7 September 2018

Complaint to the FRC Conduct Committee

Balfour Beatty PLC

ClientEarth

Contents

1 Summary of complaint

1. Balfour Beatty PLC (**Balfour Beatty**) is a company carrying on business as an international infrastructure group with capabilities in construction services, support services and infrastructure investments. It is listed on the main market of the London Stock Exchange. The purpose of this complaint (**Complaint**) is to bring a number of possible breaches of Balfour Beatty's legal duties to the attention of the Financial Reporting Council (**FRC**) Conduct Committee (**Conduct Committee**).

2. As an international infrastructure group, Balfour Beatty's business is materially exposed to the trends and risks associated with climate change and the low carbon transition. Such trends and risks have now been widely recognised by investors, governments, regulators, many of Balfour Beatty's peers, and by Balfour Beatty itself outside of its annual report and accounts. An analysis of these trends and risks is presented in section (3) of this Complaint.

3. Under the relevant laws, Balfour Beatty is required to disclose in its annual report and accounts: the principal risks and uncertainties facing its business; the main trends and factors likely to affect the future development, performance and position of its business; and the long term viability and prospects of the company in light of these risks and trends. A detailed discussion of the relevant legal provisions is given in section (4) of this Complaint.

4. Balfour Beatty's annual report (as defined below) includes the mandatory disclosure of GHG emissions for which the company is responsible, and a brief discussion of efforts to reduce its carbon emissions. Other than that, Balfour Beatty provides no meaningful discussion of any risks or trends associated with climate change or the low carbon transition.

5. Accordingly, it is ClientEarth's submission that by failing to discuss climate change or the low carbon transition in relevant sections of its Annual Report, Balfour Beatty has breached its legal duties under: sections 414C(2)(b) and 414C(7)(a) of the Companies Act 2006 (**Companies Act**); DTR 1A.3.2 R and DTR 4.1.8 R of the Disclosure Guidance and Transparency Rules (**DTRs**); and LR 9.8.6 R (3)(b) of the Listing Rules (**LRs**). Details are given in section (4) of this Complaint.

6. The Conduct Committee is responsible for ensuring that the provision of financial information by public companies complies with relevant reporting requirements. Accordingly, as detailed in section (5) of this Complaint, in relation to the breaches of the Companies Act, ClientEarth requests that the Conduct Committee:

    a. appoint a review group to consider these matters and to apply to court for (i) a declaration that the Annual Report does not comply with the requirements of the Companies Act; and (ii) an order requiring the directors of the company to prepare a revised report; or

    b. enter into an agreement with Balfour Beatty that it will revise its Annual Report to ensure compliance with the requirements of the Companies Act and take necessary steps to correct the public record.

7. In relation to the breaches of the DTRs and LRs, ClientEarth requests that the Conduct Committee appoint a review group to consider these matters and/or refer them to the FCA

2 Factual background

2.1 ClientEarth

8. ClientEarth is a non-profit environmental law organisation based in London, Brussels, Berlin and Warsaw. ClientEarth's Climate Finance Initiative analyses the legal implications of climate change-related financial risks for a wide spectrum of market participants, including companies, investors, company directors, their professional advisers and regulators.

9. In the UK, ClientEarth operates through a company limited by guarantee, registered in England and Wales, company number 02863827, registered charity number 1053988, registered office 10 Queen Street Place, London EC4R 1BE.

2.2 Balfour Beatty PLC

10. Balfour Beatty PLC (**Balfour Beatty**) is a public limited company with company number 00395826 listed on the London Stock Exchange. Balfour Beatty's registered office address is 5 Churchill Place, Canary Wharf, London E14 5HU. Balfour Beatty was admitted to trading on the main market of the London Stock Exchange on 28 June 1945 and has a premium listing.

11. Balfour Beatty carries on business as an international infrastructure group with capabilities in construction services, support services and infrastructure investments. Balfour Beatty finances, develops, builds and maintains complex infrastructure such as transportation, power, utilities, and social and commercial buildings. Its main geographies are the UK & Ireland, the US and the South East Asia.[1]

12. The market capitalisation of the London listed element of Balfour Beatty is approximately £2152.37 million (as at 22 August 2018).[2] Each of Balfour Beatty's directors is a person 'discharging managerial responsibilities' within Balfour Beatty for the purposes of Schedule 10A of the Financial Services and Markets Act 2000. We have sent a courtesy copy of this Complaint to Balfour Beatty.

2.3 Balfour Beatty's annual report and accounts

13. This Complaint relates to the Balfour Beatty Annual Report and Accounts 2017, which cover the financial year ending 31 December 2017 (**Annual Report**).

14. The Annual Report contains no meaningful discussion of risks or trends associated with climate change or the low carbon transition. Balfour Beatty's Annual Report does however include a discussion about its carbon emissions and its efforts, targets and strategies to reduce them, under a section titled 'Environmental performance'. This section includes the following relevant statements:

[1] See Balfour Beatty PLC Annual Report and Accounts 2017.
[2] See summary of information for Balfour Beatty on London Stock Exchange website.

- *'Optimising environmental performance forms a key component of Our Blueprint and is essential for driving efficiencies and winning work. Balfour Beatty has been taking steps to reduce its carbon emissions and mitigate against the business risks of climate change.'*
- *'Scope 1 and 2 GHG emissions The Group has seen a decrease in carbon emissions intensity in 2017 compared to 2016 from 29.5 tonnes of CO2 equivalent (CO2e)/£m revenue to 22.3 tonnes of CO2e/£m revenue. This has been largely driven by concerted efforts to manage energy and fuel and reduce associated GHG emissions. Since establishing the baseline in 2010, tonnes of CO2e/£m revenue have dropped by 46.3% from 41.5 tonnes of CO2e/£m revenue to 22.3 tonnes of CO2e/£m revenue. The Group's total CO2e figure for Scope 1 and 2 emissions, has dropped by 113,745 tonnes of CO2e (31.8%) from 357,983 tonnes of CO2e to 244,238 tonnes of CO2e over the same period.*

  As evidenced, the Group has made significant progress in reducing energy and fuel consumption and associated Scope 1 and 2 emissions, which is leading to reduced operating costs and therefore improved value to customers and shareholders. Initiatives have included: improving the fuel efficiency of the Group's fleet; optimising the sizing of generators and the power profile of projects; improving the energy efficiency of site cabins; and undertaking energy efficiency improvements to properties. In addition, a number of customers have expressed an intention to prequalify contractors on the basis of their carbon performance in the future which is driving performance in this area.

  Balfour Beatty's 2020 goal is to achieve a 50% reduction per £ million revenue of its Scope 1 and 2 emissions (against a 2010 baseline). The Group's performance to date illustrates it is on track to meet this target. Gammon Construction, the Group's joint venture in Hong Kong/Singapore, accounts for approximately 41% of the Group's Scope 1 and 2 emissions. It is certified to ISO 14064-1 international standard for quantifying and reporting greenhouse gas (GHG) emissions. Its Scope 1 and 2 GHG emissions are independently verified by SGS.'

15. In the above extract Balfour Beatty does state that it '*has been taking steps to reduce its carbon emissions and mitigate against the business risks of climate change.'* However, no information or detail is provided about what these risks might be for Balfour Beatty's business. Climate change and the low carbon transition are also notably absent from the sections of the Annual Report entitled: 'Principal risks (p 51); 'Market Review' and 'Business Model' (p 8), which appears to address key trends facing the business; and 'Viability statement' (p 57).

3 The materiality of climate change

16. A fundamental element of all of the relevant legal requirements that are the subject of this Complaint is whether or not a reasonable director in the position of Balfour Beatty's directors would consider that a particular risk, uncertainty, trend or factor is 'material' to Balfour Beatty. A detailed discussion of the relevant legal provisions is given in section (4) of this Complaint.

17. Accordingly, this section sets out evidence about the materiality of climate change and the low carbon transition to Balfour Beatty, in order to substantiate the subsequent submissions made in this Complaint regarding Balfour Beatty's possible breaches of its legal duties.

18. This evidence includes:

- an overview of physical and transition risks related to climate change;
- relevant disclosures by Balfour Beatty outside of its Annual Report;
- relevant government and regulatory guidance;
- relevant peer comparisons; and
- evidence of investor expectations.

3.1 Overview of physical and transition risks related to climate change

19. It is now widely accepted that climate change will create physical, social and economic disruption on an unprecedented scale. With roughly 1°C of global warming already driven by human activity, the physical impacts of climate change are being felt now.[3] Droughts are becoming more extreme, storms are increasing in severity and sea levels are rising. These impacts are widely projected to increase dramatically into the future, even under the most optimistic scenarios.[4]

20. For businesses and other economic actors, the impacts of climate change are also not just physical. Efforts to address and adjust to its effects are fundamentally reshaping economies. Decisive actions by governments, companies and civil society, combined with sharply declining renewable energy costs and shifting consumer preferences are rapidly accelerating the transition to a low-carbon economy.[5] These trends too are widely projected to accelerate over the coming years, with significant potential for dramatic step changes in government policy as urgency to address the physical impacts increases.[6]

21. Numerous studies have identified how the combination of these physical, political and macro-economic trends represent clearly foreseeable risk factors that will affect companies across nearly all sectors.[7] Inevitably, the financial impacts of climate-related issues on a business will be driven by the specific climate-related risks and opportunities to which the business is exposed and the strategic and risk management decisions it takes in response.

