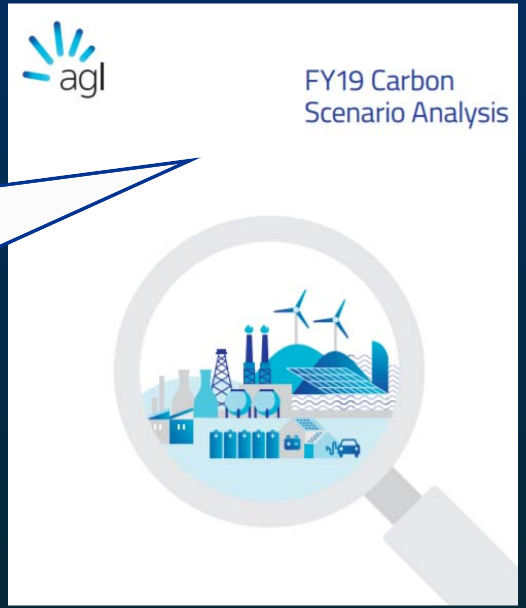
Stakeholder issue	Relevant Business Value Driver
Climate change	

Climate change is relevant to AGL's customers, community relationship, people, the environment, and infrastructure.

AGL's strategy will continue to remain flexible to respond to the transition as customer needs, community expectations and technologies develop and as government and regulatory policy evolves.

Strategy will continue to remain flexible to respond to a climate transition

AGL provide detailed disclosures within stand-alone scenario and TCFD reports



AGL Energy Limited and controlled entities

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Impact of climate change related risk

The recoverable value estimates used in the impairment of assets analysis considers climate change risk through the adjustment of cash inflows associated with the planned closure of AGL's Liddell Power Station. This recoverable value estimate demonstrates that the carrying value of AGL's Group Operations CGU is not impaired.

Management recognises that there is an increased pace of change in the energy industry and associated political landscape and will continue to work towards incorporating quantification of the financial impact of climate change and related policies within AGL's annual financia filings in accordance with Australian Securities and Investments mmission (ASIC), Australian Prudential Regulation Authority (A), and Australian Accounting Standards Board (AASB) recom ations.

Notwithstanding the above, any change to ned closure dates of AGL's coal-fired generation plants of climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows. Similarly, any change to policy in relation to climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows.

No impairment loss has been recognised for the Customer Markets, Wholesale Markets or the Group Operations CGUs for the year ended 30 June 2020 (2019: $nil).

Impairment of goodwill and other intangibles with indefinite useful lives

AGL determines whether goodwill and other intangibles with indefinite useful lives are impaired at least on a semi-annual basis. This requires an assessment of impairment indications, and an estimation of the recoverable amount of the cash-generating units, using a value in use discounted methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

AGL 2020 Notes to financial statements

The recoverable value estimates used in the impairment of assets considers climate change risk through the adjustment of cash inflows.

