

Task Force on Climate-related Financial Disclosures (TCFD) 2022



About this *report*

We are a global leader in plant-based food, committed to driving the transition of the global food system. We are focused on driving the acceleration of adoption of plant-based diets and the transition to a low carbon world and reducing the impacts of climate change. Understanding how the climate can impact our business and what we can do to address our own climate impact is key to being a responsible and trusted plant-based, sustainable company.

TCFD requires us to report on our resilience to climate change, identify the risks and opportunities, and report on the governance, strategy, risks, targets and metrics of these. During 2022, we partnered with climate experts to conduct a climate scenario analysis to consider the impacts and opportunities over the short, medium and long term. We first assessed the materiality of climate risk and opportunities associated as part of a stakeholder engagement exercise. This resulted in identifying three material physical risks and one material transition opportunity. We then modelled how these may evolve over time due to climate change by analysing our product footprint, sourcing locations and climate footprint and overlaid modelling of the required physical, policy and consumer changes required to meet specific climate scenarios (i.e. a 1.5°C policy scenario and a 4°C policy scenario). We followed the IPCC scenario models and assessed impacts over five years during this first assessment of identified risks. For some of the risks, we estimated the impact from 2025-2030 and for some we were able to look at longer-term risks up to 2050. The analysis resulted as a low financial risk on gross revenue. The known residual risks identified were classified as low financial risk based on our Risk Management Framework. However, we will continue to do further work to better understand the full residual risk and many of the mitigating actions also address a wider risk than climate (i.e. business continuity plans) and will be evaluated as part of our ongoing risk management process. There is a significant market opportunity as changes in consumer behaviour favouring plant-based diets are required by society to drive down climate impacts according to the various climate scenarios.



Index

02	Introduction
04	Summary of Upfield's TCFD response
04	Governance
04	Strategy
05	Risk management
05	Metrics and targets
06	Strategy
06	Climate-related risks and opportunities
06	Scenario analysis
07	Risk 1: Quality and yields of key crops reduced
07	Risk 2: Crop damage
07	Risk 3: Factories forced to cease production
08	Opportunity 1: Market opportunity
09	Risk management
10	Climate scenarios: Financial impact aligned to internal Financial Risk Rating



Summary of Upfield's TCFD response

The following section contains a summary of our voluntary disclosures in alignment with the requirements of the Task Force on Climate-related Disclosures (TCFD), including how Upfield approaches governance, strategy, risk management metrics and targets.

Governance	
Describe the board's oversight of climate-related risks and opportunities	<p>The Board manages the business mainly through a set of financial and non-financial key performance indicators (KPIs). Non-financial KPIs related to safety, service levels, operational efficiency, health and environmental matters and are managed at the manufacturing sites. The Board delegates the day-to-day management of the business, including climate matters, to Upfield's Executive Committee (ExCo).</p> <p>Climate-related risks are managed by the Risk Committee, which reports directly to the Executive Committee. The Chief Operations Officer (COO), an Executive Committee member, has responsibility for the ESG strategy, including climate matters, and its delivery. The COO chairs the cross-functional ESG Leadership Team, responsible for implementation, monitoring progress against the ESG strategy, targets and the management of material ESG risks and opportunities.</p> <p>The ESG Leadership Team has representatives from all key areas of the business, including finance, people and organisation, operations and procurement, product development, legal and corporate affairs. Key topics are presented at the Executive Committee as deemed appropriate and reported to the Board accordingly.</p>
Describe management's role in assessing and managing climate-related risks and opportunities	<p>The Risk Committee reports into the Executive Committee. Their role is to co-ordinate and develop risk management processes, assess the level of risk related to achieving strategic objectives and overseeing execution and implementation of controls into strategic operating plans, including climate risk. Climate risks and opportunities are managed via the Risk Committee and ExCo.</p>
Strategy	
Describe the climate-related risks and opportunities the company has identified over the short, medium, and long term	<p>Risk 1: Reduction in quality and yields of key crops Risk 2: Crop damage Risk 3: Factories forced to cease production Opportunity 1: Increased market opportunity Time frame is addressed below under Strategy section.</p>
Describe the impact of climate-related risks and opportunities on the company's businesses, strategy, and financial planning	<p>As a plant-based company driving a systematic food systems transition, the market opportunity is embedded in the core of our business including strategy and financial planning. As per our Risk Management Framework, the risks identified were classified as low financial risk from a gross revenue impact and management of these risks are incorporated into our BAU risk management approach. While the known residual risk identified were classified as low risk, we will continue to do further work to better understand the full residual risk. Many of the mitigating actions mitigate a wider risk than climate (i.e. business continuity plans) and will be evaluated as part of our ongoing risk management process.</p>
Describe the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	<p>The scenario assessments (1.5°C to 4°C degrees) completed suggest that under all climate policy scenarios our business model and strategy is resilient. Potential reductions in yield, damage to crops or factories due to climate-related activities are in large part mitigated by business continuity plans and flexibility in recipes and sourcing.</p> <p>Our facilities most likely to be affected in these climate scenarios, currently have business continuity plans or are being updated accordingly.</p>



