



smiths

TASK FORCE
ON CLIMATE-
RELATED
FINANCIAL
DISCLOSURES

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

COMPLIANCE STATEMENT

FCA LISTING RULES

In this report, we set out our climate-related financial disclosures consistent with all of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures pursuant to Listing Rule 9.8.6R (8). This includes all four of the TCFD pillars and the 11 recommended disclosures set out in the report entitled 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' published in October 2021 by the TCFD. In completing this work, we made use of TCFD guidance material including the TCFD technical supplement on the use of scenario analysis, TCFD Guidance on Metrics, Targets and Transition Plans, and the TCFD Guidance for All Sectors. We are reporting against the TCFD framework in line with FCA Listing Rules.

In FY2024, we plan to continue our progress in reporting against all four pillars of the recommendations and align with the recommendations of the Transition Plan Taskforce (TPT) which is due to be released later this year. This will include conducting a quantitative scenario analysis. More detailed information on FY2024 priorities in reporting against TCFD is outlined in the TCFD summary in our FY2023 Sustainability at Smiths report.

The TCFD provides an internationally recognised framework to provide clear, comprehensive and high-quality information on the impacts of climate change. Over several years, we have progressed our alignment with the TCFD recommendations to embed the management of climate-related risks and opportunities into our processes, and to ensure that our business strategy is adapting to the effects of climate change.

Our diverse range of products and geographical spread of assets allows the business to be resilient to climate risks, such as cost and availability of resources, in the short term. We are also well prepared for market opportunities presenting themselves due to climate change. However, we recognise the potential impacts of climate risks on our business in the long term and have continued to implement mitigation strategies to ensure that we remain resilient.

GOVERNANCE

BOARD

The Board has overall responsibility for our approach to sustainability matters, including climate change. Oversight of this is delegated to sub-committees. Climate risk management has been delegated to the Audit & Risk Committee and delivery on our commitments in relation to climate change to the Science, Sustainability & Excellence (SSE) Committee. The Board has oversight of our Group-level and divisional strategies, receiving performance updates from our divisions three times a year. This includes an annual strategy presentation, an operations update and a half-year progress discussion. Our divisions report to the SSE Committee on a rolling annual basis.

STRATEGIC DECISIONS RELATING TO CLIMATE RISKS AND OPPORTUNITIES

As the world transitions to a low-carbon economy, the Group has identified a number of climate-related opportunities relating to global investment in decarbonisation and green re-industrialisation. Commercialising these high-value green technologies is a strategic priority and is built into our divisional strategic plans. The Board also considers climate-related issues when reviewing strategy and performance objectives. Energy and GHG metrics are presented and discussed in management reviews. In FY2023, the Board approved the setting of operational Net Zero transition targets aligned with the SBTi and holds responsibility for overseeing performance against these. The Board has visibility of implementation of our climate transition plan and is regularly updated on progress against climate metrics and targets.

AUDIT & RISK COMMITTEE

The Audit & Risk Committee is responsible for reviewing the effectiveness of risk management across the business, including climate risks which are integrated into our enterprise risk management framework. On a rolling basis, divisions attend the Audit & Risk Committee and present the outcome of divisional assessments which include climate risks and opportunities. Twice a year, the Committee reviews the Group's principal risks. Climate change has been identified as a Group principal risk and is managed and owned by the Audit & Risk Committee.

SCIENCE, SUSTAINABILITY AND EXCELLENCE COMMITTEE

The SSE Committee is responsible for overseeing the delivery of climate-related commitments and opportunities, such as the commercialisation of green products, mitigating the impacts of climate change, and setting and reviewing progress against relevant climate-related targets. The Committee met four times during the year to assess progress against targets including GHG emissions, renewable energy use, energy efficiency, water use and waste disposal. On a rolling basis, divisions provide a deep-dive on progress against their SBT plans, new product development and innovation.

