

# HILL 2022 TASKFORCE ON CLIMATE RELATED FINANCIAL DISCLOSURE (TCFD)

Scenario Analysis and Financial Quantification of Physical and Transition Risks and Opportunities.

## INTRODUCTION

Since coming into effect on 6 April 2022, the UK government enshrined in law, mandatory climate disclosures for the largest companies. This will include traded companies, banks, insurers, or private companies with over 500 employees and £500 million in turnover. Whilst Hill Group (hereafter 'Hill') is not a PLC, it falls into the latter category and as such taskforce on climate related financial disclosure (TCFD) aligned disclosures are a requirement.

This summary provides an overview of the work Hill has undertaken in alignment with TCFD disclosure. It is supported by internal reports concerning scenario analysis and modelling which quantifies Hill's physical and transition risks and opportunities, as well as financial quantification of said risks and opportunities.

## GOVERNANCE

**Describe the Board's oversight of climate-related risks and opportunities.**

Towards the end of 2020, Hill developed a strategic approach to sustainability, focussed around the three pillars of Environmental, Social, and Governance (ESG). Under each pillar, three key themes were established to provide Hill a tangible, identifiable approach to sustainability. Key themes are also aligned with the most pertinent external sustainability guidelines and requirements from the UN Sustainable Development Goals (UN SDGs), The Sustainability Reporting Standard for Social Housing, UK Green Building Council, RIBA and NextGeneration. Under the Environmental pillar, key themes are as follows:

- **Creating net zero carbon homes.**
- **Taking care of natural resources.**
- **Reducing our environmental impacts.**

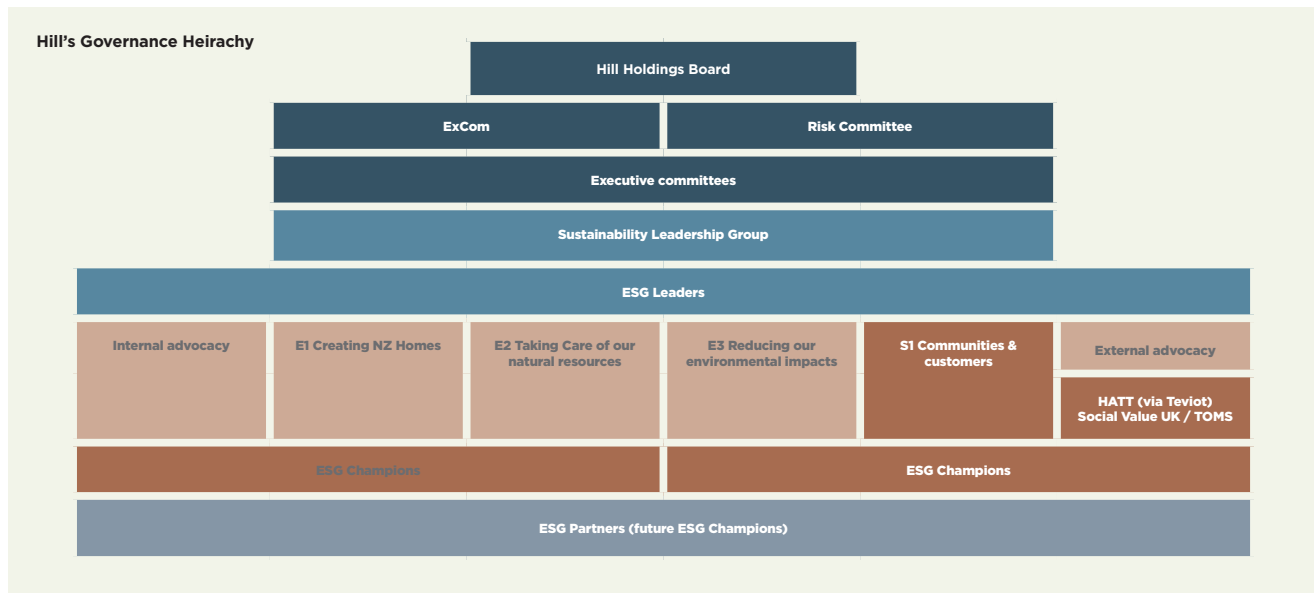


The Sustainability Leadership Group (SLG) was established to receive regular feedback from the key theme focus groups and make recommendations for implementation of new approaches to the Board of Directors.