Risk management	
Describe the company's processes for identifying and assessing climate-related risks	As part of our risk review process, during 2021, an exercise was performed to identify Principal Risks. As part of this review, current environmental and future climate change causing a direct impact in our costs of operations was identified as a new Principal Risk and thus became a theme the Risk Committee manages as part of its responsibilities. In addition, in 2022, a more granular exercise was undertaken with a wide cross-section of the business to identify which impacts would have the biggest impacts on us, and that is how the three risks noted above were identified.
Describe the company's processes for managing climate-related risks	Principal Risks are reviewed by the Risk Committee (each risk on an annual basis); if there are evolving risk factors, then they are reviewed on an out of cycle basis for further analysis. The Risk Committee meets quarterly, and Principal Risks are reviewed at each meeting on a cyclical basis, with each risk covered at least annually, or more if evolving risk factors were identified. The climate change risk forms part of that review.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management	<p>Whilst future climate change has an overall assessment of low relative to other Principal Risks from a financial impact perspective, if we consider wider impacts such as commodity substitution in recipes could have moderate impacts on operations and strategy. So, the overall Principal Risk reflects the TCFD disclosures plus the wider impact.</p> <p>The management and mitigation of a risk this low could be to tolerate and monitor, however, in reality the mitigation activities around building resilience and increasing business continuity robustness are mitigations for other Principal Risks and so there is management of the risk occurring and being monitored with all mitigation activities of Principal Risks by the Risk Committee.</p>
Metrics and targets	
Disclose the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process	<p>To derive to high, medium or low financial risks, we used the following:</p> <ul style="list-style-type: none"> • Internal metrics of our product footprint, sourcing locations and climate footprint. • External data on physical, policy and consumer changes required to occur under different IPCC climate scenarios (i.e. a 1.5°C policy scenario to 4°C policy scenario). • Applied our risk categories aligned to our Risk Management Framework to define high, medium, or low financial risk based on impact on revenue.
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	<p>Scope 1 and 2 market-based (71 kilo tonnes CO₂e for 2022); low financial risk; ceasing production in facilities due to climate-related risks is low due to business continuity plans. We also have a decarbonization plan for our factories to reduce climate impacts, increase efficiencies and address additional potential risks due carbon policy/legislation.</p> <p>Scope 3 (2,745 kilo tonnes CO₂e for 2022) low financial risk; climate-related risks that may affect a drop in quality, yields or damage crops that are part of our raw materials are mitigated by existing business practices (purchasing and recipe flexibility). Making products 100% plant-based and moving away from dairy also reduces our impacts and exposure to potential carbon policy/legislation.</p>
Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets	<p>As part of our ESG strategy, we have a number of commitments and targets to drive action on climate change, both within our business, with partners and with consumers. These are reported in the Financial & ESG Summary 2022:</p> <ul style="list-style-type: none"> • Target that 1 billion people choose our delicious plant-based products. • Reduce overall emissions to align with science-based targets and be better than Net Zero by 2050. • To protect people, climate, and nature we commit to no deforestation or exploitation and 100% responsible sourcing by 2025. • Communicate benefit of plant-based foods by labelling carbon emissions on 500 million products by 2025. <p>Some activities are part of our BAU practices and support other topics in addition to climate risk:</p> <ul style="list-style-type: none"> • As part of the Risk Committee, we review and update our business continuity plans for all sites. • Crop availability is monitored as part of the responsibilities of our Commodity Risk Management Function.