Climate Risks Reporting in the Annual Report

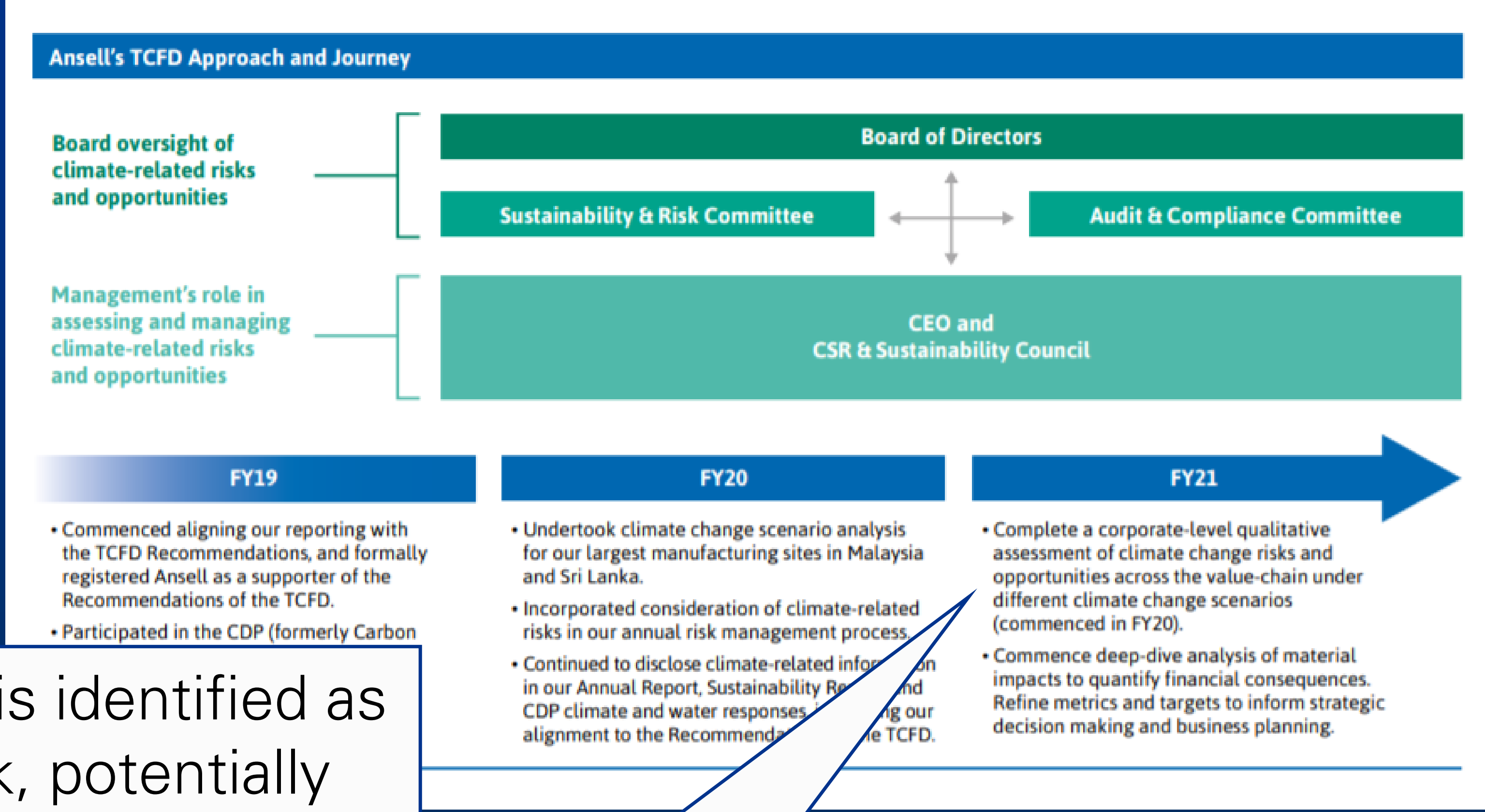
Report by the Directors continued

Material Risks – Description and Mitigation Actions

The following describes the material risks and opportunities that could affect our business and how we seek to manage them. These risks are not listed in any order of significance, nor are they all encompassing. Rather, they reflect the most significant risks identified at a whole-of-entity level through our risk management process.

Risk	Nature of Risk	Mitigation Actions
Sustainability and Corporate Social Responsibility (CSR)	Failure to comply with social and environmental standards, or poor environmental and social practices in our operations or supply chains, may give rise to reputational, legal and/or market risks. The physical impacts of climate change can compound existing environmental risks (including natural disasters and extreme weather events) to operations, supply chains and markets, and impact on our ability to obtain key inputs or to service customer needs. This may include disruption to upstream suppliers, manufacturing sites, and downstream warehousing and distribution. The economic transition risks associated with climate change may also impact on cost inputs or customer demand preferences.	• Cross-functional Management CSR & Sustainability Council put in place for governance, led by the General Counsel with updates to the CEO and full Executive team. • Enforcement of supplier self-assessments through Sedex for transparency and baseline on Human Rights, Environment and Governance. • Continued strong focus on Ansell's Code of Conduct, Values and Leadership Competencies. • Qualitative and quantitative goals established in relation to core social and environmental issues. • Diversity initiatives and inclusion policies underway. • Increased emphasis and focus on Sustainability and CSR at the Board level, within the remit of the Sustainability & Risk Committee and the Audit & Compliance Committee. • Further developments in the Company's sustainability diligence systems for management of both our operations and our supply chain. • Continued drive of our sustainability strategy and significant investment in systems and processes. • Incorporating the consideration of climate-related impacts into the Risk Management processes, providing a framework for prioritising climate impacts and other emerging risks based on consideration of the likelihood and the impact of potential risks and opportunities. In FY19 Ansell commenced a 3-year project to identify, manage and disclose climate-related risks in alignment with the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). See page 25 for details on progress and work activities for FY21.