The SLG includes two Group Holdings Board Directors (including a non-executive director) and other senior leaders from across the business. The SLG meets every three months and provides leadership, support, and direction to the overall strategic initiative.

**Describe management’s role in assessing and managing climate-related risks and opportunities.**

Each key theme mentioned above is allocated to focus groups, made up of members of staff with relevant areas of interest from across the business, meeting every 8 - 12 weeks to discuss risks and opportunities around creating net zero carbon homes, taking care of our natural resources, and reducing our environmental impacts. Membership of the focus groups was drawn from a range of appropriate disciplines and demographics across the business. Hill have also recently worked to formally include the Future Homes Standard and relevant criteria of the Sustainability Linked Loan (SLL) into the terms of terms and objectives.



**STRATEGY**

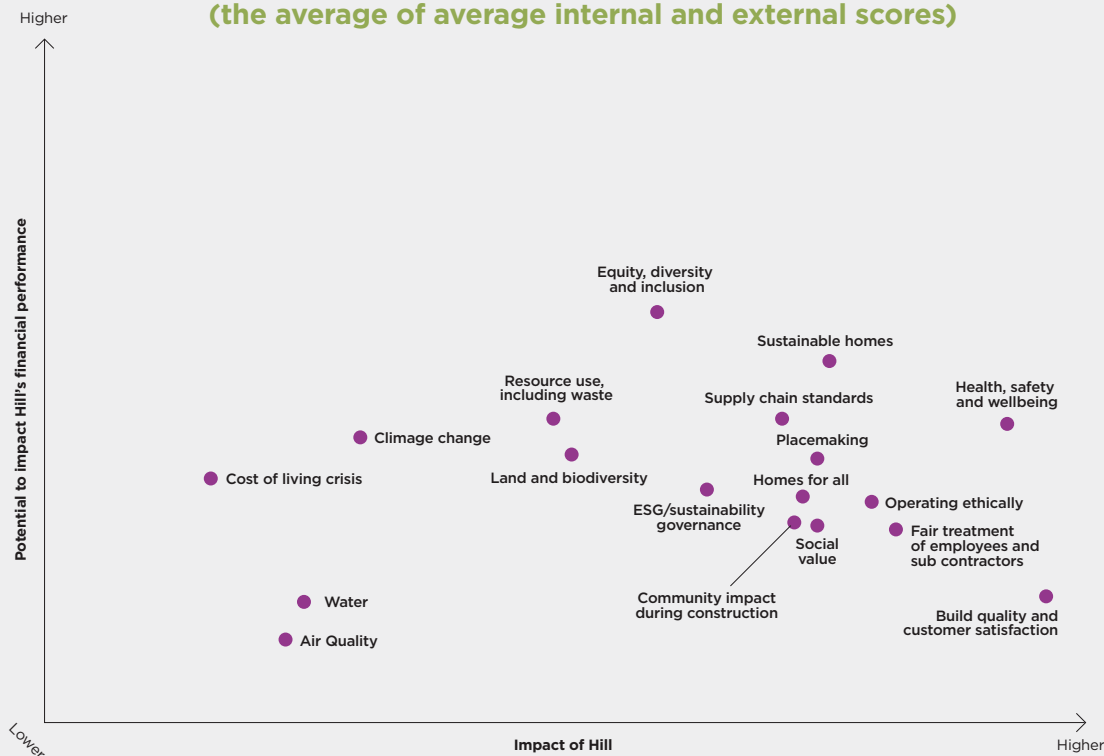
**Describe the climate-related risks & opportunities the organization has identified over the short, medium, & long term.**

Over the last quarter we undertook scenario analysis which looked at the material climate related risks and opportunities posed to Hill across the short (0-5 years), medium (5-10 years) and long term (10-15 years) strategy of the company. A summary of which can be found below in section 5.2 and 5.3. The scenario analysis assessed physical risk and transition risks and opportunities across both a low and high emission scenario with associated high level financial quantification. At present the identified climate related risks and opportunities posed to Hill has the potential to impact revenue and current and future business operations. Additionally, a recent Double-materiality Review has been completed and will inform a Principal ESG Risks and Uncertainties register to help mitigate climate related risks and opportunities.

**Describe the impact of climate related risks & opportunities on the organization’s businesses, strategy, & financial planning.**

By undertaking a Double-materiality Review (Review) in late-2022, this is helping to shape the company's strategy and commitments for the remainder of its 5-year business plan cycle (2023-2025) and looking out to 2030. The Review was undertaken through three lenses: one, Legislative review, which covered existing and future legislation in the UK, two, a sectorial review of industry best practice and regulations, and three, a best practice sustainability review. Each stakeholder was anonymously asked to rank each of the eighteen ESG issues, on a scale of significance, as seen below.