Strategy

As a global leader in plant-based food, we are committed to making not only nutritious and delicious products that make people healthier and happier, but also that are good for the planet. We know the benefits of society consuming more plant-based foods and know that the world must consume more plant-based foods as a way of addressing climate change, amongst other benefits that plant-based foods provide.

Our core business and the products we provide customers support the transition required in the food system to support a 1.5 degree world. Our plant-based products have a much lower carbon and methane impact than their dairy equivalents and 95%¹ of our product portfolio come with environmental benefits (such as smaller carbon footprint, less land occupied and less water use) versus their dairy counterparts. The way we operate also reflects our commitments to reduce our own impact on the planet.

Climate-related risks and opportunities

With the increase of climate change impacts such as changes in precipitation, temperature rises and the extremity and severity of weather conditions, we identified three physical risks and one transition opportunity. Due to these climate change impacts, crops that are the natural ingredients for our products may be damaged, yields and quality may decrease and our operations in factories may potentially be impacted thus affecting the ability to produce goods. The market opportunity comes from the need for the shift in the food system to plant-based foods. Our core business is making products that are plant-based to support this much needed and urgent transition.

The risks identified were classified as low financial risk from a gross revenue impact along the various climate scenarios and time horizons. As a plant-based company driving a systematic food systems transition, the market opportunity is embedded in the core of our business including strategy and financial planning.

Considering a five-year horizon and varying climate policy scenarios (3°C, 2°C and 1.5°C), our key raw materials (palm oil, coconut, sunflower, soybean and rapeseed oil), may be expected to see a net yield increase (apart from coconut oil in a 2°C scenario). However, we mitigate this risk and any risks associated to impacts on these raw materials through substitution and supply chain flexibility.

Our risk of facility disruption may increase under all climate scenarios overtime through 2050. Our greatest gross risks may be due to flooding, heatwaves and drought which may potentially cause disruption to facility operations. Business continuity plans are in place for most of our critical sites and the rest are being developed and updated for the sites that have been identified as higher risk to flooding.

The market opportunity is significant. We calculated the climate induced opportunity for each of our product categories along with the required need for consumers to shift to lower emissions diet (i.e. more plant-based). To be in line with a 1.5°C Paris Ambition pathway, the climate expert we've partnered with predicted a need in a diet shift of 29% of the global population to lower emissions products e.g. plant-based products by 2026. This presents a vast opportunity for us if we are able to capture a sizeable share of the increased market.

Scenario analysis

TCFD guidance recommends applying the various policy scenario analysis to inform the analysis of climate impact on the business and strategy. For modelling for all risks and opportunities, we used a five-year forecast of our business's future financial risk. This excludes actions planned as part of our sustainability and Net Zero targets and mitigating factors. No mitigating factors are included in the modelling for each of the scenarios, although we do include the phase out of dairy. TCFD recommends assessing BAU risks to understand gross risks. Scenarios have been modelled independently assuming no correlation between different risks. Details for each risk methodology and key findings are below:

Note 1. https://upfield.com/wp-content/uploads/2022/05/Upfield_portfolio_method_2022-v3-1.pdf



Risk 1: Quality and yields of key crops reduced

Methodology: We analysed the sourcing locations and volumes of our key raw materials, our market breakdown, and crop vulnerability. A model was run to analyse our data and compare the change in precipitation and temperatures at given crop sourcing locations with crop vulnerability. This exercise provided the expected loss of yield per country and the financial impact on revenue for different raw materials. The model does not include our current practice of substituting raw materials in different countries and by different providers or replacing materials with one and another.

Key findings:

Net yield change between 2021 and 2030:

- When looking further ahead to 2030, we expect minimal yield changes for our key crops, again with most crops seeing net yield increases under all scenarios. However, overall changes are fairly minimal with most net yield increases being <3% and the coconut outlier seeing a <0.2% yield decrease over 9 years.
- Generally, net yields are expected to increase and the impact of negative yields within countries is likely to have minimal financial impact on us.

Net yield change between 2021 and 2040:

- Even when looking ahead to 2040, crop yields are largely seeing net yield increases and overall changes are fairly minimal with most increases being less than a 5.5% change.
- The coconut outlier under the stated policy (2.5°C) remains the only net negative yield expected (though there will still be within-country declining yields in some areas). This yield decline is negligible at <0.5% net yield decrease over 19 years.