EXECUTIVE COMMITTEE

Divisional Presidents form part of the Executive Committee and are responsible for our divisions' approach to sustainability, including climate change. The Executive Committee reports to the CEO, who reports directly to the Board six times a year. Discussions at the Executive Committee relate to commercial climate activities such as new product development and operational climate activity, such as energy and GHG reductions. The Chief Sustainability Officer works closely with the Group Head of Strategy and Communications and Divisional Presidents to ensure sustainability is embedded in strategic, commercial and operational decision making.

Climate-related risks are managed and reported in line with wider risk management processes, with the outcomes of divisional assessments integrated into executive-level strategic planning and priorities. Climate-related opportunities such as those relating to the decarbonisation/energy transition agenda have been communicated to the Executive Committee and Board, culminating in a Group-wide strategic response for markets and opportunities.

A number of key climate-related issues were discussed by the Executive Committee and the Board in FY2023 including:

1. Science-based targets and transition planning for Net Zero Scope 1, 2 and 3 emissions
2. Strategic opportunities arising from the energy transition/decarbonisation and green revenue tracking dashboards
3. Alignment of remuneration with environmental targets

EXECUTIVE REMUNERATION

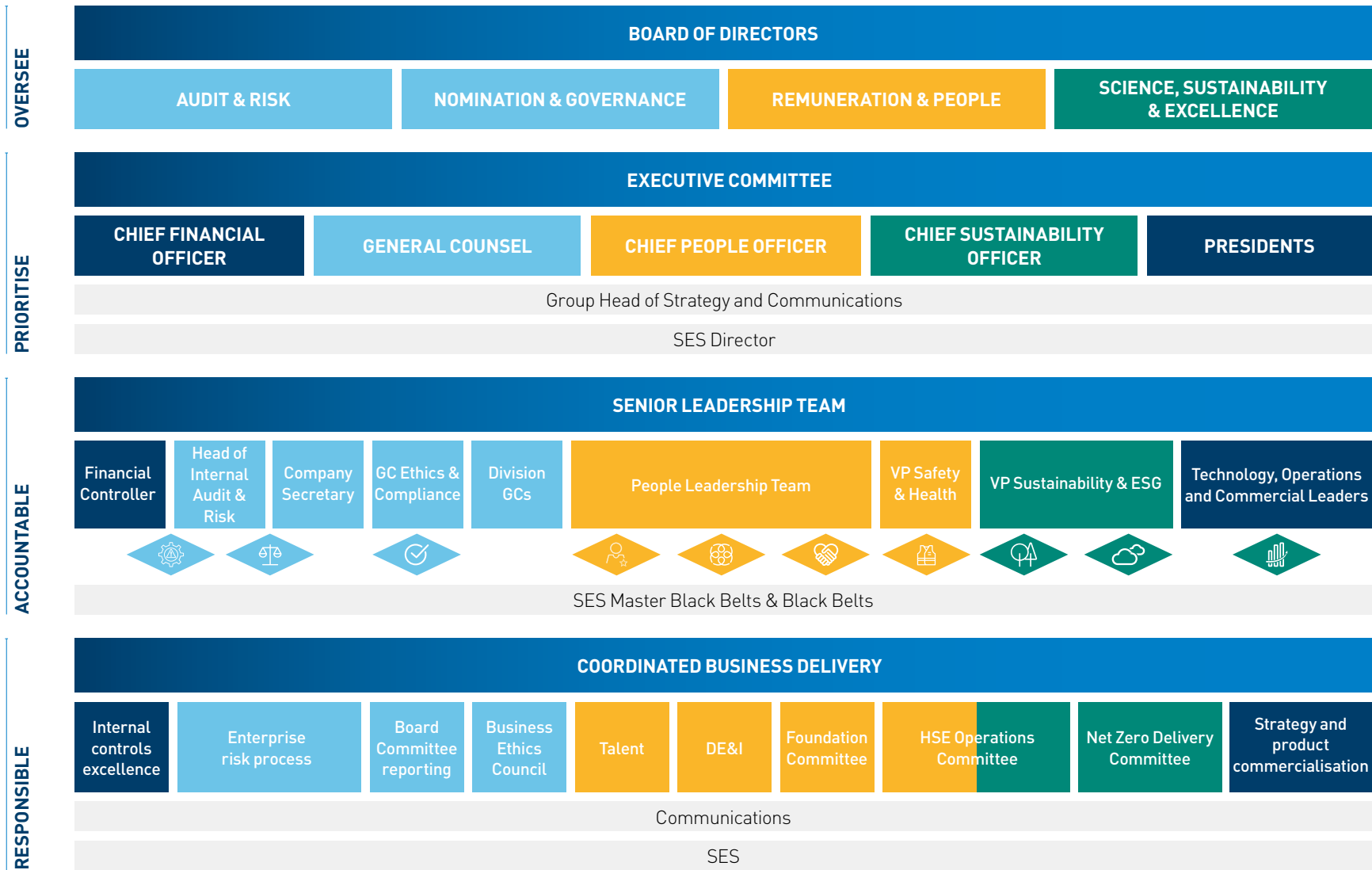
Scope 1 & 2 reduction targets continue to make up part of our LTIP. From FY2023 onwards, we introduced climate-related metrics (energy efficiency) into our AIP and (absolute GHG reduction) into our LTIP to more closely align decision making and ownership of climate goals. FY2024 remuneration metrics continue to incorporate these climate-related targets.