22. Because of the high intensity of the greenhouse gas (**GHG**) emissions associated with their business, companies in manufacturing and industrial sectors with energy intensive business models, such as Balfour Beatty, have been identified as being particularly exposed to climate change-related financial risks. In order to facilitate further analyses, these risks can be divided into two broad categories:

    a. physical risks; and

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[3] NASA, 'Global Temperature', (accessed 14 August 2017); UK Met Office, 'Global climate in context as the world approaches 1°C above pre-industrial for the first time', (2015).
[4] See Intergovernmental Panel on Climate Change (IPCC), 'IPCC Fifth Assessment Report - Climate Change 2014: Synthesis Report' (2014); Christiana Figueres et al. 'Three Years to Safeguard our Climate', *Nature* (28 June 2017).
[5] See Task Force on Climate-related Financial Disclosures, 'Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures' (June 2017); Bank of England, 'The Bank of England's Response to Climate Change' (June 2017).
[6] See, eg, Mark Carney, Governor of the Bank of England, 'Resolving the Climate Paradox', Speech given at the Arthur Burns Memorial Lecture, 22 September 2016.
[7] See Task Force on Climate-related Financial Disclosures, 'Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures' (June 2017);

b. transition risks.

23. These categories are addressed in further detail separately below.

Physical risks

24. Physical risks refer to risks arising from the direct physical impacts of climate change. These may be driven by specific events, including increased severity of extreme weather events, or by longer-term shifts in climate patterns, including sea level rise or chronic heat waves.

25. The Intergovernmental Panel on Climate Change (**IPCC**) is the preeminent global scientific authority on climate change. The IPCC anticipates that the impacts of climate change will include: extreme precipitation events intensifying and becoming more frequent; a continued rise in global sea levels leading to coastal flooding; and intensification of heat waves over longer durations, leading to increased prevalence of drought and wildfires[8].

26. There is also a significant body of work which draws a direct link between these trends in physical climate change impacts and implications for corporate value chains. For companies such as Balfour Beatty which are capital intensive and design, build, operate and own fixed assets and infrastructure these implications have been identified to include: increased extreme weather events that could damage fixed assets and infrastructure, or disrupt operations and supply chains; sea level rises that could impact coastal infrastructure; rising mean temperatures that could lead to higher operating costs and negatively impact the health and safety of the workforce; and water scarcity that could impact operations.[9]

27. Often, these extreme weather events are part of what businesses may already experience occasionally and have historically managed as part of their enterprise risk-management process. However, climate change brings an important difference because these events become more frequent and/or more intense and therefore the probability that they will have a material financial effect also increases. [10] As a recent report by credit rating agency Standard & Poor's notes, *'[b]ecause we expect the frequency of natural catastrophes, along with their economic effects, to increase in the future, companies will in our view need to improve their level of disclosure about their exposure to such events*.'[11]

28. Importantly, the physical risks associated with climate change are also understood to be highly regionally and locally specific. Adequate assessment may require a detailed understanding of regional asset level vulnerabilities and resilience. [12] Notably, Balfour Beatty has a highly distributed portfolio of assets with interests in Europe, North America and South East Asia. Balfour Beatty also has an extensive supply chains and a distributed customer base. Across all these regions, significant climate-related impacts have already been observed and are projected to increase under all plausible scenarios.[13]

[8] See 'IPCC Fifth Assessment Report - Climate Change 2014: Synthesis Report', section 2.
[9] See Investor Group on Climate Change, 'Assessing climate change risks and opportunities for investors: oil and gas sector' (2016).
[10] See EBRD and Global Centre for Climate Excellence, 'Advancing TCFD Guidance on Physical Climate Risks and Opportunities (2018), 17.
[11] Standard & Poor's, 'Climate Change Will Likely Test The Resilience Of Corporates' Creditworthiness To Natural Catastrophes', (2015) p 8.
[12] See CICERO, 'Shades of climate risk: categorizing climate risk for investors' (2017).
[13] See CICERO, 'Shades of climate risk: categorizing climate risk for investors' (2017), 16.

29. As a company that builds and operates major infrastructure, Balfour Beatty may be particularly exposed to extreme weather conditions and sea level rise which might damage these assets or delay completion times on projects. In addition, changes in temperature extremes potentially have significant implications for the resilience of building materials and consequences for engineering design and ongoing maintenance costs.[14]

30. Accordingly, as a result of the implications of these physical climate change-related risks, in ClientEarth's view there is, at the very least, a reasonably foreseeable risk that Balfour Beatty will be exposed to: increased operational and capital expenditure costs; loss of revenues; increased exposure to health and safety risks for employees and/or sub-contractors; increased disruption to sourcing of raw materials, supply chain and logistics (e.g. supply of water, energy and materials, resilience on vulnerable transport networks); increased costs of capital and more restricted access to credit markets; and increased insurance premiums and potential for reduced availability of insurance on assets in 'high-risk' locations.[15]

Transition risks

31. Transition risks, generally, refer to risks arising from the transition to a low-carbon economy. Extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change are well underway. Fundamental to these activities are steps being taken by governments, investors, companies and consumers to reduce GHG emissions responsible for causing climate change.

32. Policy actions around climate change continue to evolve. Climate change and GHG emissions have been on the global political agenda for increased regulation for many years. In November 1990 the Intergovernmental Panel on Climate Change (**IPCC**) released its first assessment report stating that *'emissions resulting from human activities are substantially increasing the atmospheric concentrations of greenhouse gases'*.[16] This led to calls for a global treaty to curb GHG emissions in order to limit global temperature rises.

33. Since then, world leaders have participated in the United Nations Framework Convention on Climate Change (**UNFCC**) process, meeting regularly to agree a series of protocols, commitments and agreements with a view to reducing global GHG emissions. In December 2015, at the Conference of the Parties to the UNFCCC, nearly 200 governments entered into a landmark agreement to strengthen the global response to the threat of climate change by "*holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels"* (**Paris Agreement**).[17]

34. In order to meet this objective, all parties to the Paris Agreement are required to set and implement a Nationally Determined Contribution (**NDC**), which sets out that country's

[14] See, eg, Investor Group on Climate Change, 'Assessing climate change risks and opportunities for investors: property and construction sector' (2016).
[15] See further examples, EBRD and Global Centre for Climate Excellence, 'Advancing TCFD Guidance on Physical Climate Risks and Opportunities (2018).
[16] Intergovernmental Panel on Climate Change, 'Climate Change The IPCC Scientific Assessment' (1990) p.xi.
[17] United Nations Framework Convention on Climate Change "The Paris Agreement," December 2015.

national GHG emissions limit or reduction target. While the current commitments made by countries under the NDCs are not yet sufficient to meet the objectives of the Paris Agreement, the design of the Agreement includes a ratcheting mechanism and expectation that countries will increase the ambition of their NDCs over time.[18]

35. Both before and following the Paris Agreement, the majority of the world's countries have now taken steps to put in place their own policies, laws and regulations aimed at reducing GHG emissions. This includes the key regions in which Balfour Beatty operates. For example:

   a. In 2014, the European Union agreed a 2030 Climate and Energy Policy Framework which endorsed a binding emissions reduction target of 40% below 1990 levels by 2030, 60% by 2040 and 80% by 2050;[19]

   b. In the UK, the Climate Change Act 2008 sets a legally binding target for reducing UK GHG emissions to 80% below 1990 levels by 2050 – a level based upon an assessment of the UK's pro rata share of emissions reductions necessary to limit warming to 2ºC.[20]

   c. The United States and China have both pledged GHG emissions reductions. The United States NDC (which it is still formally committed too) involves an economy-wide target of reducing its emissions by 26%-28% below its 2005 level in 2025, while China has targeted a peaking of emissions in 2030 and an increase in non-fossil fuel use in primary energy consumption to 20% by 2030.[21]

36. In addition to policies at the national level, many subnational actors, like states, cities and municipalities are also taking steps to implement policy measures aimed at improving energy efficiency, and reducing GHG emissions and air pollution.[22]

37. To take just one example, current developments in relation to the EU Emissions Trading Scheme (**EU ETS**) provide clear signal of likely implications. The EU ETS currently operates in 31 countries across Europe and effectively limits emissions from more than 11,000 heavy energy-using installations (power stations and industrial plants) and airlines operating between these countries. It covers around 45% of the EU GHG emissions and aims to incentivise a reduction by imposing a price on these emissions through a cap and trade permit system.[23]

