

# CIMIC's approach to Climate Change

## Based on the recommendations of the Task Force on Climate-related Financial Disclosures

### Introduction

Warming of the planet, caused by greenhouse gas emissions, is widely acknowledged to pose serious risks to the global economy and will have an impact across many economic sectors. CIMIC recognises and welcomes the increasing international commitment of governments, communities and others in creating a low-carbon, climate resilient future. Within that environment, CIMIC understands the need to reduce emissions by boosting energy productivity, reducing waste, rehabilitating degraded land, increasing the use of renewable energy and driving innovation.

CIMIC supports the work of the Task Force on Climate-related Financial Disclosures (TCFD), to increase transparency around the response of businesses to climate change. This Paper aims to provide stakeholders with a better understanding of the Group's opportunities and risks across each of its major activities: Construction, Mining and Mineral Processing, and Operations and Maintenance Services. It uses the TCFD framework – of Governance, Strategy, Risk Management, and Metrics and Targets - to articulate CIMIC's approach to dealing with climate change, supplemented by disclosures in CIMIC's annual Sustainability Reports.

### Governance

To assist the Board in discharging its responsibilities, CIMIC has adopted a governance framework which provides for the delegation of functions to Board Committees and senior management (under the leadership of the Executive Chairman and Chief Executive Officer). The framework ensures that functions are carried out by the most appropriate person or group, and that a tiered system of responsibility and accountability exists throughout the company.

The Audit and Risk Committee (ARC) is responsible for the effectiveness of risk management systems and management of material risks, which would include the risks associated with the impacts of climate change. The objectives and purpose of the ARC is to support the Board's task of monitoring the performance of the CIMIC Group, including its compliance with all applicable laws and regulations<sup>1</sup>. Oversight of risk management by the Board and the ARC is supported by a quarterly Risk Report that aggregates and highlights material risks to the Group achieving its objectives.

The objective and purpose of the Ethics, Compliance and Sustainability Committee (ECSC) is to assist the Board in fulfilling its corporate governance and oversight responsibilities by, monitoring and reviewing compliance with applicable legal and regulatory requirements and internal policies, procedures and standards in the areas of work health and safety, diversity, the environment, sustainability and business conduct<sup>2</sup>.

CIMIC requires each of its Operating Companies to maintain a management system that ensures compliance with Group requirements as well as the unique operating and compliance requirements of each business. Management ensures that consideration of climate-related risks and opportunities are assessed and managed through the requirement for each project to have an Environmental Management Plan (EMP) which includes the necessity for an environmental risk assessment.

In the case of significant infrastructure projects, clients are increasingly demanding that a Sustainability Management Plan (SuMP) be developed, which includes a Climate Resilience Sub-Plan (see Risk Management section following). A key component of these Climate Resilience Sub-Plans is the requirement to undertake a formalised Climate Risk Assessment.

Operational risk management activities throughout CIMIC Group are conducted in accordance with a policy framework designed to ensure that the Group's material business risks are identified, and that adequate management controls are in place and function effectively. Regular compliance audits of projects and their performance ensures that the various management plans, such as the EMPs and SuMPs, are being adhered to.

### Strategy

The impacts of climate change will vary across CIMIC's diversified portfolio, both in terms of the opportunities and the risks, and how these are evident over time. CIMIC Group is primarily a services contractor, and not the long-term owner of the projects it delivers (with the exception of some investments in some PPP projects). As a result, CIMIC has a different degree of exposure to climate-change to many other companies in the industrials sector due to the relatively short-term nature of the services provided to those asset owners.

CIMIC's strategy, to offer a complementary suite of capabilities throughout the life-cycle of clients' infrastructure, resources or property projects, using activity focused businesses, creates resilience in a number of ways.

<sup>1</sup> Refer to the [Audit and Risk Committee Charter](#).

<sup>2</sup> Refer to the [Ethics, Compliance and Sustainability Committee Charter](#).