The SSE Committee is responsible for overseeing the delivery of climate-related commitments and opportunities, such as the commercialisation of green products, mitigating the impacts of climate change, and setting and reviewing progress against relevant climate-related targets.

ESG GOVERNANCE AND DELIVERY

The diagram below shows how sustainability/ESG matters are managed at Smiths. Climate matters are integrated into this overall management framework.



STRATEGY

The transition to a low-carbon world poses significant opportunities for Smiths as demand for green technology and energy efficient products increases.

DISTRIBUTION OF SMITHS GREEN TECHNOLOGY

<p>EFFICIENCY AND CIRCULAR ECONOMY SOLUTIONS Solutions that help our customers to use less, waste less and reduce emissions</p> <ul style="list-style-type: none">– Efficient, reliable and lower emission oil and gas value streams– Resource efficiency in industrial processes– Water reduction for process industries and energy transition minerals– Effective and lower energy safety and security infrastructure– Detection solutions for resource mining and recycling– Building efficiency – residential and commercial– Smaller, lighter and more efficient connectivity components	<p>John Crane Smiths Detection Flex-Tek Smiths Interconnect</p>
<p>WIDESPREAD GREEN ELECTRIFICATION Solutions that help our customers move from carbon-intense fuels to green electricity</p> <ul style="list-style-type: none">– Electrical heating for:<ul style="list-style-type: none">– Building heating, ventilation and air-conditioning (HVAC)– Industrial processes– High-power electrical connectors to enable efficient and reliable transmission of electricity	<p>Flex-Tek Smiths Interconnect</p>
<p>LOW-/NO-CARBON FUELS IN HARD-TO-ELECTRIFY SECTORS Solutions that help our customers to make, store, move and use new fuels</p> <ul style="list-style-type: none">– Efficient compression, transportation and storage of hydrogen– Reliable pumping and compression of biofuels and synthetic fuels– Filtration of hydrogen and low-carbon marine fuels	<p>John Crane Flex-Tek</p>
<p>CARBON CAPTURE Solutions that help our customers efficiently capture, transport, sequester and/or use carbon</p> <ul style="list-style-type: none">– Proven and reliable CO₂ capture technologies– Efficient and reliable transportation, storage and injection of CO₂	<p>John Crane</p>

See our Sustainability at Smiths report for more information on decarbonisation megatrends and how we are commercialising high-value green technologies.

CLIMATE RISKS AND OPPORTUNITIES

We have identified a range of physical and transition risks and opportunities that could impact our business.

The climate transition also gives rise to legal risks, such as stricter GHG emission regulations, as well as market risks such as from new and emerging competitors. Extreme weather events such as floods and extreme temperatures pose physical risks, including damage to assets, both owned by us and within our supply chain, as well as disruption to transportation routes. More extreme temperatures may also lead to new opportunities in our markets, such as remote sensing and cooling systems.