38. As a recent report by financial think tank, Carbon Tracker notes, reforms to the EU ETS have already seen the price of carbon allowances triple in the last 18 months, from a low of €4.38 per tonne in May 2017 to €13.82 per tonne in April 2018. The report finds that prices are on course for €25-€30 per tonne by 2020-21 as reforms squeeze out surplus supply. It

[18] E3G, 'The Paris Agreement Ambition Mechanism' (2016).
[19] European Council, '2030 Climate and Energy Policy Framework' (2014).
[20] See UK Committee on Climate Change, 'The Climate Change Act'.
[21] See Climate Action Tracker.
[22] See, eg, C40 Cities Initiative.
[23] See European Commission, 'EU Emissions Trading Scheme'.

also suggests that the EU would need to implement a much tighter squeeze and drive prices still higher in order to align the EU-wide 2030-emissions target — and hence the EU-ETS cap — with the Paris Agreement.[24]

39. From a review of relevant sources, it does not appear that Balfour Beatty is currently required to participate in the EU ETS directly. Nonetheless, where it is a purchaser of energy or products from companies that are, then it will likely have significant exposure to any increases in costs as energy utilities and distributors seek to pass these through to customers. Such costs may affect separate facilities differently and could also have implications for Balfour Beatty's competitiveness if it in turn is unable to pass any increased operational costs onto customers.[25]

40. Alongside these EU wide measures, many jurisdictions may also introduce or increase regulations or costs designed to reduce GHG emissions which may also impose costs on Balfour Beatty directly.[26] As countries introduce further policies to implement their commitments under the Paris Agreement, such regulations and costs will necessarily need to increase.

41. In relation to Balfour Beatty's UK operations for example, Balfour Beatty has been required for a number of years to comply with the Carbon Reduction Commitment Energy Efficiency Scheme (**CRC**), which aims to incentivise energy efficiency and cut emissions in large energy users in the UK's public and private sectors.[27] Under this scheme Balfour Beatty has been required to purchase and surrender allowances for its GHG emissions. According to Balfour Beatty, in 2017, its CRC liability was £359,710.[28] While the CRC will be closing following the 2018 to 2019 compliance year, under current policy settings it appears likely that equivalent liabilities will apply under an amended Climate Change Levy.[29] As the UK increases its ambition to reduce its GHG emissions further, in line with its Paris Agreement commitments, these costs may increase significantly in the medium term.

42. In summary, as a result of the implications of these market trends and policy-related risks, there is, at the very least, a reasonably foreseeable risk that Balfour Beatty will be exposed to material financial risks, including: increased operating costs; increased costs of capital; increased compliance and litigation costs; and adverse effects on revenue, margins, profitability and cash flows.

3.2 Relevant disclosures by Balfour Beatty outside of its Annual Report

43. Outside of its annual report, Balfour Beatty does disclose significant and detailed information about risks facing its business form climate change and the low carbon transition. In this

[24] See Carbon Tracker, 'Carbon Clampdown Closing the Gap to a Paris-compliant EU-ETS' (April 2018).
[25] For a discussion of firms' capacity to pass through costs associated with the EU ETS, see Grantham Research Institute on Climate Change and Environment, 'Assessing the effectiveness of the EU Emissions Trading System' (2013).
[26] See, eg. UK Government, 'Climate change levy'.
[27] See UK Government, 'CRC Energy Efficiency Scheme'.
[28] See CDP, Balfour Beatty climate change report 2017.
[29] See UK Government, 'CRC Energy Efficiency Scheme'.

respect, its most detailed information is provided via an online platform operated by not-for-profit organisation CDP.[30] We note that this disclosure is also referred to on page 36 of Balfour Beatty's Annual Report.

44. In its disclosure to CDP, Balfour Beatty provides information about a wide range of risks facing its business driven by changes in regulation, changes in physical climate parameters, and changes associated with broader climate change-related developments. Among other things Balfour Beatty highlight the implications of possible increases in carbon taxes and fuel/energy taxes and discusses implications of changes in extreme temperature and weather conditions and sea level rise. Many of these risks are described as having direct impacts on operational costs and capital costs over short term time horizons with often high likelihood and medium to high magnitude impacts. A more detailed summary of these disclosures is provided in Annex 2 to this complaint.

45. The detailed nature of the disclosures included by Balfour Beatty on the CDP platform indicates that Balfour Beatty has conducted a relatively robust assessment of climate-change-related trends and risks facing its business. The findings made by Balfour Beatty about the likelihood and magnitude of these risks also provide clear evidence of Balfour Beatty's self-assessment of the materiality of these risks to its business. In this respect, there appears a significant gap and inconsistency between the information provided by Balfour Beatty to CDP and the information provided by Balfour Beatty in its Annual Report.

46. While the purpose and audience of the information included on the CDP platform may be somewhat different to that of the Annual Report, there is clearly significant overlap in the intended subject matter and user groups. Many investors, for example, purchase and use the data on the CDP platform, and publicly state that they consider that this information is material to their investment and stewardship decision-making.[31]

47. The information provided by Balfour Beatty in its CDP disclosure provides clear evidence of the Balfour Beatty's view of the materiality of climate change-related trends and risks facing its business. CDP disclosure is not, however, an effective or appropriate substitute for compliance with the relevant legal requirements applicable to Balfour Beatty's Annual Report, which are the subject of this Complaint.

3.3 Relevant government and regulatory guidance

48. In light of the substantial risks associated with climate change, numerous government and other regulatory bodies both in the UK and internationally have now emphasised the need for companies, particularly those in exposed sectors, to disclose these risks to their shareholders and broader stakeholders, including as part of their existing mandatory disclosure obligations. Examples of this government and regulatory guidance and commentary are set out below.

Financial Reporting Council

49. In recent years the FRC and/or its representatives have provided significant further commentary on the FRC's expectations in relation to the contents of the Strategic Report,

[30] See CDP, Balfour Beatty climate change report 2017.
[31] See CDP, Investor members.

including explicit references to climate change-related risks. Relevant examples include the following:

a. In Stephen Haddrill's (CEO of the FRC) December 2015 letter to Audit Committee Chairmen, he states that: *"**Companies are required to consider materiality in reporting their 'principal' risks as part of their Strategic Report**. We and investors encourage companies to disclose how the risk specifically affects them and the steps they are taking in mitigation. Investors certainly do not seek a long list of all possible risks, however, they have recently expressed surprise that risks relating to data protection in IT systems/ cyber risk **and risks from climate change** are not reported more often as principal risks. "*

b. In the 2015/2016 Annual Reviews of Corporate Reporting, the FRC states that: *"We encourage companies to consider a broad range of factors when determining the principal risks and uncertainties facing the business, for example cyber-crime and **climate change***."[32]

c. In the 2016/2017 Annual Reviews of Corporate Reporting, the FRC states that "*we expect reference to be made to the impact **of climate change** where relevant for an understanding of the company's activities*."[33]

d. In 2017, the FRC published a draft of proposed amendments to the FRC Guidance, which specifically highlights climate change as an example of the type of risk that entities should be considering.[34] This updated guidance has now been released and includes an extended discussion of climate change elated risks, including the following example:

'*Risks arising from climate change could include the risks and opportunities facing the entity's operations from a transition to a low carbon economy, the physical risks to the entity's operations posed by climate change, for instance direct damage to assets or supply chain disruption, and could also include the risks that the entity's operations contribute to climate change risk. These different types of risk may not be relevant for every entity, but directors should consider each category and report on those that constitute principal risks.*'[35]

Financial Stability Board - Task Force on Climate-related Financial Disclosures

50. In recent years, G20 Finance Ministers and Central Bank Governors have become concerned that the financial implications of climate change are not being adequately disclosed by companies to the market. The concern for these actors is that insufficient disclosure hinders the capital markets from making well-informed asset allocation and risk pricing decisions, and could ultimately pose a financial stability problem.[36]

[32] FRC, Annual Reviews of Corporate Reporting 2015/2016, p. 50.
[33] FRC, Annual Reviews of Corporate Reporting 2016/2017, p. 22.
[34] FRC, Draft amendments to Guidance on the Strategic Report, Non-financial reporting dated August 2017, pgs. 26 & 28.
[35] FRC, 'Guidance on the Strategic Report' (July 2018).
[36] See Mark Carney, 'Breaking the tragedy of the horizon - climate change and financial stability', speech at Lloyds of London (29 September 2015).

51. In light of these concerns, in December 2015, Mark Carney, chair of the G20 Financial Stability Board (**FSB**), established the industry-led Task Force on Climate-related Financial Disclosures (**TCFD**). Chaired by Michael Bloomberg and consisting of 32 industry leaders, the TCFD was asked to develop recommendations for consistent climate related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks facing business from climate change.

