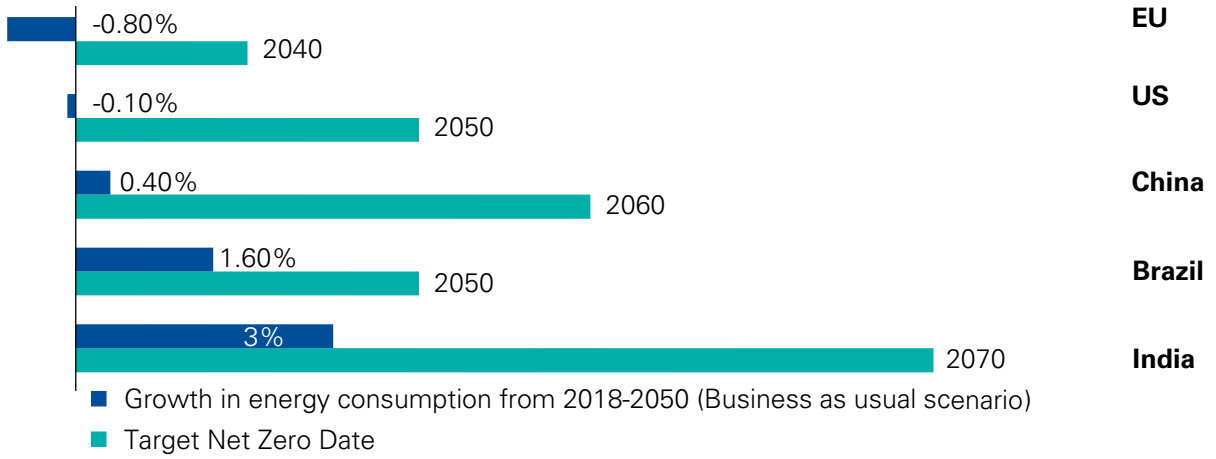
Stepping up on ambitions; actualisation will be key

Net Zero target dates are tied to expected growth in energy consumption across regions[9]



Governments, financing institutions, industry participants are coming together through alliances to collaborate and focus towards taking stronger actions

Finance
Glasgow Financial Alliance for Net Zero

Alliance includes 450 financial firms responsible for assets over USD 130 trillion[10]

Energy transition
Beyond Oil and Gas Alliance

Coalition of governments and key stakeholders to take measures towards a managed phase out of Oil and Gas

Energy access
Global Energy Alliance for People and Planet

Alliance of philanthropic groups to accelerate scalable and equitable energy transitions in emerging economies

Green technologies
H2Zero Initiative

Initiative comprises of 28 companies across varied end-use sectors that have pledged to increase production and utilization of low carbon/green hydrogen[11]

The pathway to achieving 1.5 degrees requires urgent action to halve the current emissions by 2030.