**DOUBLE-MATERIALITY ASSESSMENT PRIORITIES TABLE  
(the average of average internal and external scores)**



Whilst the issues are dispersed across the respective axis's, we recognise each has significant importance to our stakeholders and Hill's license to operate. Hence during 2023, we will manage the opportunities and potential risks issue, which may impact upon our growth plan and ESG strategy. This approach helps us prepare for the CSRD (Corporate Sustainability Reporting Directive) that comes into effect from 1st January 2024, for companies employing over five hundred employees and already subject to the non-financial reporting directive, with reports due in 2025.

**Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**

We have undertaken scenario analysis by looking at our principal risks and opportunities that materially impact our business. We have considered both physical and transition risks and are mapping these within our existing risk management structure to ensure the climate related risks and opportunities are aligned with our strategy. Physical risks have been considered for two scenarios:

Low emission (2°C by 2100 aligned) and high emission (4°C by 2100 aligned) pathways informed by UK Climate Projections 18 (UKCP18) London and regional climate probabilistic UK-specific climatic projections. When considering transition risks and opportunities we have used the UK's Sixth Carbon Budget's Building Sector recommendations and modelled three pathways to contextualise our exposure:

- Balanced pathway - this scenario sits between the following two scenarios, with regards to the timescales and magnitude of transition to zero carbon buildings.
- Headwinds - this scenario sees some degree of behaviour change and innovation, however there are no immediate and widespread behavioural shifts or significant policy/market changes.
- Tailwinds - this scenario sees significant consumer behavioural changes, widespread implementation of energy efficiency measures, and an early and rapid rate of decarbonisation.

**RISK MANAGEMENT**

**Describe the organization's processes for identifying, assessing, and managing climate-related risks**

We have undertaken scenario analysis concentrating on our principal risks and opportunities relating to both physical and transition issues. Throughout this reporting year, we will further develop our approach to risk identification based on the outcomes of our scenario analysis, by enhancing our consideration of the financial impacts of risks and opportunities. The table below summarises our main risks and potential financial impact areas which might impact our organisation. Comprehensive financial modelling is undertaken internally to ensure our risk exposure is mitigated wherever possible.

CATEGORY	DESCRIPTION	IMPACTS	COMMENTARY
<b>Physical Risks</b>			
Extreme weather events	There is an increased probability of the occurrence of extreme weather events (including high temperatures, drought, flooding and storms).	Increased development costs as further mitigation measures are incorporated within building design.	<ul style="list-style-type: none"> <li>Implementation of a range of innovations and new building techniques at developments, such as passivhaus and equivalent standards, and net zero carbon ready homes, in advance of the Future Homes Standard.</li> <li>Maintaining EPC scores of B, beyond that of MEES requirements.</li> </ul>
Water efficiency and availability	Increasing occurrence of drought resulting in risk of freshwater scarcity.	Increasing development costs from the incorporation of water efficiency solutions and increasing freshwater costs.	<ul style="list-style-type: none"> <li>Homes designed to use an average of 100 (90 in water stressed areas) litres of water per person per day by 2030. this is an improvement on building regulations.</li> </ul>
<b>Transition Risks</b>			
Energy and carbon - move towards net zero carbon housing	Increasing market demand and expectation for low carbon real estate.	Increased development costs due to the incorporation low carbon solutions.	<ul style="list-style-type: none"> <li>Net zero carbon business operations by 2030. our timeline and goals to achieve this are detailed within Hill's indicative 2020-2030 roadmap.</li> </ul> <p>All new developments will achieve:</p> <ul style="list-style-type: none"> <li>EPC B rating or better.</li> <li>40% reduction in embodied carbon.</li> <li>Net zero carbon operational emissions.</li> </ul>
	Increasing demands for greater energy efficiency.	Increased development costs to meet energy efficiency requirements.	<ul style="list-style-type: none"> <li>All new developments will achieve epc b rating or better, with new developments submitted for planning to EPC A from 2026.</li> <li>Moving towards 100% purchased renewable energy supplies for sites.</li> </ul>
	Expansion of low carbon heat networks.	Increased development cost associated with the connection to heat networks.	<ul style="list-style-type: none"> <li>New developments will be connected with local low carbon heat networks where possible.</li> <li>Has existing experience with pivoting from gas fired boilers to air source heat pumps (ASHP).</li> </ul>
Abatement of existing fossil fuel infrastructure.	Decarbonisation of grid electricity and phase out of gas fired boilers.	Investment in low carbon heating technologies.	<ul style="list-style-type: none"> <li>We are investing in low carbon and renewable technologies (such as ASHP's).</li> <li>Transition away from gas-led infrastructure within our new developments, to decarbonised electrified systems such as air source heat pumps.</li> </ul>
Waste and resource management.	Impact on global to local supply chains affecting the cost and availability of materials.	Increased cost of construction materials as global supply chains are disrupted.	<ul style="list-style-type: none"> <li>The acquisition of VML &amp; Fusion Steel Framing will enhance the capacity and capability in modern methods of construction and offsite fabrication, reducing waste.</li> <li>Designing out waste and selecting reusable materials wherever possible.</li> <li>Zero waste to landfill by 2025.</li> </ul>

**Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management**

Key themes underneath the environmental pillar of Hill's strategic approach to sustainability outlines the priority areas, of which, responding to the climate emergency and tackling Net Zero Carbon has a material consideration on our strategy now and in the future. We have undertaken scenario analysis (as described above, within the Strategy section) to better understand how our strategy relates to such climate-related impacts and how these may differ between scenarios and timescales. All scenarios highlight that climate risks potentially pose a risk to Hill's revenue and business operations, albeit on differing scales. There are opportunities across all three scenarios as result of our proactive approach to sustainability, which, in some cases, is ahead of the strategies of comparable housebuilders.

We will work on enhancing our management of principal risks established through our scenario analysis to ensure our strategy is robust and accounts for the potential impact of climate change on our business.

**METRICS AND TARGETS**

Throughout the year we monitor and review our performance relating to numerous environment, social and governance (ESG) metrics and key performance indicators (KPIs).

The table below details our verified carbon data covering the last three years, from 2020 to 2022, as conducted for streamlined energy and carbon reporting (SECR). Greenhouse gas (GHG) emissions are reported in line with the UK Government's 'Environmental Reporting Guidelines' and has used the relevant GHG emissions factors outlined by the DEFRA/BEIS (UK Government Greenhouse Gas Conversion Factors, 2021 & 2022).

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Below we have summarised the key climate related metrics and targets we use when reporting across Carbon, Energy, Waste, Water and Certification, as detailed within our indicative 2020-2030 roadmap.

### Carbon

- 40% reduction in embodied carbon by 2030.
- Net zero carbon developments (operationally).
- Net zero carbon business operations.

### Energy

- Maintain B rated EPC.
- A rated EPC in houses submitted for planning from 2026.

### Waste & Water

- Zero waste to landfill by 2025.
- Maintain 95% of non-hazardous waste diverted from landfill.

- Design our homes to use an average of 105 litres of water per person per day from 2022 (compared with building regulations of 125 litres).
- Design our homes (in water stressed areas) to use an average of 100 litres of water per person per day from 2026.
- Design our homes (in water stressed areas) to use an average of 90 litres of water per person per day by 2030.
- Water neutrality by 2030.

### Certifications

- Apply the Building Research Establishment Environmental Assessment Methodology (BREEAM), Future Homes and Building Standard Hub and Building for a Healthy Life.

	TCO2e		MWh			
Emission Data	Calendar year 2020	Calendar year 2021	Calendar year 2022	Calendar year 2020	Calendar year 2021	Calendar year 2022
Scope 1 <sup>1</sup>	3,464	5,449	3,020	13,044	20,110	18,443
Scope 2 <sup>2</sup>	666	980	812	2,837	4,619	4,198
Scope 3 <sup>3</sup>	657	881	1,184	2,637	3,557	4,779
<b>Total</b>	4,787	7,310	5,016	18,518	28,286	27,420
<b>Intensity ratio (TCO2e/£ million turnover)</b>	<b>7.9</b>	<b>9.7</b>	<b>7</b>			

<sup>1</sup> Scope 1 direct emissions relate to offices, sales, development site activities and travel diesel combustion on out sites, and business travel from leased vehicles.

<sup>2</sup> Scope 2 indirect emissions relate to purchased electricity and heat for all sites and offices.

<sup>3</sup> Scope 3 indirect emissions relate to business travel.