The time horizons considered for identified climate-related risks and opportunities, found in the table below, align to our targets which have been submitted to the SBTi. While we recognise that climate-related risks will occur over short-, medium- and long-term horizons, our assessment determines that climate-related risks and opportunities are likely to impact the business in the medium and long term. We believe that we remain resilient to climate risks with the adaptation and mitigation strategies that are in place. It was determined that the climate risks identified do not have a significant impact on the business, although are considered as a Group principal risk in aggregation. We will continue to assess the materiality of any financial impact arising.

Time horizons for materialisation: climate risks and opportunities

	Description
Short term	2023–2028
Medium term	2028–2032
Long term	2032–2040

Each of our identified risks and opportunities has been assessed by scenario analysis, which is described alongside an explanation of their potential impact on the business, subsequent actions we are taking to respond, and the associated time horizon.

SCENARIO ANALYSIS

We have carried out scenario analysis on our climate risks and opportunities for several years and, in FY2022, we collaborated with external consultants to extend our qualitative scenario analysis to two scenarios for both physical and transition risks and opportunities. Next year, we plan to develop our assessment of financial impacts, integrating quantitative analysis where possible. This year, we have reviewed the findings of the scenario analysis, finding no significant changes to the modelled impact of climate risks and opportunities since last year.

While scenario analysis is hypothetical and does not provide a certain forecast, it helps to identify how our most material climate-related risks and opportunities will likely impact us and our operations in the future. This subsequently informs our risk management strategies, as well as the metrics and targets we use to monitor such issues, enabling us to become more resilient to risks and seize opportunities in the long term.

PHYSICAL SCENARIOS

For the physical scenarios, the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathway RCP 4.5 and RCP 8.5 scenarios were used. The impacts highlighted a change in annual rainfall levels at our sites and seasonal differences in temperature. Extreme weather events such as flooding, wildfires and drought will become more severe and frequent.

For the transition scenarios, the International Energy Agency's (IEA) World Energy Outlook Sustainable Development Scenario (SDS) and Stated Policies Scenario (STEPS) were used. The STEPS scenario provides a benchmark to assess the potential achievements of recent developments in energy and climate policy and the SDS scenario assumes full alignment with the Paris Agreement to hold the rise in global average temperature to well below 2°C.

A summary of our risk and opportunities assessment across each scenario can be found below.

Risk/opportunity	Risk description	TCFD category	Time horizon for materialisation	Which parts of the business will be most impacted?	Potential impact on the business	Response/actions we're taking and how they are managed	RCP4.5 scenario		RCP8.5 scenario	
							2040 medium term	2080 long term	2040 medium term	2080 long term
PHYSICAL RISKS										
Damage to Group assets from extreme weather events	Extreme weather events: hurricanes; tropical storms; flooding; wildfires; and sea-level rise. A number of Smiths divisions have already experienced site-specific disruption due to wildfires and flood events.	Environment (acute physical)	Medium	All divisions	Increased costs and resulting revenue losses due to repair and increasing insurance costs.	All sites are required by policy to complete annual site-specific risk assessments through the divisional Business Continuity Plans review, which considers risks from a wide range of issues, including from severe weather. A number of John Crane sites have been identified as vulnerable, so mitigation measures are being put in place such as: relocations; alert systems; guidance from insurance providers when sites come up for insurance policy renewal; and local, specific mitigation measures such as independent generators.				
Damage to key supply chain assets from extreme weather events			Medium	All divisions	Loss of revenue due to disruption/delay of manufacturing processes.	Development of a coordinated procurement process for consideration of physical risks in procuring new suppliers.				
Temperature regulation requirements during heatwaves and cold snaps	Increasing average temperatures across all seasons, as well as more extreme heatwaves and cold snaps requiring the temperature in buildings to be regulated in order to minimise health and safety risks.	Environment (chronic physical)	Medium	All divisions	Health and safety risks from overheating or freezing mean there are higher operating costs from increased air conditioning and heating. Capital costs associated with retrofitting assets to provide sufficient temperature are also high.	Consideration of extreme weather risk when deciding where to expand existing operations and annual business continuity reviews across our sites.				
Disruption to transportation and distribution networks from extreme weather events	Weather events directly impacting transportation networks.	Environment (acute physical)	Medium	All divisions	Loss of revenue due to delays in getting products to market, caused by supply chain disruption.	We are reviewing and investigating ways to minimise travel distances by ensuring products are produced as close to customers as possible. We aim to avoid the use of single-source materials to increase resilience over regional disruption. This includes looking at reducing double handling of products by having suppliers send directly to customers.				