Activity	Resilience factors
Construction	<ul style="list-style-type: none"> <li>▪ CIMIC is not a long-term owner of infrastructure or property assets and therefore the exposure to climate-related risk over time is relatively limited, even under different climate-related scenarios.</li> <li>▪ The Group’s exposure is more about the constructability of infrastructure or property assets, which occurs over a relatively short period (i.e. generally between 1-4 years), versus their much longer life span (i.e. between 50-100+ years), and that risk can largely be assessed and priced during the tender phase.</li> <li>▪ As a broad-based provider of contracting services, CIMIC can reorient its resources and capabilities to focus on new markets as they emerge.</li> <li>▪ Climate change is expected to offer a range of opportunities in terms of mitigating the impacts of acute and chronic physical risks on existing and new infrastructure.</li> <li>▪ The Group has developed expertise in the delivery of sustainable infrastructure and buildings and CPB Contractors is currently a leading sustainability contractor in the Australian market. This market is expected to continue to grow as Australian State governments are increasingly mandating that their infrastructure projects achieve IS<sup>3</sup> or other sustainability ratings.</li> <li>▪ Sustained population growth, increased urbanisation and industrialisation, and historical underspending on infrastructure, should continue to support investment in infrastructure and property and, therefore, opportunities to provide construction services, both in Australia and in Asia. Overall, the long-term outlook for investment in infrastructure in Asia remains very strong. “Developing Asia will need to invest \$26 trillion from 2016 to 2030, or \$1.7 trillion per year, if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change (climate-adjusted estimate). Without climate change mitigation and adaptation costs, \$22.6 trillion will be needed, or \$1.5 trillion per year (baseline estimate).”<sup>4</sup></li> </ul>
Mining and Mineral Processing	<ul style="list-style-type: none"> <li>▪ Thiess can reallocate mining plant and equipment, and its capabilities, to focus on different commodities and new geographic markets as demand changes. “Key base metals including copper, silver, aluminium (bauxite), nickel, zinc, and possibly platinum, among others, are expected to benefit from a low carbon energy shift over the century.”<sup>5</sup> A move from thermal coal - as demand potentially declines - to other minerals, even under the IEA’s ‘Sustainable Development Scenario’, would be a relatively straightforward and low-cost initiative.</li> <li>▪ As per ‘Construction’ above, the projected investments to be made in infrastructure and property projects will sustain demand for many resources such as iron ore and other minerals, and therefore should underpin mining activity into the future.</li> <li>▪ Thiess’ mining plant and equipment has a relatively short life being depreciated based on the number of hours worked and is written-off over the estimated effective useful life which is ‘up to 10 years’<sup>6</sup>, as per the Group’s Accounting Policies.</li> <li>▪ CIMIC is not the owner of resources projects (i.e. mines, processing plants, rail lines and minerals deposits) and does not face the same potential ‘stranded asset risk’ of some of its clients in the resources market.</li> </ul>
Operations and Maintenance Services	<ul style="list-style-type: none"> <li>▪ Infrastructure, be it roads, railway lines, renewable energy plants and transmission lines or water treatment plants, needs to be operated and maintained. In all likelihood, the impacts of climate change and the potential for more extreme weather events, will drive a proportionally greater demand for these services.</li> <li>▪ The risk inherent in the provision of operation and maintenance services to infrastructure and property assets can largely be assessed and priced at the time of tender and managed through the structure and terms of contractual arrangements.</li> <li>▪ The Group’s strategy to offer a complementary suite of capabilities, throughout the life-cycle of assets, offers the potential to lower operating costs and to create value for both clients and CIMIC.</li> </ul>

Given the diverse nature of the Group’s market focused businesses, the impact of climate-related opportunities and risks is best considered on an activity-by-activity basis, as per the tables below. Efforts to mitigate and adapt to climate change will produce opportunities for CIMIC, for example, through enhanced resource efficiency leading to cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets, and building resilience along the supply chain.

Impact of Climate-Related Opportunities on CIMIC’s activities			
	Construction	Mining and Minerals Processing	Operations and Maintenance Services
<b>Opportunities</b>			
Resource efficiency	<ul style="list-style-type: none"> <li>▪ Retro-fitting buildings to reduce energy consumption.</li> <li>▪ Greater use of recycling of materials in infrastructure and buildings.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop alternate transport modes such as conveyors to improve efficiency.</li> <li>▪ Tailings reprocessing and process water recovery.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Demand for more energy efficient lighting incorporated into services provided.</li> </ul>

<sup>3</sup> The IS Rating Scheme (IS) is Australia and New Zealand’s only comprehensive rating system for evaluating the sustainability of infrastructure.