Risk 2: Crop damage

Methodology: We analysed the potential hazards resulting from climate change by the sourcing location of our raw materials. We overlaid the sourcing locations, the key crops, and the probability and severity of identified hazards. Qualitative analysis shows that our risk of crop damage due to physical hazards can be attributed to heatwaves, drought and storms. Increased incidence and severity of extreme weather events resulting in crop damage may lead to supply chain disruption and increased price volatility.

Key findings:

- Potential hazard (most likely drought) events may affect coconut and palm oil sourcing locations in Southeast Asia.
- Potential hazard events (such as heatwaves) may affect rapeseed and sunflower sourcing locations in Europe.
- Potential hazard events (such as heatwaves) may affect soybean and rapeseed sourcing locations in Europe and North America.

Risk 3: Factories forced to cease production

Methodology: Assuming all our facilities remain the same, we considered our projected 2023 production figures and an average markup per product and the value contained at site by insured value at site and mapped the facilities on a vulnerability curve. The model assumes that operational disruptions lasting four days or less have an impact of zero as these are short-lived events and can be absorbed through prior planning. Any disruption lasting more than four days may incur losses for the full period (i.e. a five day disruption vs one day loss). The model also assumed no local mitigation factors and no local flood defences. This analysis provided insight into revenue loss due to ceasing production and physical damage of facility.

Key findings:

The 3°C current policy scenario results in the worst potential impact and of the hazards, flood risk was identified as the highest risk regardless of time scenario applied. Over time our risk of facility disruption due to physical hazards may increase (under all climate scenarios). However, as we see flood as a continuing ongoing risk, we currently have business continuity plans for our facilities including the two identified sites which were highlighted as most impacted.



Opportunity 1: Market opportunity

Methodology: We calculated the market opportunity based on the required change in consumer preference to meet a given climate scenario rather than the predicted pace of market change. We performed calculations based on Euromonitor market sizing data, which was supplemented by Future Market Insights (FMI) reports where gaps in the data were identified. Each of our product categories was assigned a vulnerability curve based on the average carbon footprint of our products.

The model analysed this data to provide a climate induced opportunity based on the required changes needed to meet the scenario and the required reduction in carbon emission assigned to the product variations.

Key findings:

The market opportunity for the plant-based industry is vast if a low-degree climate pathway is met as consumers shift from dairy products to lower-emission plant-based alternatives. The opportunity grows significantly with a more ambitious policy scenario.



Risk management

As part of our risk review process, during 2021, we performed an exercise to identify additional Principal Risks. As part of this review, climate change causing a direct impact in our costs of operations was identified as a new Principal Risk and thus becomes a theme the Risk Committee manages as part of its responsibilities.

Climate change is considered a current risk since our analysis and update of Principal Risks in 2021. Principal Risks are identified through a top-down and bottom-up exercise once a year facilitated by the Risk Function, assessed and mitigated actions are presented and approved by the Risk Committee. Principal Risks state the largest risks that may affect us meeting our business objectives. Some Principal Risks are mitigated to a tolerable level, if so, they are removed from the Principal Risk register and maintained in functional risk registers. We do not anticipate climate risk being removed as a Principal Risk due to our mitigation strategy being to monitor and manage this risk.

For further information, please see Risk Management in our Directors' Report.

Identifying, assessing and managing climate-related risks and opportunities

In order to evaluate our climate risks and opportunities, we worked with a group of climate experts and consultants following the below approach;

1) Developed initial list of climate risks and opportunities:

We looked at insights from the WBCSD "Food, Agriculture and Forests Products TCFD Preparer Forum" along with other research and expert insights to identify an initial list of climate risks and opportunities that may impact us and were also aligned to the TCFD categories.

2) Engaged with stakeholders:

Along with the external experts, we interviewed key executives and held workshops with key stakeholders from Finance, Legal, Brand & Marketing, Operations and Procurement to prioritize and qualitatively assess the climate risks and opportunities in line with the TCFD recommended approach.

3) Heatmapped risks and opportunities:

Based on the outputs of the workshops and interviews, those with highest priority were shortlisted. Through heatmapping and applying our Risk Management Framework, a qualitative assessment of the risks and opportunities was performed to understand the potential materiality and finally conduct the scenario analysis to apply risk tolerance levels in line with our Risk Management Framework. The results are stated in this document.