Ansell



Climate change is identified as a business risk, potentially impacting costs of inputs or customer demand preferences

High-level overview of management and board oversight of climate risks and Ansell's TCFD journey

Additional detailed disclosures within stand-alone report

Climate Risks Reporting in the Annual Report

Governance and risk management

The Downer Board, through its oversight functions has verified that Downer appropriately considers Environmental Social and Governance (ESG) risks including those related to climate change. In fulfilling this function, the Downer Board also r oversight from Downer's Audit and Risk Commi Committee, Zero Harm Board Committee, Tender Risk Evaluation Committee and Disclosure Committee. ESG related risks and opportunities are incorporated into Downer's broader corporate strategy, planning and risk management.

The Downer Board recognises that an integrated approach to managing ESG risks and opportunities is essential. This has been reflected in the strengthening of Downer's governance structure and increased focus on this risk in both Board and executive forums throughout the financial year ended 2020.

ESG risks and opportunities are governed as part of Downer's Group Risk and Opportunity Management Framework and

The Downer Board, through its oversight functions has verified that Downer appropriately considers climate change risks.

Downer
Relationships creating success

Downer note in their financial statements that the FY21 budget and FY22 and FY23 business plans include consideration of the impact of climate risk

For all CGUs the FY21 budget and the business plan for FY22 and FY23 have included consideration of the impact of climate risk. The impact of climate risk is not a key assumption in the "value in use" or "fair value less cost of disposal" calculations.

OPERATING AND FINANCIAL REVIEW

PRINCIPAL RISKS

Area of Materiality	Risk	Mitigation and Monitoring Strategies
Climate Change	The physical and non-physical impacts of climate change may affect Orora's assets and productivity. Climate change may present risks arising from extreme weather events affecting business operations and certain customer segments, along with the introduction of new laws and government policies designed to mitigate climate change. These could impact the future profitability and prospects of Orora.	Orora is mitigating its contribution to climate change through its CO_2 emissions reduction Eco Targets focusing on energy efficiency and its participation in renewable electricity markets and, where appropriate, co-generation investments. Further information is available in the Sustainability section of this Annual Report. In addition, as set out above, Orora continuously reviews operating and capi expenditure plans to mitigate its customer risk, and operating sses that have a broad geographic spread and customers serving ber of end markets.

Climate change may present risks that could impact the future profitability and prospects of Orora.

ORORA

Climate Risks Reporting in the Annual Report

Notes in the financial statements

11 Property, plant and equipment continued

Key judgements and estimates

Judgements: Assessment of indicators of impairment or impairment reversal and the determination of CGUs for impairment purposes require significant management judgement.

Indicators of impairment may include changes in the Group's operating and economic assumptions, including those arising from changes in reserves or mine planning, updates to the Group's commodity supply, demand and price forecasts, possible additional impacts from emerging risks such [illegible] related to climate change and the transition to a lo[illegible] economy and pandemics similar to COVID-19.

Climate change

Impacts related to climate change and [illegible]on to a lower carbon economy may include:

- demand for the Group's com[illegible]ties decreasing, due to policy, regulatory (includi[illegible] carbon pricing mechanisms), legal, technological, market or societal responses to climate change, resulting in a proportion of a CGU's reserves becoming incapable of extraction in an economically viable fashion;
- physical impacts related to acute risks resulting from increased severity of extreme weather events, and those related to chronic risks resulting from longer-term changes in climate patterns.