KEY

Black text in table = Current activity
Blue text = Future activity

Risk key	Definition
Very high risk	Very significant impact on the Company
High risk	Significant impact on the Company
Moderate risk	Moderate impact on the Company
Low risk	Relatively marginal impact on the Company
Very low risk	Marginal impact on the Company

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PHYSICAL OPPORTUNITIES										
Growth in remote sensing market	Smiths Interconnect: Growth in satellite demand and requirements for climate change/weather/environmental tracking and monitoring.	Environment (chronic physical)	Medium	Smiths Interconnect	Increased revenue from growth in demand for satellite technology for environmental monitoring and tracking.	Opportunities in remote sensing and cooling systems have been incorporated into business planning and other relevant sectors are also being monitored for changes in demand (e.g., communication systems).				
Increased demand for cooling systems	Ongoing extreme variation in global temperatures will increase demand for heating, ventilation and air conditioning (HVAC) systems from Flex-Tek globally.	Environment (chronic physical)	Medium	Flex-Tek and John Crane	Increased revenue from increased demand for residential and domestic cooling systems, driven by ongoing variation in global temperatures.					
	John Crane also has the opportunity to develop sealing and water filtration technology for transportation and cleaning of water in water-stressed locations.									



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TRANSITION RISKS										
Increased regulations and pricing on GHG emissions	Regulations relating to GHG emissions, including the cost of reporting and complying with regulations (e.g., carbon taxes, CBAM).	Political and legal risk	Medium	All divisions	Greater costs associated with emissions reduction, monitoring and reporting obligations. Risk of reduced access to investment opportunities from failure to meet these.	We have established the Energy Governance Committee (now known as the Net Zero Delivery Committee) and other cross-functional working groups to drive and track initiatives.				
Increased transportation costs	Greater fuel costs related to freight and internal transportation.	Market risk	Medium	All divisions	Greater fuel costs due to increased pricing on GHG emissions.	Reduction in double handling of products, optimising space in freight through reusable and recyclable packaging solutions and exploring localised business models.				
Cost and availability of resources	Increased price and reduced availability of critical raw materials. For Smiths Interconnect, there are concerns around lithium and beryllium and for Smiths Detection there is a risk of limited supply of key components.	Market risk	Medium	All divisions	Limited supply of materials and components could lead to price volatility and production constraints.	The procurement team for Smiths Interconnect tracks critical raw materials and reports monthly. Actions are taken based on trends such as pre-buys or vendor managed inventory. The division also periodically looks at alternative materials. Smiths Detection continually monitors availability of critical materials and parts for its products.				
New and emerging competitors	Reduced accessible market due to increased competition in Net Zero/ energy efficiency space such as methane leakage. For example, there is a risk of overcrowding in the methane leak detection and remediation market for John Crane in 2030.	Market risk	Medium	All divisions	Reduced revenue due to greater competition in product market.	John Crane has implemented procedures to track and respond to changes in demand from traditional oil & gas customers to additionally target its portfolio of products and services to target new customers and markets e.g., hydrogen and carbon capture. Smiths Detection monitors power consumption of its products relative to competitors and product durability and strives to be best in class to lower total cost of ownership.				