52. In June 2017, the TCFD released its Final Report, which contains detailed disclosure recommendations and a framework to assist companies to consider the financial implications of climate change-related risks which they might face. Relevantly, in light of concern over heightened exposure, the TCFD has also published specific guidance for companies in the construction and infrastructure sector.[37]While these disclosure recommendations are framed as being voluntary, relevantly, the TCFD emphasised that:

> *'climate-related issues are or could be material for many organizations, and its recommendations should be useful to organizations in complying more effectively with existing disclosure obligations'*

53. In addition to the members of the TCFD itself, the TCFD Recommendations have now received widespread support from across industry. Over 100 of the world's largest companies have signed up to a statement of support for the recommendations[38] Aside from this statement business leaders have expressed widespread support for climate risk disclosures and the TCFD recommendations through other initiatives and organisations, including the following:

- **A4S** – The Prince's Accounting for Sustainability Project obtained a statement of support from 34 CFOs, 13 CEOs of Accounting Bodies and 17 Chairs of Pension Funds to affirm their commitment to support and work towards adoption of the TCFD recommendations.[39]
- **AIGCC, CDP, Ceres, IGCC, IIGCC and PRI** - Over 390 investors representing more than USD $22 trillion in assets signed a letter called upon G20 leaders to support the TCFD recommendations.[40]
- **WBCSD** - The World Business Council for Sustainable Development (**WBCSD**) has convened 25 global CEOs to support the TCFD recommendations and encourage other business leaders to join them in their support efforts. Along with these supporters the WBCSD has published a climate-related financial disclosure guide for CEOs.[41]

54. In light of this widespread support, it is increasingly clear that the TCFD Recommendations represent a clear affirmation of the materiality of climate change-related risks to business and investors generally. In addition they also provide a clear and accepted framework through which companies can consider, manage and disclose their climate change-related risks and opportunities.

[37] TCFD, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017), p59.
[38] Taskforce on Climate-related Financial Disclosures, 'TCFD Supporters'.
[39] See A4S, Supporting the recommendations of the FSB taskforce on climate-related financial disclosures.
[40] See IIGCC, Nearly 400 global investors with over $22 trillion in assets urge G20 to stand by Paris Agreement.
[41] WBCSD, 'CEO Guide to Climate-related Financial Disclosures' (2017).

UK Government: Department for Business Energy and Industrial Strategy

55. The UK Government has now also expressed its expectations in relation to climate change-related risks and associated disclosures. In September 2017, the UK government officially endorsed recommendations published by the TCFD and stated that:

> *The government has also officially endorsed recommendations published by the Financial Stability Board's Task Force on Climate-related Financial Disclosures and encourages all listed companies to implement this new, voluntary framework to align climate-related risk management and financial governance. These recommendations represent a key milestone in the global low carbon transition, and have been backed by over 100 businesses worldwide with a market capitalisation of more than $3 trillion.'*[42]

Financial Conduct Authority

56. The FCA has recently discussed climate change risks as part of its response to a Law Commission report on pension funds and social investment.[43] In its response, it confirmed that "*the FCA consider that financially material ESG risks, including climate change risks, should be incorporated into investment decision making*".[44]

57. The FCA also recently responded to the Environmental Audit Committee's Green Finance report. They listed a number of proactive steps which they are taking with regard to climate change-related disclosures. As part of this, the FCA stated it will "*highlight to issuers the need to make adequate disclosures regarding materially important information, including information that allows investors to understand how ESG matters affect the valuation of a listed company's securities and how these matters are managed by the company.*"[45]

3.4 Relevant peer comparisons

58. For a number years, many UK listed companies, in the UK and elsewhere, have been disclosing information in their annual reports and accounts about climate change-related trends, factors, risks and uncertainties. Many of these companies also publish significant further information outside of their mainstream financial filings, for example in sustainability reports or through disclosures to third party information providers, such as CDP[46] or the Climate Disclosures Standards Board (**CDSB**).[47]

59. By way of example, brief extracts from disclosures included within the 2017 annual reports of a number of companies in related infrastructure and construction sectors, include the following:

- **Royal BAM Group NV –** '*The construction industry relies heavily on natural resources, which will be depleted as soon as the consumption goes faster than the natural supplement. Global warming and climate change cause more frequent extreme weather*

[42] https://www.gov.uk/government/news/uk-government-launches-plan-to-accelerate-growth-of-green-finance
[43] Law Commission (2017). "Pension Funds and Social Investment" Law Comm No. 374 printed 22 June 2017.
44 Department for Work & Pensions (2018). "Pension funds and social investment: the Government's final response" June 2018.
45 Letter from David Geale, Director of Policy at the FCA, to Mary Creagh MP, Chair of the Environmental Audit Committee, dated 6 July 2018.
[46] https://www.cdp.net/en
[47] https://www.cdsb.net/

conditions, such as storms, heat waves, droughts, heavy rainfall with flooding and heavy snowfall.'

- **Berekely Goup plc** – *'The effects of climate change could directly impact Berkeley's ability to deliver its product through disruptions to programme and supplies of materials. Our customers and communities could be adversely affected through overheating, water shortages or flooding. There is also an increased level of interest in disclosures on climate change management. Failure to report in line with regulations or key recommendations could expose Berkeley to penalties and reputational damage.'*
- **National Grid plc** – '*The most significant climate-related exposure we face in the short term is in relation to winter storms in the US… In the long term, the risk of flooding is of primary concern and we have learned a great deal over the last 10 years as flooding events have become more frequent and intense. In addition…we are increasingly subject to regulation in relation to climate change and there are requirements for us to reduce our own carbon emissions, as well as enabling reduction in energy use by our customers.'*
- **Centrica plc** - *'Health, Safety, Environment and Security (HSES) - Risk of failure to protect the health, safety and security of customers, employees and third parties or to take appropriate measures to protect our environment and in response to climate change… We actively engage with climate change bodies and NGOs to offer our perspective, understand the direction of potential future actions, and assess our readiness to manage through change.'*
- **Taylor Wimpey plc** – '*Climate change has the potential to impact our business strategy in a number of ways. For example, physical changes such as rising temperatures and an increase in flood risk could affect our customers and influence where and how we build our homes. We use our Sustainability and Climate Change Risk and Opportunity Register to guide the climate change adaptation of our business practices and the homes we build.'*

60. Annex 1 to this complaint includes a more substantial summary of disclosures included in the annual reports and accounts of other companies in the infrastructure and construction sectors, which are subject to the same or equivalent disclosure requirements as Balfour Beatty. As is evident from these examples, Balfour Beatty is a clear outlier among its peers in these sectors for providing no substantive discussion of climate change or the low carbon transition in the risks and trends sections of its Annual Report.

3.5 Evidence of investor expectations

61. In light of the significant risks that climate change and the energy transition are creating for companies, there are now clear signals from a wide variety of investors that they consider the risks associated with climate change to be financially material to their investment and stewardship decision making.

62. Over the past few years there have been numerous shareholder resolutions passed at companies across a range of sectors demanding disclosures about climate change related risks.[48]

[48] Ceres, Four Mutual Fund Giants Begin to Address Climate Change Risks in Proxy Votes: How About Your Funds?

63. Investors are also increasingly making clear statements about the extent to which they consider that information about climate change-related risks is material for their investment decision making.[49] By way of example, in its statement of engagement priorities for 2017-2018, BlackRock, the world's largest fund manager, states that:

> *'For directors of companies in sectors that are significantly exposed to climate risk, BlackRock expects the whole board to have demonstrable fluency in how climate risk affects the business and management's approach to adapting the long-term strategy and mitigating the risk.'*[50]

64. Similarly, in 2017, Bill McNabb, CEO of Vanguard, the world's largest mutual fund provider, published an open letter to directors of public companies in which he stated that:

> *'"Climate risk is an example of a slowly developing and highly uncertain risk—the kind that tests the strength of a board's oversight and risk governance. Our evolving position on climate risk (much like our stance on gender diversity) is based on the economic bottom line for Vanguard investors. As significant long-term owners of many companies in industries vulnerable to climate risk, Vanguard investors have substantial value at stake.'*[51]

65. Legal and General Investment Management (**LGIM**), the UK's largest asset manager has also made clear its expectations about how companies in which it invests should manage and disclose climate change-related trends and risks. In 2016, LGIM published its 'climate impact pledge', making clear to its investee companies that 'ignoring climate change is a financial risk'.[52]

66. Subsequently, LGIM has engaged with many of the largest companies in its portfolio and publicly declared that it would vote against company boards which fail to manage and report climate change-related risks to their business transparently.[53] At the 2017/18 AGM season LGIM voted to remove the board chairs at eight of the worst performing companies worldwide, which it identified had failed to adequately confront the threats posed by climate change.[54] LGIM has also indicated that for companies that fail to address its concerns after a period of engagement, it will reduce its holdings or divest the company from certain funds.[55]

67. Specifically in relation to physical climate change related trends and risks, many investors, including Schroders[56] and Deutsche Asset Management,[57] are already mapping company assets and calculating vulnerability profiles to physical climate change risks and impacts – and are demanding better company disclosures accordingly.

