CLIMATE-RELATED FINANCIAL DISCLOSURE – DESIGN CONSIDERATIONS

ORICA SUBMISSION FOR AUSTRALIAN GOVERNMENT TREASURY – FOR PUBLIC RELEASE

17 FEBRUARY 2023

INTRODUCTION

Orica, headquartered in Australia and ASX100 listed, is one of the world's leading mining and infrastructure solutions providers, operating in 100 markets. From the production and supply of explosives, blasting systems, mining chemicals and geotechnical monitoring, to our cutting-edge digital solutions and comprehensive range of services, we sustainably mobilise the earth's resources.

ORICA'S RESPONSE TO CLIMATE CHANGE

Orica's financial and operational success is underpinned by effective sustainability-risk management. Our approach to climate change is built on four focus areas: capturing new opportunity; enhancing resilience; catalysing action; and reducing emissions.

The chemical manufacture and use of commercial explosives in mining and civil blasting is energy-intensive and releases greenhouse gas emissions. Assets are long-lived and change takes time. Transition planning and operational decarbonisation are embedded in our core business strategy.

In 2020, Orica led the chemical industry in Australia by setting voluntary emissions reduction targets; to reduce operational Scope 1 and 2 emissions by at least 40% compared to 2019 levels. In 2022, Orica went further to set a target to source 100% renewable electricity by 2040, with an interim step of 60% by 2030. These targets form important enablers towards our ambition of net zero emissions by 2050.

ORICA AND CLIMATE-RELATED FINANCIAL DISCLOSURE

We are committed to addressing material sustainability issues, including action on climate change, by providing transparent disclosure on our GHG performance and management of climate-related financial risks (and opportunities). Each year, we report on our progress including against goals and targets we set ourselves. At the end of FY2022 our Scope 1 and 2 net emissions totalled 1,883 ktCO2-e, which represents a 14% reduction compared to 2019 levels.

Our 2022 Climate Action Report marks our third year of disclosure[1] against the Taskforce on Climate-related Financial Disclosures (TCFD) voluntary disclosure framework. It outlines Orica's approach to climate change including our governance processes, strategy, risk management, metrics and targets to manage climate risk and realise climate-related opportunities. It also outlines our decarbonisation and transition planning.

[1] Additional disclosures of our GHG performance and climate-related risk and opportunity is disclosed publicly to investors and other stakeholders through our Annual Report, ESG Data Centre and by responding annually to CDP's Climate Change Questionnaire. We also report energy and GHG emissions as required by law in relevant jurisdictions where we operate, including Australia.

CLIMATE-RELATED FINANCIAL DISCLOSURE PROPOSED BY TREASURY AUSTRALIA

Orica understands that Treasury (Treasury) within the Australian Government is leading consultation on the implementation of standardised climate disclosures, to be informed by TCFD and the International Sustainability Standards Board (ISSB), and that the disclosures form one part of the development of a broad sustainable finance framework for Australia.

A key driver for this is the Government's commitment to ensuring large businesses provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks, and opportunities. Orica strongly supports this objective and welcomes the opportunity to submit feedback on the standardised climate disclosures consultation paper.

In summary, Orica supports the primary objectives of the proposed standardised climate disclosures and encourages policy design with a strong focus on the principles of transparency and building synergies in sustainability reporting, to minimise administration and reporting burdens on companies (of all sizes). An outline of our response, by key questions relevant to Orica's operations is provided below:

- A phased approach to climate disclosure, focusing on material sectors (financial sector and ASX100) followed by smaller entities and/or less climate-exposed sectors[2]. However major step changes still remain for all companies (of all sizes) for the integration of climate-related considerations into backend financial filings and aligning to new ISSB standards (quantitative disclosure requirements) – more time beyond FY24-25 is needed for the absorption and standardisation of these requirements, and in terms of comparability, there may be a different approach by sector. Allowance of forward planning and resourcing for companies should be considered (Q2, Q3).
- Orica's financial reporting year is 1 October to 30 September of the following year and as such any mandated climate risk reporting should follow a company's financial accounting period (Q2).
- Alignment with emerging international standards proposed by ISSB is encouraged, however a focus on qualitative requirements followed by phasing in quantitative financial impact disclosures as proposed by ISSB (Q4).
- As per corporate reporting law guidance, unless findings are deemed material, climate disclosures should follow existing TCFD-aligned reporting practice in Australia i.e. standalone and dedicated climate reports / sections. If deemed material, climate-related findings should be incorporated into the directors' report as required under the *Corporations Act 2001*. The definition of materiality should align with ISSB guidance to aide comparability for global companies like Orica (Q6, Q7).
- Assurance requirements should be well considered before a mandate is made on companies – it is proposed that mandated disclosures be made initially followed by the development of assurance guidelines, to allow a) assurers to develop audit guidelines and b) to not overburden companies with extra assurance requirements on a topic/area that is in process of being standardised and hence difficult to assure (Q8, Q12).
- Emissions reporting should cover Scope 1, 2 and 3, in-line with the guidance of reporting frameworks such as the GHG Protocol. However, Scope 3 reporting should be separate and

[2] May be informed by ANZSIC codes.

considered differently, due to its challenging nature and lesser ability to influence by an entity. Proposed common metrics for baselines may be of value for comparability however extensive consultation should be made with industry on appropriate metrics, as a dollar-based metric for all sectors is not appropriate nor reflective of the emissions profile of companies based on its produced goods/services (other than financial sector entities). Further, a phased approach is essential when mandating difficult data requirements i.e. Scope 3 (Q13).

- The provision of an authority to provide guidance and oversight on supporting information e.g. for scenario analysis, does offer some merit for company comparability of climate-related information – however limitations to this approach exist if the provided supporting information is Australian-centric only and would leave global companies like Orica at a disadvantage, potentially leading to misinterpretation of our management of climate risk (Q14).
- Climate risk (and opportunity) play out on longer time horizons compared to other strategic company risks (i.e. cybersecurity, supply chain disruption etc) which have acute risk timelines. Given this, the strategic management of climate risk requires forward-looking assumptions beyond traditional financial outlooks. Subsequently, 'reasonable grounds' and proportionate liability in terms of climate reporting should be separately defined given the longer timelines that climate risk plays out on. Similar considerations should be made for emerging non-financial reporting of other sustainability topics i.e. nature, water (Q15).
- Reporting requirements in Australia should be designed to allow for expansion into other non-financial /sustainability reporting topics i.e. nature, water etc. Digital reporting should be considered down the track as an end goal, following disclosure requirement testing as the market responds to new mandates. Potential structure three may be best placed to allow ongoing flexibility and adaptation to emerging global baselines of sustainability reporting standards. A phased and informed approach to this structure reform would allow certainty for companies (Q17, Q18, Q19).

We commend these recommendations to Treasury and welcome opportunities for further dialogue. Questions about this submission, can in the first instance be directed to [redacted], Head of Government and Regulation via email – [redacted]

Your Sincerely,

[redacted]

[redacted] – Global Vice President, Corporate Affairs