The Group continues to develop its assessment of the potential impacts of climate change and the transition to a lower carbon economy. Where sufficiently developed, the potential financial impacts on the Group of climate change and the transition to a lower carbon economy have been considered in the assessment of indicators of impairment, including:

- the Group's current assumptions relating to demand for commodities and carbon pricing and their impact on the Group's long term price forecasts;
- the Group's operational emissions reduction strategy. For example, transitioning to renewable power supply contracts at the Group's Escondida and Spence operations.

Notes to financial statements

BHP continues to develop its assessment of the potential impacts of climate change and the transition to a lower carbon economy. Where sufficiently developed, the potential financial impacts… have been considered in the assessment of indicators of impairment.

Threats

Risks associated with climate change and the transition to a low carbon economy could affect the execution of our strategy, the expansion of our portfolio and the ability of our operated and non-operated assets to operate efficiently.

We are exposed to risks related to the physical impacts of climate change (for example, potential changes in precipitation patterns, water shortages, rising sea levels, increased storm intensities, higher temperatures and natural disasters). These risks may affect us directly, such as by causing damage to our assets, or indirectly, such as through value chain disruptions (or a combination of both). Risks related to the physical impacts of climate change may materially and adversely affect our business, including through:

BHP

Climate Risks Reporting in the Financial Statements

3.3 IMPAIRMENT OF NON-CURRENT ASSETS (CONTINUED) Santos

Recoverable amount

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal ("FVLCD") (based on level 3 fair value hierarchy) and its value-in-use ("VIU"), using an asset's estimated future cash flows (as described below) discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Significant judgement – Impairment of oil and gas assets

For oil and gas assets, the expected future cash flow estimation is based on a number of factors, variables and assumptions, the most important of which are estimates of reserves, future production profiles, commodity prices, costs and foreign exchange rates. Current climate change legislation is also factored into th calculation and future uncertainty around climate change risks continue to be monitored. In most cases, the present value of f e cash flows is most sensitive to estimates of future oil price and discount rates.

The estimated future cash flows for the VIU cal n are based on estimates, the most significant of which are hydrocarbon reserves, future production profiles, commodity prices, op costs including third-party gas purchases and any future development costs necessary to produce the reserves. Under a FV lation, future cash flows are based on estimates of hydrocarbon reserves in addition to other relevant factors such as value to additional resource and exploration opportunities beyond reserves based on production plans.

Santos 2020 Financial Statements

notes to the consolidated financial statements. continued.

AUSTRALIAN PIPELINE TRUST AND ITS CONTROLLED ENTITIES
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

Operating Assets and Liabilities

13. Impairment of non-financial assets (continued)

Critical accounting judgements and key sources of estimation uncertainty – impairment of assets

The key estimates and assumptions used in the assessment of impairment include but are not limited to: asset capacity; asset lives; forecast operating costs and margins; gas field reserve estimates; the effect of inflation; discount rates; customer contract terms and renewals; residual value; and asset construction costs. Where the key assumptions for the assessment of new assets such as expected construction costs, expected time to commissioning, expected revenues, expected operating and capital costs at the time of investment differs from the final outcomes, significant variances to the key assumptions may cause triggers for impairment.

These assumptions have been determined with reference to historic information, current performance and expected changes taking into account external information such as market inputs on discount rates, the effects of inflation, cli te change based on TCFD scenario testing to 2030, the outlook for global and regional gas market supply-and-demand co ns, and internal information such as contract renewals, and forecast input costs. Such estimates may change as new inform becomes available.

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Current climate change legislation is also factored into the calculation and future uncertainty around climate change risks continue to be monitored.

Physical, economic and environmental factors are taken into consideration in assessing the useful lives of the assets, including but not limited to … climate change based on TCFD scenario testing to 2030.