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[49] IIGCC et al. Letter form global investors to governments of the G20 nations (3 July 2017).
[50] BlackRock, Statement of engagement priorities for 2017-2018.
[51] Bill McNabb, 'An open letter to directors of public companies worldwide' 31 August 2017.
[52] LGIM, 'Time to act on climate change: engagement with consequences' (2016).
[53] LGIM, 'Climate impact pledge: the results so far' (2018).
[54] See, Reuters, 'Investor LGIM seeks removal of eight company chairs over climate change inaction' (11 June 2018).
[55] LGIM, 'Climate impact pledge: the results so far' (2018).
[56] Schroders, 'Climate change: the forgotten physical risks' (July 2018).
[57] Deutsche Asset Management, 'Measuring physical climate risk in equity portfolios' (November 2017).

68. In relation to the requirements of the viability statement, in January 2016, a group of investors with assets under management (**AUM**) of around £1.8 trillion, wrote a public letter to the FRC setting out their expectations that fossil fuel dependent companies should address climate-related risks in their viability statements.[58] This letter provides strong evidence that investors also consider that climate change-related risks have significant implications for many companies long-term viability.

69. As is clear from these statements and interventions, some of the world's largest investors have made clear that they consider information about climate change-related risks for companies in exposed sectors to be highly financially material and have made this a key engagement issue. Investors clearly believe this information is relevant to their economic, stewardship and investment decision-making.

4 The law

70. The law relevant to this complaint includes requirements under the Companies Act 2006 (**Companies Act**); the Disclosure Guidance and Transparency Rules (**DTRs**) and Listing Rules (**LRs**) contained in the Financial Conduct Authority (**FCA**) Handbook (**FCA Handbook**); and the UK Corporate Governance Code (together, **Relevant Laws**).

71. This Complaint submits that by failing to refer to climate change or the low carbon transition in relevant sections of its Annual Report, Balfour Beatty has breached a number of requirements under the Relevant Laws. In particular, it is ClientEarth's submission that Balfour Beatty has:

    a. failed to provide a description of a principal risk and/or uncertainty facing the company, as required by section 414C(2)(b) of the Companies Act (**Breach 1**);

    b. failed to include a main trend and/or factor likely to affect the future development, performance and position of the company's business, as required by section 414C(7)(a) of the Companies Act (**Breach 2**);

    c. failed to provide a description of a principal risk and/or uncertainty facing the issuer, as required by DTR 4.1.8R (**Breach 3**).

    d. failed to provide a proper account of the long term viability and prospects of the company, as required by paragraph C.2.2 of the Corporate Governance Code and LR 9.8.6 (**Breach 4**); and

    e. failed to take reasonable care to ensure that any information it notifies to a regulatory information service (**RIS**) is not misleading, false or deceptive and does not omit anything likely to affect the import of the information, as required by DTR 1A.3.2R (**Breach 5**).

72. Further particulars in relation to each of these alleged breaches of the law are set out below.

[58] See Sarasin & Partners et al., 'Investors expect fossil fuel companies' viability statements to address climate risk' (29 January 2016).

4.1 Breach 1 - Companies Act, s 414C(2)(b)

73. Under section 414A(1) of the Companies Act, the directors of Balfour Beatty are required to prepare a strategic report for each financial year of the company (**Strategic Report**). Section 414C of the Companies Act sets out the requirements for the contents of the Strategic Report.[59]

74. Under section 414C(2)(b) of the Companies Act, Balfour Beatty's Strategic Report must contain, among other things, *'a description of the principal risks and uncertainties facing the company'.*

75. The Companies Act itself does not provide a definition of the term 'principal risks and uncertainties'. ClientEarth has not identified any relevant case law that considers the term. On that basis it is appropriate to look to secondary sources (such as regulatory guidance) for guidance on this term.

76. Relevantly, in 2014, the FRC published its Guidance on the Strategic Report (**FRC Guidance**). This guidance is described by the FRC as being persuasive although not mandatory. As such, the following paragraphs of the FRC Guidance provide an authoritative indication as to what constitutes a principal risk or uncertainty. Relevant paragraphs include the following:

   a. Paragraph 5.1 states *that "Information is material if its omission or misrepresentation could influence the economic decisions shareholders take on the basis of the annual report as a whole."*

   b. Paragraph 5.3 states that *"Materiality is an entity-specific aspect of relevance based on the nature or magnitude (or both) of the actual or potential effect of the matter to which the information relates in the context of an entity's annual report. It requires directors to apply judgement based on their assessment of the relative importance of the matter to the entity's development, performance, position or future prospects."*

   c. Paragraph 5.4 states that: *"Materiality in the context of the strategic report will depend on the nature of the matter and magnitude of its effect, judged in the particular circumstances of the case."*

   d. Paragraph 5.7 states that *"the terms 'key' … and 'principal' … refer to facts or circumstances that are (or should be) considered material to a shareholder's understanding of the development, performance, position or future prospects of the business."*

   e. Paragraph 7.24 provides that *"The risks and uncertainties included in the strategic report should be limited to those considered by the entity's management to be material to the development, performance, position or future prospects of the entity."*

[59] Further requirements for the contents of the Strategic Report are also set out under other sections of the Companies Act, including s 414CB.

f. *Paragraph 7.25 provides that "Directors should consider the full range of business risks, including both those that are financial in nature and those that are non-financial. Principal risks should be disclosed and described irrespective of how they are classified or whether they result from strategic decisions, operations, organisation or behaviour, or from external factors over which the board may have little or no direct control. "*

77. While Balfour Beatty's directors will retain a certain amount of discretion in how they apply this guidance to the requirements of section 414C(2)(b), it is ClientEarth's view that this discretion is not absolute. Section 414C(2)(b) of the Companies Act does not sit in a vacuum and must be interpreted in light of the purpose of the strategic report,[60] the directors' general duties under the Companies Act[61] and the requirements of the UK Corporate Governance Code.[62] In particular, in complying with section 414C(2)(b), Balfour Beatty's directors must *'exercise reasonable care, skill and diligence'* and perform their duties at least to the standard which a reasonable director in the same position would do so.[63]

78. In light of the FRC Guidance and the relevant further legal context, it is ClientEarth's submission that:

a. in order to satisfy s 414C(2)(b) of the Companies Act, the Strategic Report must include a description of all the 'principal risks and uncertainties facing the company';

b. for the purpose of s 414C(2)(b) of the Companies Act, 'principal risks and uncertainties facing the company' includes facts or circumstances that are (or should be) considered material to a shareholder's understanding of the development, performance, position or future prospects of the business;

c. for the purpose of s 414C(2)(b) of the Companies Act, 'material' facts or circumstances are facts or circumstances which a reasonable director in the position of Balfour Beatty's directors would identify and consider could influence the economic decisions shareholders take on the basis of the annual report as a whole.

79. Evidence was provided in section (3) above to show that the risks and uncertainties related to climate change and the low carbon transition are material to Balfour Beatty and that a reasonable director in the position of Balfour Beatty's directors would have considered this to be the case.

80. Accordingly, in light of Balfour Beatty's failure to disclose any information in relation to climate change or the low carbon transition in the risks and uncertainties section of its Annual Report it is ClientEarth's submission that Balfour Beatty has beached s 414C(2)(b) of the Companies Act (**Breach 1**).

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[60] See Companies Act, ss 414C(1), 172.
[61] See, in particular, Companies Act, ss 174(1)-(2).
[62] See, in particular, UK Corporate Governance Code, [C.2], [C.1.1], [C.2.1].
[63] Companies Act, ss 174(1)-(2).

4.2 Breach 2 - Companies Act, s 414C(7)(a)

81. As already identified at paragraph 73 of this Complaint, under section 414A(1) of the Companies Act, the directors of Balfour Beatty are required to prepare a Strategic Report. Section 414C of the Companies Act sets out the requirements for the contents of the Strategic Report.[64]

82. Under section 414C(7) of the Companies Act, "*In the case of a quoted company the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include (a) the main trends and factors likely to affect the future development, performance and position of the company's business, …*"

83. As a company with a premium listing on the main market of the London Stock Exchange, Balfour Beatty is a 'quoted company' for the purposes of section 414C(7) of the Companies Act.

84. The Companies Act itself does not provide a definition of the phrase 'the main trends and factors likely to affect the future development, performance and position of the company's business'. Again, ClientEarth has not identified any relevant case law that considers this phrase and on that basis it is appropriate to look to secondary sources for guidance, and, in particular, the FRC Guidance. In addition to the paragraphs extracted at paragraph 76 of this Complaint, further relevant paragraphs include the following:

    a. Paragraph 5.6 states that: "*Although the [Companies] Act does not use the term 'material', the concept is implicit in many of its requirements. For example, the disclosure of trends and factors (described in paragraph 7.17) is only required to be included in the strategic report '...to the extent necessary for an understanding of the development, performance or position of the company's business'. Where information is required 'to the extent necessary for an understanding', it should be included in the strategic report when it is material to shareholders.*"

    b. Paragraph 6.12 states that: *"Where relevant to an understanding of the development, performance, position or future prospects of the entity, the strategic report should give due regard to the short-, medium- and long-term implications of the fact or circumstance being described."*

    c. Paragraph 7.18 states that: *"Trends and factors affecting the business may arise either as a result of the external environment in which the entity operates or from internal sources. They may have affected the development, performance or position of the entity in the year under review, or may give rise to opportunities or risks that may affect the entity's future prospects."*

    d. Paragraph 7.19 states that *"The strategic report … should … cover … significant features of its external environment (e.g. the legal regulatory, macro-economic and social environment) and how those influence the business."*

[64] Further requirements for the contents of the Strategic Report are also set out under other sections of the Companies Act, including s 414CB.