As a result of the exercise, the climate risks were identified as low financial risks and below the risk thresholds. The strategy for mitigation is to monitor and tolerate a below threshold risk and make sure nothing changes to affect the analysis of the risk. If any changes are identified, they are presented to the Risk Committee which meets quarterly. Equally, some of the risks are mitigated and transferred via our insurance coverage on our facilities. Other risks are mitigated as part of business planning, continuity plans and applying best practice.

Climate risk will be reviewed on an annual basis as part of the Principal Risk management and any emerging topics, risks, and opportunities will be assessed accordingly.



Climate scenarios

Financial impact aligned to internal Financial Risk Rating

Risk	TCFD Category	Description of Risk	Upfield's Response	Time Horizon of Risk*	No Policy (4°C)	Current Policy (3°C)	Stated Policy (2.5°C)	Paris Agreement (2°C)	Paris Ambition (1.5°C)
Physical risk									
Risk 1: Reduction in quality and yields of key crops and cost increase¹	Chronic	Climatic changes may affect mean temperatures and precipitation patterns which in turn may affect our key raw ingredients such as palm, soy, sunflower, coconut, and rapeseed reducing availability and increasing the cost of our raw material.	We are already exposed to price fluctuations caused by macro factors e.g. market, political. As such the net impact of climate-induced fluctuations is significantly lower due to the existing mitigating actions that are already in place, such as the ability to replace ingredients and purchase from different suppliers.	Short - medium	Very Low	Very Low	Very Low	Very Low	Very Low
Risk 2: Crop damage	Acute	Increased incidents and severity of extreme weather events may damage availability of key crops such as palm, soy, sunflower, coconut and rapeseed affecting our supply chain.	We are already exposed to price fluctuations caused by macro factors e.g. market, political. As such the net impact of climate-induced fluctuations is significantly lower due to the existing mitigating actions that are already in place, such as the ability to replace ingredients and purchase from different suppliers.	Medium - long	Crop damage has been assessed qualitatively only due to data availability of exact sourcing locations. Any damages to crop are mitigated by replacing materials from different suppliers in different sourcing countries.				
Risk 3: Factories forced to cease production	Acute	Increased incidents and severity of extreme weather events may force our factories to close and cease production for varying periods of time depending on the severity of the incident.	We have business continuity plans in place as part of our BAU. For the factories identified in this process, plans are being developed or updated, with all being completed by end of year. <ul style="list-style-type: none"> Flood risk was identified as the largest risk, two identified sites which were highlighted as most impacted. Heatwave and drought risk were identified as significantly lower due to location of factories; and we will develop business continuity plans. We also have decarbonization plans for our factories which will reduce our energy requirements. 	Short - medium	Low	Low	Low	Low	Low
Transition opportunity									
Increased market opportunity	Market	The market opportunity for the plant-based industry is vast if a low degree climate pathway is met as consumers shift from dairy products to lower-emission plant-based alternatives resulting in a systematic food system transition.	Upfield is a global leader in plant-based food operating across four plant-based categories. Driving the food system transition away from animal-based consumption is at the core of our purpose and performance led growth strategy. <ul style="list-style-type: none"> We evaluate on an ongoing basis how much of the total market opportunity we can capture, given competition with incumbents and new entrants to the plant-based market. We participate in the lobbying of governmental policies that support consumer preference change and drive discussion with policymakers on the need for decarbonisation of the food industry. We support the education of consumers on the climate benefits of plant-based dairy switches. 	Short	This is a market wide analysis; The market opportunity for the plant-based industry is vast if a low degree climate pathway is met as consumers shift from dairy products to lower-emission plant-based alternatives. The opportunity grows with a more ambitious policy scenario.				

Notes

1. Note that it is assumed that there is no financial benefit to a positive yield change therefore results represent only negative financial impacts of yield decreases at the 1x1 degree grid cell level in key sourcing locations.

Risk Framework Timelines

*Short-term= 0-3 years, Medium term= 3-10 years, and Long term= 10-30 years as aligned to our risk framework timelines.

Financial Risk Rating (in thousand Euros)				
1 - Very low	2 - Low	3 - Medium	4 - High	5 - Very high
€1,580 - €3,949	€3,950 - €7,899	€7,900 - €15,799	€15,800 - €23,699	>€23,700