Key takeaways

Key takeaways

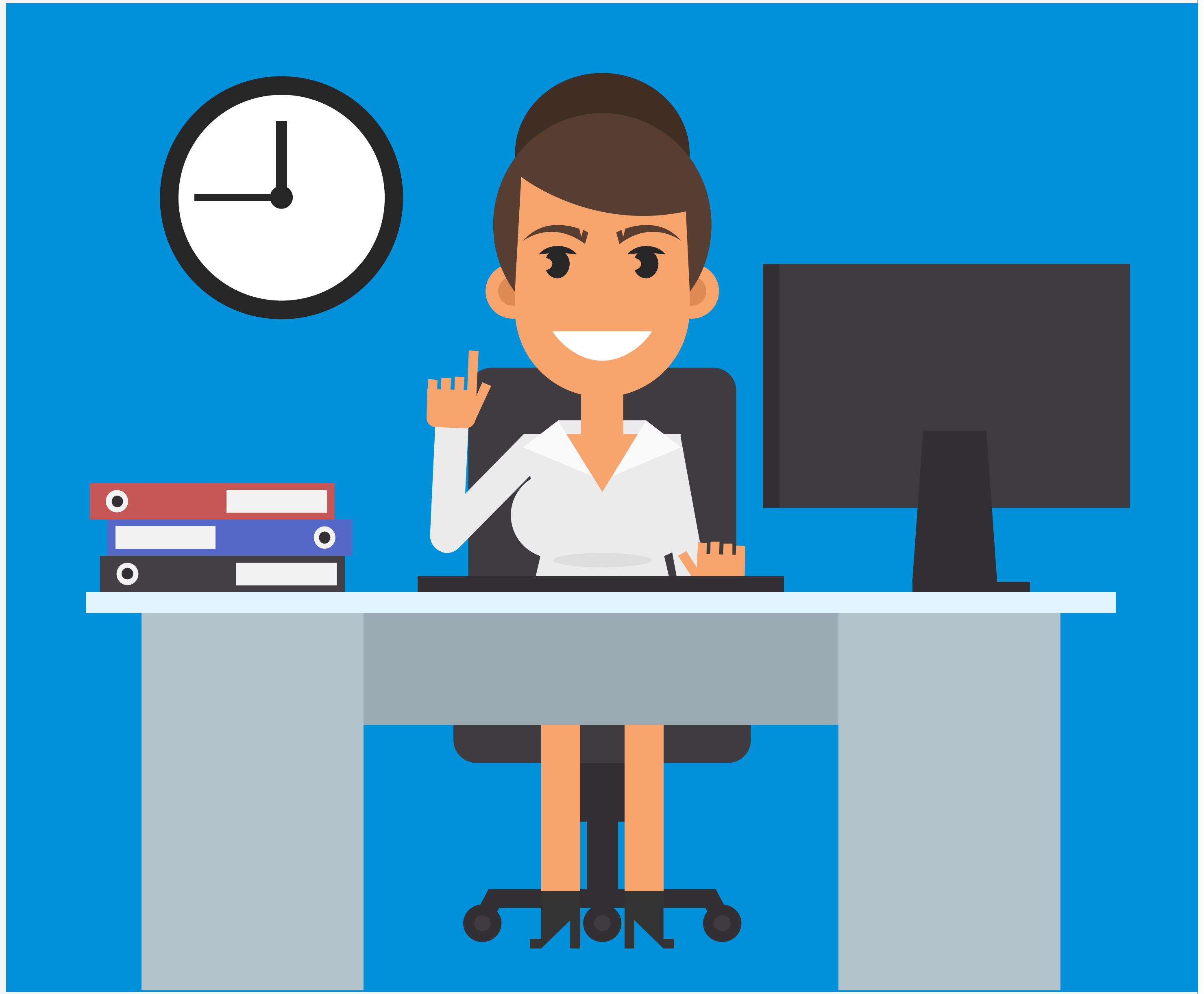
Questions to consider ahead of your next annual report…

Climate risk is here

Climate risks may be material – remember that this is assessed from the user's perspective!

Regulators expect climate impacts to be disclosed in the Annual Report, impacts and key assumptions should also be disclosed in the Financial Statements

Be consistent – make sure your Financial Statement disclosures are aligned with statements and strategies in the Front-end of your Annual Report.



Q&A

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