85. Again, while Balfour Beatty’s directors will retain a certain amount of discretion in how they apply this guidance to the requirements of section 414C(7), Balfour Beatty’s directors must *'exercise reasonable care, skill and diligence'* and perform their duties at least to the standard which a reasonable director in the same position would do so. [65]

86. In light of the FRC Guidance and the relevant further legal context, it is ClientEarth’s submission that:

   a. in order to satisfy s 414C(7) of the Companies Act, the Strategic Report must to the extent necessary for an understanding of the development, performance or position of the company's business, include all the main trends and factors likely to affect the future development, performance and position of the company's business;

   b. for the purpose of s 414C(7) of the Companies Act, the phrase 'main trends and factors likely to affect the future development, performance and position of the company's business' includes facts or circumstances that are (or should be) considered material to a shareholder's understanding of the development, performance, position or future prospects of the business;

   c. for the purpose of s 414C(7) of the Companies Act, 'material' trends and factors includes all trends and factors which a reasonable director in the position of Balfour Beatty’s directors would identify and consider could influence the economic decisions shareholders take on the basis of the annual report as a whole; and

   d. for the purpose of s 414C(7) of the Companies Act, these 'material' trends and factors should specifically address long term implications and legal, regulatory and macro-economic trends.

87. Evidence was provided in section (3) above to show that the trends and factors related to climate change and the low carbon transition are material to Balfour Beatty and that a reasonable director in the position of Balfour Beatty's directors would have considered this to be the case.

88. Accordingly, in light of Balfour Beatty's failure to disclose any information in relation to climate change or the low carbon transition in the section of its Annual Report discussing trends and factors facing its business, it is ClientEarth's submission that Balfour Beatty is in breach of s 414C(7) (**Breach 2**).

4.3 Breach 3 - DTR 4.1.8R

89. In addition to the requirements under the Companies Act, as a company incorporated in the UK with a premium listing on the London Stock Exchange, Balfour Beatty is an 'issuer' for

[65] Companies Act, ss 174(1)-(2).

the purposes of the FCA Handbook[66] and is therefore required to comply with section 4 of the DTRs contained in the FCA Handbook.[67]

90. Under DTR 4.1.3 R, Balfour Beatty must make public its annual financial report at the latest four months after the end of each financial year. Under DTR 4.1.5 R, among other things, the annual financial report must include a management report (**Management Report**). It is ClientEarth's understanding that Balfour Beatty's Strategic Report in its Annual Report constitutes its Management Report for the purposes of DTR 4.1.5 R.

91. Under DTR 4.1.8 R, Balfour Beatty's Management Report must contain, among other things, *'a description of the principal risks and uncertainties facing the issuer.*"

92. As for the equivalent requirements under the Companies Act, the DTRs do not provide a definition of the term “principal risks and uncertainties”. However, these requirements appear to be synonymous with section 414C(2)(b) of the Companies Act. In these circumstances it is appropriate to apply the same analysis based on the FRC Guidance.

93. Again, while BalfourBeatty’s directors will retain a certain amount of discretion in how they apply this guidance to the requirements of DTR 4.1.8 R, Balfour Beatty’s directors must *'exercise reasonable care, skill and diligence'* and perform their duties at least to the standard which a reasonable director in the same position would do so.

94. Accordingly, based on the relevant paragraphs of the FRC Guidance extracted at paragraph 76 above and relevant further legal context, it is ClientEarth's submission that:

    a. in order to satisfy DTR 4.1.8 R, the Management Report must include a description of all the principal risks and uncertainties facing the company;

    b. for the purpose of DTR 4.1.8 R, 'principal risks and uncertainties facing the company' includes facts or circumstances that are (or should be) considered material to a shareholder's understanding of the development, performance, position or future prospects of the business;

    c. for the purpose of DTR 4.1.8 R of the Companies Act, 'material' facts or circumstances are facts or circumstances which a reasonable director in the position of Balfour Beatty’s directors would identify and consider could influence the economic decisions shareholders take on the basis of the annual report as a whole.

95. Evidence was provided in section (3) above to show that the risks and uncertainties related to climate change and the low carbon transition are material to Balfour Beatty and that a reasonable director in the position of Balfour Beatty's directors would have considered this to be the case.

[66] See DTR 4.1.1.
[67] See DTR 4.1.1.

96. Accordingly, in light of Balfour Beatty's failure to disclose any information in relation to climate change or the low carbon transition in the risks and uncertainties section of its Annual Report it is ClientEarth's submission that Balfour Beatty is in breach of s DTR 4.1.8 R (**Breach 3**).

4.4 Breach 4 – LR 9.8.6 R

97. The listing rules are a set of regulations that apply to listed companies in the United Kingdom. Under LR 9.8.1 R, all companies with a premium listing on the London Stock Exchange must comply with the continuing obligations contained in section 9 of the Listing Rules. Balfour Beatty has a premium listing on the London Stock Exchange.

98. Under LR 9.8.6 R (3)(b), a listed company incorporated in the United Kingdom must, among other things, include in its annual financial report a statement by the directors on:

> *'their assessment of the prospects of the company (containing the information set out in provision C.2.2 of the UK Corporate Governance Code); prepared in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council in September 2014'*;[68]

99. Relevantly, Code Provision C.2.2 of the UK Corporate Governance Code states that:

> *"Taking account of the company's current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary."*

100. The statement required under LR 9.8.1 R and Code Provision C.2.2 is commonly referred to as the 'viability statement'.

101. Appendix B to the FRC's *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'* FRC (**Guidance on Risk Management**), provides further details about the required contents of the statement. Relevant paragraphs include the following:

   a. Paragraph 3 provides that: *"The length of the period should be determined, taking account of a number of factors, including without limitation: the board's stewardship responsibilities; previous statements they have made, especially in raising capital; the nature of the business and its stage of development; and its investment and planning periods."*

   b. Paragraph 4 provides *that: "The statement should be based on a robust assessment of those risks that would threaten the business model, future performance, solvency*

[68] LR 9.8.6 R (3)(b).

or liquidity of the company, including its resilience to the threats to its viability posed by those risks in severe but plausible scenarios."

c. Paragraph 5 provides that: *"The directors should consider the individual circumstances of the company in tailoring appropriate analysis best suited to its position and performance, business model, strategy and principal risks. These should be undertaken with an appropriate level of prudence, i.e. weighting downside risks more heavily than upside opportunities."*

102. In light of these requirements, it is ClientEarth's submission that in order to satisfy the requirements of LR 9.8.1 R and paragraph C.2.2 of the UK Corporate Governance Code, Balfour Beatty's viability statement must:

a. address a time frame that is aligned with Balfour Beatty's investment and planning periods;

b. be based on a robust assessment of risks, including risks in severe but plausible scenarios;

c. reflect an analysis which uses an appropriate level of prudence (i.e. weighing downside risks more heavily than upside opportunities).

103. Evidence was provided in section (3), above, to show that the risks and trends related to climate change and the low carbon transition are material risks and trends that that could threaten the business model, future performance, solvency or liquidity of the company, over a time frame aligned with Balfour Beatty's investment and planning periods, and that a prudent director in the position of Balfour Beatty's directors would have considered this to be the case.

104. Accordingly, in light of Balfour Beatty's failure to disclose any information in relation to climate change or the low carbon transition in the viability statement section of its Annual Report, it is ClientEarth's submission that Balfour Beatty is in breach of LR 9.8.1 R (**Breach 4**).

4.5 Breach 5 - DTR 1A.3.2R

105. As a company with a premium listing on the London Stock Exchange, Balfour Beatty is required to comply with section 1A of the DTRs contained in the FCA Handbook.[69]

106. DTR 1A.3.2 R requires that "*an issuer must take all reasonable care to ensure that any information it notifies to a RIS is not misleading, false or deceptive and does not omit anything likely to affect the import of the information."* The FCA Handbook defines a 'RIS' as a *'primary information provider',*[70] which in turn is defined as '*a person approved by the*

[69] DTR 1.1.1.
[70] Or 'An incoming information society service, established in an EEA state other than the UK that disseminates regulated information in accordance with the minimum standards set out in Article 12 of the TD implementing Directive.'

FCA under section 89P of the [FSMA].' The FCA has approved a number of information service providers for this purpose.