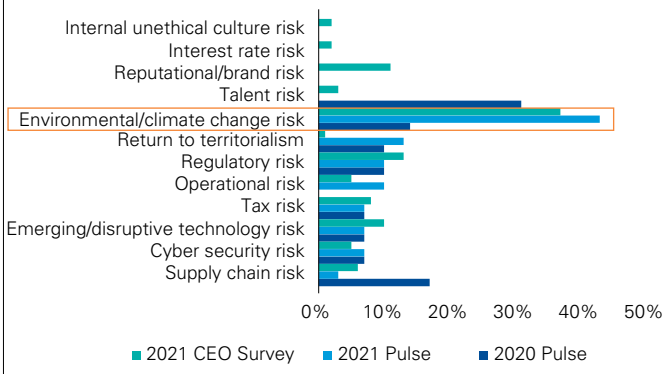
10 takeaways post COP26

1. **The 1.5 degrees goal for containment of global heating is hanging by a thread.** Global temperature prognosis suggests 1.8 -2.4 degrees by the end of this century, unless acted upon further.
2. **The energy transition is one of the keys to succeeding in reaching Net Zero.** 70 per cent of the Greenhouse gases (GHGs) emissions[12] are energy related.
3. **Coal phaseout will accelerate.** Unabated coal emissions will come under massive pressure despite the lack of alternatives for many countries. Growth economies dependent on coal will face huge challenges in making this transition.
4. **Emerging markets are essential for Net Zero.** This is where the future global growth is and these are the economies often dependent on coal and other high carbon resources.
5. **'Loss and damage' will play out as a key dimension.** Even as there is reluctance from developed nations to accept 'loss and damage' obligations, there will be acceleration of financial transfers and support for mitigation and adaptation actions.
6. **Climate goals and the decarbonisation bar will keep ratcheting up** every year as effects of global warming become more visible and pervasive. For corporates, the key will be to aim high to prevent being caught out by changing regulations.
7. **A large part of the mitigation support will be for corporate decarbonisation** (especially in the developing world). Corporates will typically be the main investors in decarbonisation projects, supported by government led programmes and banks/financial institutions.
8. **For corporates, the focus has to move to 'climate proofing' of businesses, and hardening of systems has to increase substantially,** given the limitations of current climate mitigation actions. Overall, climate adaptation actions of governments, society and corporates need acceleration given the current global heating outlook and its likely consequences.
9. **Investments have to take into account long term carbon costs and aspects like Carbon Taxes/Carbon Border Adjustment Mechanism (CBAM).** At COP26, IFRS announced the formation of International Sustainability Standards Board (ISSB) for developing comprehensive sustainability disclosure standards.
10. **Despite challenges and uncertainties there is a very significant opportunity in funding the energy transition.** The capital needs are very large and the convergence of global political and investor priorities because of climate change make this area very prospective, even as risks will require scrutiny.

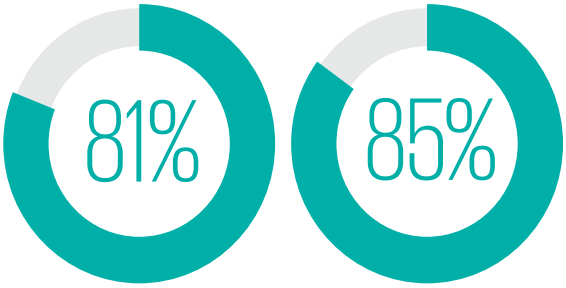
Corporate leadership recognises climate change as the top risk for business

Climate change remains top risk for energy CEOs.[13]

Which of the following risks pose the greatest threat to your organisation's growth over the next 3 years?



The leaders now recognise the opportunity disruption brings.[14]



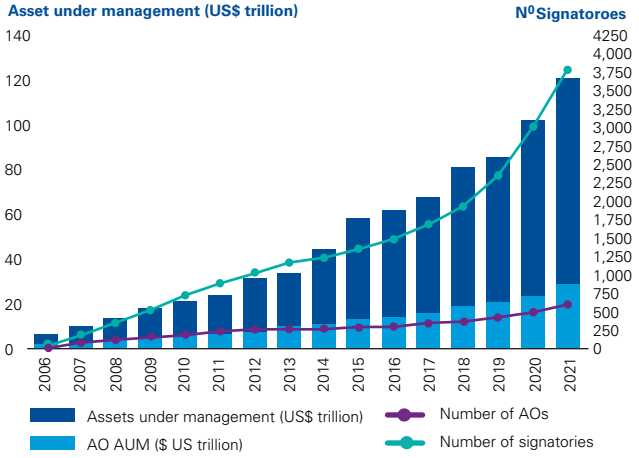
Rather than waiting to be disrupted by competitors, my organisation is actively disrupting the sector in which we operate

We see technological disruption as more of an opportunity than a threat

Globally, investors are increasingly committing to integrate Environmental, Social and Governance (ESG) aspects into their investment strategy. This is evidenced by growth in signatories for 'Principles for Responsible Investment' (PRI).[15]