<sup>4</sup> ‘Meeting Asia’s Infrastructure Needs’, special report by the Asian Development Bank, 2017.

<sup>5</sup> World Bank report, “The Growing Role of Minerals and Metals for a Low-Carbon Future”, 18 July 2017.

<sup>6</sup> Refer to the 2020 CIMIC Annual Report, Summary of Significant Accounting Policies.

	<ul style="list-style-type: none"> <li>Supporting research into, and the use of, zero carbon emission cements and steel.</li> </ul>		
Energy source	<ul style="list-style-type: none"> <li>Use of RAPS<sup>7</sup> to provide lighting and other power solutions for projects.</li> <li>New sources of renewable energy supply require additional investment in new transmission lines.</li> </ul>	<ul style="list-style-type: none"> <li>Using bio-diesel, gas or other energy sources to reduce energy usage of vehicles.</li> <li>Use of RAPS to provide lighting and other power solutions for mines.</li> </ul>	<ul style="list-style-type: none"> <li>Use of RAPS to provide lighting and other power solutions for projects.</li> </ul>
Products and Services	<ul style="list-style-type: none"> <li>Decommissioning and cleaning up of coal fired power stations.</li> </ul>	<ul style="list-style-type: none"> <li>Adoption of clean coal technology supports the mining of thermal coal.</li> </ul>	
Markets	<ul style="list-style-type: none"> <li>Constructing new renewable energy generators such as wind, solar, geothermal, wave, etc.</li> <li>Offering improved energy and resource efficiency in buildings to cope with potential changes.</li> <li>Government's require higher standards from contractors in delivering sustainable construction services (i.e. delivering 'green rated' projects) which improves the Group's competitive positioning.</li> </ul>	<ul style="list-style-type: none"> <li>Growth in use of batteries could provide some opportunities for diversification of contract mining to other commodities (i.e. lithium).</li> <li>Shift from development of new mines to the retention and expansion of existing assets will increase demand for efficiencies and ongoing maintenance.</li> </ul>	<ul style="list-style-type: none"> <li>New renewable energy supplies generate additional operation and maintenance work.</li> </ul>
Resilience	<ul style="list-style-type: none"> <li>Rehabilitation of infrastructure damaged by potential weather extremes.</li> <li>Building new and more robust infrastructure to take into account rising sea levels and greater temperature variations.</li> </ul>	<ul style="list-style-type: none"> <li>Construction of new or more robust mine infrastructure (such as tailings dams) capable of dealing with more extreme weather events.</li> </ul>	<ul style="list-style-type: none"> <li>Repairs to infrastructure damaged by potential weather extremes.</li> <li>Additional maintenance services required to ensure consistent supply of utilities during extreme weather events.</li> </ul>

The relatively short-term duration of the contracting services CIMIC provides means that both the transition and physical risks, and their associated costs, can generally be identified and factored into tenders and contracts, thereby mitigating any potential financial impact.

**Impact of Climate-Related Risks on CIMIC's activities**

	<b>Construction</b>	<b>Mining and Minerals Processing</b>	<b>Operations and Maintenance Services</b>
<b>Transition risks</b>			
Policy and legal	<ul style="list-style-type: none"> <li>Cost of any carbon tax would likely be passed on and to be covered by existing change of law clauses in contracts.</li> <li>Introduction of renewable energy targets or pollution reduction schemes, or policies to promote climate change adaptation likely be passed on and to be covered by existing change of law clauses in contracts.</li> <li>Any cost of increased reporting obligations are expected to be passed on.</li> </ul>	<ul style="list-style-type: none"> <li>Cost of any carbon tax would likely be passed on and to be covered by existing change of law clauses in contracts.</li> <li>Introduction of carbon tax could - over time - reduce demand for thermal coal and therefore opportunities for contract mining.</li> <li>Introduction of renewable energy targets or pollution reduction schemes, or policies to promote climate change adaptation are expected to be passed on and to be covered by existing change of law clauses in contracts.</li> </ul>	<ul style="list-style-type: none"> <li>Cost of any carbon tax would likely be passed on and to be covered by existing change of law clauses in contracts.</li> <li>Introduction of renewable energy targets or pollution reduction schemes, or policies to promote climate change adaptation are expected to be passed on and to be covered by existing change of law clauses in contracts</li> <li>Any additional costs incurred in operating and/or maintaining infrastructure or buildings are expected to be passed on.</li> </ul>

<sup>7</sup> Remote Area Power Systems (RAPS) integrate renewable energy sources such as solar and wind with storage or diesel backup to allow remote communities to become more self-sufficient and sustainable by providing dependable, secure power that is cheaper than relying on diesel-generated power alone.