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							2040 medium term	2080 long term	2040 medium term	2080 long term
TRANSITION OPPORTUNITIES										
Aviation/ aerospace energy efficiency requirements	Demand for energy efficient detection products.	Products and services	Medium	Smiths Detection	Revenue from development of more energy efficient safety and security infrastructure.	Smiths Detection monitors power consumption of its products relative to competitors and product durability and strives to be best in class to lower total cost of ownership.				
Growth in energy efficiency products market	Increased demand for efficiency and emission reduction products.	Products and services	Medium	John Crane	Increased revenue from sealing solutions that reduce hydrocarbon leakage from oil & gas and other infrastructure.	Continuing development of next generation solutions for oil & gas and other industrial customers that align with their decarbonisation targets, such as via digitisation.				



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IMPACT ON THE BUSINESSES, STRATEGY AND FINANCIAL PLANNING

We submitted our Net Zero transition plan and GHG emissions reduction targets to the SBTi in May 2023. These outline our operational Net Zero GHG trajectory to meet a 1.5°C scenario by achieving Net Zero Scope 1 & 2 emissions by 2040 and Net Zero Scope 3 emissions by 2050. This aligns with the Net Zero by 2050 targets set out by the UK and US governments (which are our largest areas of operation). We are preparing to comply with Transition Plan Taskforce (TPT) guidance next year. Our transition plan was developed with consideration of the updated TCFD guidance and lays out our 2028, 2032 and long-term Net Zero milestones and emission reduction targets.

Divisional-level initiatives and actions to reduce Scope 1 & 2 emissions are based on energy efficiency, green electricity (including implementation of solar technologies and fleet electrification), and alternative fuels. The majority of our Scope 3 emissions will be addressed by in-country grid decarbonisation and via targeting significant suppliers with education and training to set and meet their own SBT targets.

The impacts of our transition plan on our customers, suppliers and other stakeholders, and on our business are integrated into the roadmap. In developing our transition plan, we have considered, and align with, the Net Zero economy commitments in the countries in which we operate, in particular where we are headquartered.

The opportunities identified within the climate scenario analysis form part of our strategic priority to commercialise high-value green technologies to increase green product revenues.

RISK MANAGEMENT

We adopt a Group-wide approach to risk management. The Board has overall responsibility for ensuring that a robust risk management process is in place and delegates responsibility to the Audit & Risk Committee to ensure that it is adhered to. Climate risk management is considered in line with the existing risk management framework. This year, for the first time, climate risk was identified as a Group principal risk.

Updates to climate regulation, including the emergence of new climate-related regulation is picked up in line with our Group-wide regulation monitoring processes.

In previous years, we have considered a wide range of risks and opportunities relating to climate change that were identified with the support of external technical specialists and then evaluated through a series of Group and divisional workshops. These include, for example, impacts relating to damage to assets from weather events, cost and availability of resources, regulation related to GHG emissions and increased demand for green technologies. The identification process includes assessment of the full value chain, such as impacts relating to key supply chain assets from extreme weather events.

At the Group, divisional and site levels, risks and mitigating controls are allocated to relevant owners. This year, each of our divisions conducted their annual review of climate-related risks in divisional risk registers to ensure accuracy of impact assessment and adequacy of mitigation actions. The results of these reviews are consolidated and managed in our risk register as per the enterprise risk management process.

Twice a year, a top-down review of our principal risks and opportunities, including climate risks, is conducted as part of the wider risk management process. In FY2023, we conducted an ESG double materiality assessment to understand the ESG topics of most importance to our business.

We continued our detailed procedures to assess and manage climate risks and opportunities via scenario analysis. This incorporates analysis of base case revenue streams, climate scenario analysis conducted over two physical and two transition climate scenarios against medium- and long-term time horizons. Risks and opportunities have been considered alongside established mitigation measures and strategic actions during validation workshops held at Group and divisional level to determine materiality of impacts over time.

The Executive Committee has responsibility for designing the enterprise risk management framework and ensuring that it is effectively deployed. The Audit & Risk Committee is responsible for overseeing the effectiveness of our management and implementation of internal controls, including those related to climate risks. Divisional and functional teams are responsible for day-to-day management and reporting of risks, including climate risk. They identify new and emerging risks, escalate where appropriate, and take action to ensure risks are managed appropriately. Prioritisation of risks is supported by matrices to improve, monitor (controls/ability to respond), monitor (risks) and accept/optimize.