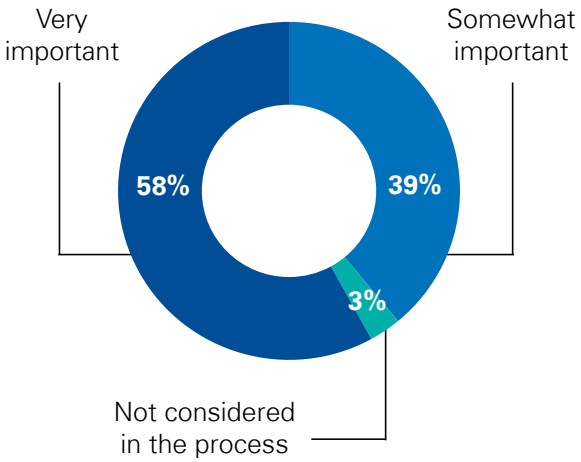
PRI signatory growth in 2020 - 2021

AUM, total number of signatories and number of asset owner signatories all increase



** Total AUM include reported AUM and AUM of signatories provided in sign-up sheet that signed up by end of March of that year.*

Majority of institutional investors consider climate change to be a key factor influencing their investment decision.[16]



Decarbonisation as a global priority - What changes for corporates?

Corporates will likely be the principal delivery agents of decarbonisation. Non-corporate users are less responsive to mandates – however, they respond better to incentives. Corporate leadership must plan respective transitions, as well as protect against the effects of climate change. This will often imply entire transformations of product markets, technology, capability, culture, etc. The ambitions should be large and beyond compliance.

Strategic investment decision should be backed by data driven analysis with a whole system view. Apart from the risk of ratcheting regulation, corporate leadership will be under pressure from investors, employees, communities and consumers to go beyond the mandates and to drive decarbonisation plans to fruition. The boundary between supply and demand side is blurring and corporations have to make the first move to leverage the changing supplier-consumer dynamic to their advantage. Actions have to be urgent, but not a knee-jerk.

Corporations will have to tailor the implementation to suit regional priorities in the near term, even as they focus on a global decarbonisation agenda in the long-term. Long range planning and action, difficult as it is, will be necessary, but coupled with short term agile actions. Organisations should be prepared for short-term ambiguity on the road towards decarbonisation.

Credibility of actions is important rather than announcements. It is important to stay clear of the spectre of 'greenwashing'. This requires goals to be backed by viable action plans, tangible actions and measurement. Setting clear goals backed by the right Key Performance Indicators (KPIs) that meet business and regulatory needs is of great importance.

Technology will be a key enabler in the decarbonisation journey for factual and credible reporting on emissions and other ESG related KPIs. Some of this will be hard. For example, measuring Scope 3 emissions in the extended supply chains is particularly difficult, and yet is very important. Furthermore, corporates need to go beyond reporting and focus on enabling decisions and frontline actions on mitigation and adaptation. This will not be possible without induction of large-scale technology.

The road to implementation will be fraught with uncertainties. Big changes will be required to products, processes, facilities, supply chain and delivery mechanisms. Organisations should focus on empowerment of frontline staff and young professionals as the 'change leaders.' Boards need to drive internal communication more effectively to manage initial resistance.

What does climate change mean to my business?

Regulatory attention

- Is my industry likely to face more direct action from regulators? If so, what could the potential actions be?
- Is my company business plans aligned to the changing needs of the regulators?

Consumer focus

- Are my customers likely to differentiate based on climate responsiveness of my company?
- What is the likely positive and negative impact of such differentiation?

Investor priorities

- How are investors looking at my company in their portfolio?
- Is there a penalty or premium based on my climate responsiveness?

Supplier risks

- Will my suppliers get impacted either directly or indirectly by climate change impact or the regulations?
- What implications it could have on the topline and bottom-line of the company?