		<ul style="list-style-type: none"> <li>Any cost of increased reporting obligations are expected to be passed on.</li> </ul>	<ul style="list-style-type: none"> <li>Any cost of increased reporting obligations are expected to be passed on.</li> </ul>
Technology	<ul style="list-style-type: none"> <li>Cost of substituting low emission cement and/or composite products, if mandated for construction projects, are expected to be passed on.</li> </ul>	<ul style="list-style-type: none"> <li>Falling cost of renewable energy technologies could - over time - reduce demand for thermal coal and therefore opportunities for contract mining.</li> <li>Possible development of technologies that substitute for, or replace, coking coal in the production of steel could progressively reduce demand for contract mining services.</li> </ul>	
Market	<ul style="list-style-type: none"> <li>Increased cost of low emission construction materials, if mandated, are expected to be passed on.</li> </ul>	<ul style="list-style-type: none"> <li>Declining demand for thermal coal could - over time - reduce opportunities for contract mining.<sup>8</sup></li> </ul>	
Reputation	<ul style="list-style-type: none"> <li>Construction of infrastructure for new/expanded coal mines could result in negative feedback from stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Contract mining of coal could result in negative feedback from stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Operations and maintenance of infrastructure for new/expanded coal mines could result in negative feedback from stakeholders.</li> </ul>

**Physical risks**

Acute <sup>9</sup>	<ul style="list-style-type: none"> <li>Heat stress could reduce productivity of workers but expected to be manageable through occupational health and safety (OH&amp;S) protocols and engineering solutions.</li> <li>Potential of injury to people from increased prevalence of floods/cyclones manageable through OH&amp;S protocols and engineering solutions.</li> <li>Increased frequency and severity of bushfires could reduce productivity but manageable through OH&amp;S protocols and engineering solutions.</li> </ul>	<ul style="list-style-type: none"> <li>Increased potential for flooding of mines or rail lines due to cyclones or wetter weather managed through ‘force majeure’ clauses in contracts and costs expected to be passed on.</li> <li>Heat stress could reduce productivity of workers but likely to be manageable through OH&amp;S protocols and engineering solutions.</li> <li>Potential of Injury to people from increased prevalence of floods/cyclones manageable through OH&amp;S protocols and engineering solutions.</li> </ul>	<ul style="list-style-type: none"> <li>Heat stress could reduce productivity of workers but expected to be manageable through OH&amp;S protocols and engineering solutions.</li> <li>Potential of injury to people from increased prevalence of floods/cyclones manageable through OH&amp;S protocols and engineering solutions.</li> <li>Increased frequency and severity of bushfires could reduce productivity but manageable through OH&amp;S protocols and engineering solutions.</li> </ul>
Chronic <sup>10</sup>	<ul style="list-style-type: none"> <li>Cost of overcoming any water shortages (i.e. through use desalination or transport) expected to be passed on.</li> <li>Higher ambient temperatures could impact curing time of concrete with cost expected to be passed on.</li> </ul>	<ul style="list-style-type: none"> <li>Cost of overcoming any water shortages (i.e. through use of desalination or transport) expected to be passed on.</li> </ul>	<ul style="list-style-type: none"> <li>Cost of overcoming any water shortages (i.e. through use of desalination or transport) expected to be passed on.</li> </ul>

**Risk management**

CIMIC defines risk management as the identification, assessment and treatment of risks that have the potential to impact materially the Group’s operations, people, and reputation, the environment and communities in which the Group works, and the financial prospects of the Group. CIMIC’s risk management framework is tailored to its business, embedded mostly within existing processes, and aligned to the Company’s objectives, both short and longer-term.