107. Under DTR 6.3.3, Balfour Beatty must entrust a RIS with the disclosure of 'regulated information' to the public. Balfour Beatty's Annual Report is 'regulated information' for the purpose of this requirement.[71]

108. In light of these requirements, it is ClientEarth's submission that in order to satisfy DTR 1A.3.2 R, Balfour Beatty's directors are required to take all reasonable care to ensure that information included in Balfour Beatty's Annual Report is prepared in accordance with the requirements of the Companies Act and the FCA Handbook and does not omit anything likely to affect the import of the information.

109. Sections (4.1), (4.2), (4.3) and (4.4) of this Complaint, provide ClientEarth's submissions as to why Balfour Beatty's failures to disclose any information in relation to climate change or the carbon transition in relevant sections of its Annual Report are breaches of relevant requirements of the Companies Act and FCA Handbook.

110. Accordingly, in light of the breaches set out in sections (4.1), (4.2), (4.3) and (4.4) of this Complaint, it is ClientEarth's submission that Balfour Beatty is in breach of DTR 1A.3.2 R.

5 Requests of the FRC Conduct Committee

111. The Annual Report is a key resource which enables investors to assess the position and performance of a particular business. Balfour Beatty's failure to adequately disclose the risks and trends associated with climate change and the low carbon transition may therefore hamper existing and prospective investors' ability to make informed assessments of these matters.

112. The FRC's stated mission is to promote transparency and integrity in business.[72] The FRC and its Conduct Committee have been provided with specific statutory powers to monitor and take action to promote the quality of corporate reporting.[73] These powers include the following:

    a. The Conduct Committee has been authorised by the Supervision of Accounts and Reports (Prescribed Body) and Companies (Defective Accounts and Directors' Reports) (Authorised Person) Order 2012/1439, for the purposes of section 456 of the Companies Act, to make an application to court for a declaration that the strategic report of a company does not comply with the requirements of the Companies Act and for an order requiring the directors of the company to prepare a revised report.

    b. Under section 14 of the Companies (Audit, Investigations etc) Act 2004, the Conduct Committee is also responsible for keeping under review periodic accounts and reports that are produced by issuers of transferable securities and are required to

[71] See DTR 6.3.
[72] See FRC website.
[73] See, FRC, 'FRC Roles and Responsibilities Schedule of Functions and Powers' (June 2017).

comply with any accounting requirements imposed by Part 6 rules,[74] and if the Conduct committee thinks fit, informing the Financial Conduct Authority of any conclusions reached by the body in relation to any such accounts or report.

113. Accordingly, in relation to the breaches of the Companies Act set out in sections (4.1) and (4.2), above, ClientEarth requests that the Conduct Committee appoint a review group to consider these matters and to apply to Court for (i) a declaration that the Annual Report does not comply with the relevant requirements of the Companies Act; and (ii) an order requiring the directors of the company to prepare a revised report.[75]

114. In the alternative, we request that the FRC enter into an agreement with Balfour Beatty that Balfour Beatty will revise its Annual Report to ensure compliance with the requirements of the Companies Act and take necessary steps to correct the public record.[76]

115. In relation to the breaches of the DTRs and LRs set out in sections (4.3), (4.4) and (4.5), above, ClientEarth requests that the Conduct Committee appoint a review group to consider these matters and/or to refer them to the FCA.[77]

116. In ClientEarth's view, clear and decisive action from the FRC on these matters is vital to ensure that investors have adequate information on Balfour Beatty’s exposure to financially material climate change-related risks and that confidence in the quality of the UK's corporate reporting framework is properly maintained.

117. Please do not hesitate to contact us if we can be of any further assistance in relation to this complaint.

6 Reservation of rights

118. As the body with primary responsibility for overseeing and enforcing the quality of information provided in annual reports and accounts, it appears to ClientEarth that the FRC Conduct Committee is the most appropriate body to consider and take action, in the first instance, with respect to this Complaint.

119. Without limitation, should the Conduct Committee consider that it is not competent to address the matters raised in this Complaint, ClientEarth reserves its rights.

[74] Relevantly, Part 6 rules include the Disclosure Guidance and Transparency Rules (DTRs) and Listing Rules (LRs) contained in the FCA Handbook. Section 14(12) of the Companies (Audit, Investigations etc) Act 2004 states that 'Part 6 rules” has the meaning given by section 103(1) of the Financial Services and Markets Act 2000'; section 103(1) of the Financial Services and Markets Act 2000 states that '“Part 6 rules” has the meaning given in section 73A; section 103(1) of the Financial Services and Markets Act 2000 states that, 'the FCA, may make rules ('Pat 6 rules' for the purpose of this Part'; the relevant rules made by the FCA include the DTRs and LRs contained in the FCA Handbook.
[75] See FRC, 'The Conduct Committee: Operating procedures for reviewing corporate reporting' (1 April 2017) [38].
[76] See FRC, 'The Conduct Committee: Operating procedures for reviewing corporate reporting' (1 April 2017), [41]-[42].
[77] See FRC, 'The Conduct Committee: Operating procedures for reviewing corporate reporting' (1 April 2017), [23], [36], [39].

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ClientEarth is a non-profit environmental law organisation based in London, Brussels and Warsaw. We are activist lawyers working at the interface of law, science and policy. Using the power of the law, we develop legal strategies and tools to address major environmental issues.

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Annex 1 - Examples of peer disclosure on climate change

Centrica plc Annual Report and Accounts 2017
Centrica includes a discussion of climate change related trends and risks, including the following information in its 'principal risks' section: *'Health, Safety, Environment and Security (HSES) - Risk of failure to protect the health, safety and security of customers, employees and third parties or to take appropriate measures to protect our environment and in response to climate change… We actively engage with climate change bodies and NGOs to offer our perspective, understand the direction of potential future actions, and assess our readiness to manage through change.'* *'External Market Environment - Risk that events in the external market or environment could affect the delivery of our strategy…. We operate in highly competitive and changing markets, where customer behaviour, needs and demands are evolving due to digitisation, energy efficiency, climate change, government initiatives, and the general economic outlook. In addition, we are subject to global market volatility in our upstream businesses in commodity markets.'* (p 56)
National Grid plc Annual Report and Accounts 2017
National Grid includes an extensive discussion of climate change-related trends and risks in its discussion of its business environment and cross references a discussion climate –change-related risks in its principal risk section. ***Our Business Environment*** ***Environmental sustainability*** ***Commentary -*** *Our world is changing as a result of human activity and its impact on the environment. The Paris Agreement sends a clear signal that the shift to a low-carbon economy is inevitable, and it is now accepted that sustainable business is good business – creating value for people, the environment and businesses. This includes reducing greenhouse gas emissions, managing non-renewable resources, and preserving and protecting habitats and ecosystems.* ***2017/2918 developments*** *UK - During 2017, the UK saw a number of records broken for renewable energy – including the first day when wind, nuclear and solar generated more power than gas and coal. The UK Government published 'A Green Future: Our 25-year Plan to Improve the Environment', setting out the UK's long-term approach to protecting and enhancing the natural environment. In July 2017, the Government announced a ban on the sale of new petrol and diesel cars from 2040.* *US - In June 2017, President Trump announced that the country would cease all participation in the 2015 Paris Agreement on climate change mitigation, triggering a three-year exit process. However, state renewable energy support eclipses many federal policies. State regulators continue to support energy innovation projects through programmes such as New York State's 'Reforming the Energy Vision'.* ***Our response*** *• Reducing greenhouse gas emissions forms part of the Company's KPIs (see page 16). • Our environmental strategy, 'Our Contribution', focuses on the areas where we can make the greatest contribution. You can read more about our approach and work on page 35. • National Grid Ventures has been created to focus, in part, on investments in renewables, including utility-scale solar, wind and battery storage. • We continue to work with BEIS and Ofgem on the development of future energy systems as we respond to the shift to low-carbon energy in the UK. • We are working with customers and stakeholders in the UK to gather insights on the future role of gas in managing the*