METRICS AND TARGETS

We have identified relevant metrics and targets to monitor progress in achieving our sustainability goals, as well as manage and mitigate identified climate-related risks and opportunities. Metrics and targets are monitored by the SSE Committee and inform decision making to execute our strategic priorities.

Sustainability metrics form part of the Smiths annual and long-term incentive plans. These include metrics on GHG emissions reductions (Scope 1 & 2 emissions absolute reduction target) and energy efficiency.

We have committed to Net Zero Scope 1 & 2 emissions across our operations by 2040, with Net Zero Scope 3 emissions reached by 2050 in line with the 1.5°C Business Ambition under the UN Race to Zero. As per our submission to the SBTi, we have committed to interim targets of 50% reduction in Scope 1 & 2 emissions by 2032 and 50% of suppliers by spend with SBTs by 2028. As required by the SBTi, our proposed interim reduction target covers more than two-thirds of our total Scope 3 GHG inventory.

Our Scope 1 & 2 emissions have decreased significantly this year as we progress conversion of our energy mix to renewable electricity, as well as undertake transition initiatives such as fleet electrification. Our Scope 3 emissions have also decreased year-on-year. More detail, including our methodology for calculation of emissions in line with the GHG Protocol, can be found in our FY2023 Sustainability at Smiths report.

We continue to monitor completion of annual business continuity plan reviews and have surpassed our three-year targets on waste and water reduction. We will assess whether water targets are renewed at the end of the three-year goal period, given the relatively low consumption required in our operations.

Scope 1, 2 and 3 emissions for both FY2022 and FY2023 have undergone an external limited assurance process. We anticipate that further metrics and targets will be established during FY2024 as we move into our next three-year goal period. In the coming year we will review our disclosure of other cross-industry climate-related metrics.

MONITORING METRICS AND TARGETS

The table below outlines the key metrics and targets used to monitor climate risks and opportunities. Performance against the majority of these metrics is monitored by the SSE Committee. Our FY2023 Sustainability at Smiths report describes the basis of preparation of our metrics and targets.

	Unit of measure	Metric	Metric target set and reported?	Metric performance for FY2023	Linked to identified climate risks and opportunities
GHG EMISSIONS	tCO ₂ e	Absolute Scope 1 & 2 emissions	Yes – zero by 2040 with 50% reduction by 2032	(11.8)% reduction year-on-year	Pricing on GHG emissions – tracking our GHG emissions helps us to remain aligned with upcoming regulations and is of value to our customers seeking to reduce emissions in their supply chains.
GHG EMISSIONS	tCO ₂ e	Absolute Scope 3 emissions	Yes – zero by 2050	(4.8)% reduction year-on-year	Pricing on GHG emissions – tracking our GHG emissions helps us to remain aligned with upcoming regulations and is of value to our customers seeking to reduce emissions in their supply chains.
PHYSICAL RISKS	%	All site business continuity plans to be reviewed annually	Yes, not reported externally	N/A	All identified physical risks – reviewing our site business continuity plans enables us to plan and mitigate against potential physical risks from climate change.
TRANSITION RISKS	%	Revenue from green technologies	No – data to be reported in FY2024	N/A	Monitoring revenue from products with sustainability, including climate, benefits.
TRANSITION RISKS	%	% reduction in normalised non-recyclable waste	Yes – 5% reduction between FY2022 and FY2024	(20.2)% reduction vs FY2021 baseline	Cost and availability of resources – monitoring our reduction in waste and setting targets helps to reduce the resources used by our business.
TRANSITION RISKS	%	% reduction in normalised water use in water-stressed areas	Yes – 5% reduction between FY2022 and FY2024	(17.1)% reduction vs FY2021 baseline	Cost and availability of resources – monitoring our water use and setting reduction targets helps to reduce the resources used by our business.