<sup>8</sup> As per the International Energy Agency’s ‘Stated Policies Scenario’, World Energy Outlook 2019, <https://www.iea.org/weo2019/>

<sup>9</sup> Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods.

<sup>10</sup> Chronic physical risks refer to longer-term shifts in climate patterns (e.g. sustained higher temperatures) that may cause sea level rise or chronic heat waves

CIMIC Operating Companies generally engage with their clients in the tender and design phases of a project to understand the implications of climate change. In some cases, the climate risk assessment may be limited by the scope of works (i.e. construct only, or design and construction). Depending on the level of prior assessment undertaken by the client or other parties, it may be necessary for the assessment to consider all life-cycle phases. If this is the case, the client will be engaged and proactively manage or participate in the assessment process.

Operating across a range of diverse and sensitive areas, CIMIC manages its environmental footprint using consistent processes and methods that reflect best practice and mitigate environmental risk. Effective management of the environment, which includes climate change impacts, is imperative, and is part of everyday decisions and processes.

All projects are required to put in place Environmental Management Plans which integrate environmental obligations and client environmental requirements during project delivery. On significant large or complex infrastructure projects, CIMIC's Operating Companies are increasingly required by their clients to implement Sustainability Management Plans, which include Climate Resilience Sub-Plans and are tailored to the bespoke nature of the project

### Metrics and targets

Absolute emissions - especially for the Construction and Operations and Maintenance Services activities – can vary year-on-year and over time depending on a number of factors including:

- the diversity of the Group's portfolio which includes projects ranging from rail tunnels to hospitals to highways to solar farms;
- the bespoke nature of projects and therefore each has a different energy usage and emissions profile;
- individual construction projects have distinct timelines, and their unique energy usage and emissions profiles can vary significantly depending on what stages of work have been completed;
- many of a project's energy (and resulting emissions) outcomes are pre-determined by clients during the tender phase of a project; and
- energy usage and emissions profiles of individual projects can vary by geography.

Scope One (mainly from fuels such as diesel and petrol) and Scope Two (purchased electricity) emissions are broadly within CIMIC's control and are largely a function of activity levels. The efficiency of the energy used, either liquid fuels or electricity, is something that CIMIC manages carefully. Not only because of the impact on the climate, but because it can assist in lowering costs and this efficiency focus is good for the environment and good for business.

Given the potential variability of absolute emissions, CIMIC's preferred performance measure is emissions intensity, based on the total of both Scope One and Scope Two emissions (in kt.Co2-e) divided by Group revenue (in \$m). Given the diversified nature of the Group's activities, and their very different energy usage profiles, CIMIC believes emissions intensity by activity - Construction, Mining and Mineral Processing, and Operations and Maintenance Services - provides an appropriate and comparable metric. These metrics - along with the amounts of emissions generated and energy used - are disclosed in CIMIC's 2019 and 2020 Sustainability Report.

CIMIC is committed to a target of achieving annual reductions in the emissions intensity of all three of the Group's primary business activities. CIMIC will also work, with clients where appropriate, to develop energy and emissions targets that are relevant to individual projects.

In terms of Scope Three emissions, which are primarily generated from the purchase of materials such as concrete, steel and asphalt for use in construction projects; from waste disposal (largely driven by construction projects); and travel, CIMIC will collaborate with clients, suppliers and other business partners to reduce its emission footprint wherever possible.

CIMIC will continue to explore and promote ways to support governments, communities, and other stakeholders to create a low-carbon, climate resilient future. Some of our initiatives include:

- promoting to clients the use of different materials which have lower inherent emissions such as sustainable asphalt or geopolymer concrete;
- using recycled materials such as concrete, asphalt or glass to replace new construction alternatives;
- encouraging the use of renewable energy sources on projects such as the installation of solar panels to provide power;
- installing light-emitting diodes or other energy efficient lights to replace traditional, energy-intensive lamps; and
- using more energy efficient plant and equipment to reduce consumption.

Wherever possible, CIMIC's Operating Companies will continue to work together with their clients and business partners to develop tailored solutions to reduce the emission from each of their bespoke projects. Examples of some of these tailored solutions can be found in CIMIC's annual Sustainability Reports.