transition to a low-carbon future. • Although the US pulled out of the Paris Agreement, we continue to support it and align ourselves with state and local leaders who share our climate and environmental goals.' (p 5). ***'Risk management*** *Our approach to identifying and managing the risks in our business is set out on page 18, with our principal risks set out on page 19. The most significant climate-related exposure we face in the short term is in relation to winter storms in the US, see page 31 for more information on our storm response. In the long term, the risk of flooding is of primary concern and we have learned a great deal over the last 10 years as flooding events have become more frequent and intense. In addition, and as described further on pages 193-196 in our disclosures around risk factors, we are increasingly subject to regulation in relation to climate change and there are requirements for us to reduce our own carbon emissions, as well as enabling reduction in energy use by our customers.'* (p 192)
Barrat Construction plc Annual Report and Accounts 2017
Barrat Construction includes a brief discussion of its climate related risks in its principal risks section and cross references to a broader discussion of climate change-related risks in an online climate change policy (see page 41). ***'Principal risks*** *Construction and new technologies -failure to identify and achieve key construction milestones, due to factors including the impact of adverse weather conditions, identify cost overruns promptly, design and construction defects, and exposure to environmental liabilities, which could delay construction, increase costs, reduce selling prices and result in litigation and uninsured losses. There are also risks associated with climate change and the use of new technology in the build process e.g. materials related to carbon reduction.' (p 43)*
Berkeley Group plc Annual Report and Accounts 2017
Berkeley Group includes a detailed discussion of climate change related-risk in its principal risks section: '*RISK DESCRIPTION AND IMPACT* *The effects of climate change could directly impact Berkeley's ability to deliver its product through disruptions to programme and supplies of materials. Our customers and communities could be adversely affected through overheating, water shortages or flooding. There is also an increased level of interest in disclosures on climate change management. Failure to report in line with regulations or key recommendations could expose Berkeley to penalties and reputational damage.* *APPROACH TO MITIGATING RISK* *The Group Sustainability Team identifies strategic climate change risks and opportunities facing the business through the regular review of issues and trends, along with active collaboration with external experts. These are shared with the Chief Executive and Board Director Responsible for Sustainability.* *Climate change action is a key focus for Berkeley with this featuring prominently under Our Vision, with commitments to both mitigate and adapt to climate change. By taking action under our carbon emissions reduction target our sites, offices and sales suites are identifying and investing in energy efficiency measures. We are also increasingly using energy from low carbon or renewable sources. Climate change adaptation measures are considered for all new developments submitted for planning to build resilience into our homes and developments. Mitigation measures are also*

incorporated. We welcome the recommendations from the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and are taking action to implement these over time through the evolvement of our processes and reporting.

COMMENTARY
We monitor the actions taken to reduce carbon emissions across our activities and report the greenhouse gas emissions for which we are responsible. In 2018, we were the first major housebuilder to become carbon positive, offsetting more emissions than we produce. We also regularly review the features incorporated into our homes and places to both mitigate and adapt to climate change. This year we have committed to produce transition plans which enable homes to operate at net zero carbon by 2030. This year, Berkeley is reporting qualitatively on the governance, strategy and risk management components of the TCFD recommendations on our website.' (p 68)

Taylor Wimpey plc Annual Report and Accounts 2017

Taylor Wimpey includes a brief discussion of climate change related risks and cross references to its sustainability policy which provides more information in its Principal Risks section.

'Q&A: How do you manage risks relating to climate change?
Climate change has the potential to impact our business strategy in a number of ways. For example, physical changes such as rising temperatures and an increase in flood risk could affect our customers and influence where and how we build our homes. We use our Sustainability and Climate Change Risk and Opportunity Register to guide the climate change adaptation of our business practices and the homes we build. See our Sustainability Report 2017 for more information.' (p 29)

'Principal Risks and Uncertainties
… We maintain a Sustainability and Climate Change Risk and Opportunity Register to monitor other sustainability issues that could affect the Group. In addition, our climate change related risks and opportunities are available as part of our 2017 CDP submission.' (p 38).

Royal BAM Group NV Annual Report and Accounts 2017

Royal BAM Group includes a significant discussion of climate risk both in its 'main risk areas' section and 'outlook' section'.

'Main Risk Areas
Sustainability Risk
Risk description: The construction industry relies heavily on natural resources, which will be depleted as soon as the consumption goes faster than the natural supplement. Global warming and climate change cause more frequent extreme weather conditions, such as storms, heat waves, droughts, heavy rainfall with flooding and heavy snowfall.
Possible impact: Failure to deliver more sustainably and innovatively could disrupt BAM's position vis-à-vis customers and chain partners. Extreme weather events and material shortages can lead to disruption of the building process.
Management: measures BAM has a strong corporate team to support continuous improvement and makes considerable efforts to reduce the impact on the environment with the ambition to achieve a net positive result. To reduce the impact of BAM on resource use, the company works with partners in the supply chain and customers to explore circular economic business models.' (p 53)

'Outlook

Sustainability *BAM expects the 2015 Paris Agreement on climate change will have an effect on national and European regulations to reduce energy demand resulting in demand for more energy efficient and energy positive solutions. Linear consumption patterns ('take-make-dispose') of products are coming up against constraints on the availability of resources. The construction sector needs to develop new opportunities and realise circular economy ambitions faster, which requires rethinking, redesign and innovative construction methods. BAM will continue its efforts to implement its sustainability strategy to have a net positive impact in the long term.'* (p 108)
VINCI SA Annual Report and Accounts 2017
VINCI includes an extended discussion of risks associated with climate change under the broader heading of 'environmental risks' in its 'risk factors and management procedures' section. *'**Risk Factors and Management Procedures*** *Environmental risks - Environmental risks are those that deteriorate, either permanently or temporarily, the natural environments on which VINCI's business activities are reliant. The risks can come in several forms: loss of raw material resources (water, inert materials, fuel, etc.) required by business activities; deterioration of the quality of materials, or pollution; extreme weather events (flooding, landslides, extreme temperature variations, storms, etc.). Environmental risks may be caused by: greenhouse gases being emitted into the air, contributing to climate change; emission or discharge into the air, ground or water of toxic, hazardous substances, or waste; overexploitation of certain resources; expansion of certain exotic, invasive species; technological accidents; use, handling or transport of hazardous substances; loss of natural and agricultural land and fragmentation of landscapes.* *Environmentally related economic and regulatory context - The consequences of environmentally related risks essentially involve: growth in client demand for materials of the required quality and increases in their prices, resulting in additional project costs; increase in the costs involved in maintaining or repairing damaged facilities; construction delays (worksite shutdowns, infrastructure deterioration) and business operating losses due to difficulties in delivering supplies or to extreme weather events; damage to equipment due to extreme weather events, and associated costs; deterioration in health and safety conditions for employees; tightening of national and international regulations on environmental protection in response to such risks and in an attempt to avoid them as far as possible; the Group's reputation may be tarnished in the event of deficient quality of service (maintenance of the road network, vehicle breakdown assistance, exceptional events management, etc.).* *Analysis of environmental risks - VINCI companies take into account environmental risks right from the moment they bid on contracts for building and infrastructure construction and concessions. Risks are analysed with respect to the monetary amounts and legal consequences they represent. Solutions are then developed and tailored to the situation, in liaison with the development teams, so as to integrate environmental risks in the early stages of the project. VINCI seeks to obtain and analyse the expectations of local stakeholders so as to better understand the environmental protection needs of the affected region. These risks are regularly re-evaluated in accordance with changes in business activities, and VINCI implements whatever technical and organisational solutions it can to reduce these risks to a minimum.* *In 2017, VINCI analysed the risks that extreme climate events could have on the Group's projects. The analysis concluded that the incidence of these risks on the Group's activities is low, as they are integrated into the procedures and activities of the companies most affected by them. A report will be published in the first quarter of 2018'* (p 171)

Annex 2 – Summary of CDP disclosures

The tables below provide an abbreviated summary of information disclosed by Balfour Beatty about its climate change related risks on the CDP platform. Further details, including steps Balfour Beatty is taking to manage these risks, are available from the CDP website.

Transition Risks	
Risk driver	**Details**
Carbon taxes	**Description:** The cost of carbon for CRC is steadily increasing. The cost increased from £12/tonne (phase 1) to £16.90/tonne (phase 2, for 2015/2016) and increased to £17.20 for 2016/17. However, the UK government has not laid out how much the cost per tonne will increase on an annual basis on a long term basis, making it difficult to quantify the exact impact of future price increases. Furthermore, given the uncertainty about nuclear generation capacity, the government may have to burn more fossil fuels to make for shortfall, increasing the carbon intensity of the grid, resulting in us having to purchase more carbon allowances and increasing our costs. **Potential impact:** Increased operational cost **Timeframe:** Up to 1 year **Likelihood:** Virtually certain **Magnitude of impact:** Low-medium
Fuel/energy taxes and regulations	**Description:** Fuel prices have fluctuated in 2016 between $28.94/barrel in January and $56.82/barrel in December. The average price for 2016 of $43.25 is significantly lower than the 2015 average of $52.35/barrel and far lower than the 2014 average of $99.03/barrel. It is unclear whether prices will continue to drop or increase. Indications for 2017 so far that prices are gradually increasing. If prices returned to previous years of 2011 to 2014, our fuel costs for running our fleet and on-site generators would effectively more than double, as fuel taxes are often based on the price of fuel and form a percentage of total price at the pump. Fuel price increases can have a direct impact on fuel taxes and the overall cost of fuel at the pump where the tax is based in on the cost of fuel. In some countries value added tax is then added on top of this. In addition, exchange rates also have an impact on energy prices and can drive fuel prices **up or** down. **Potential impact:** Increased operational cost **Timeframe:** 1 to 3 years **Likelihood:** Virtually certain **Magnitude of impact:** Medium-high
Emission reporting obligations	**Description:** The mandatory GHG reporting of greenhouse gases in the UK requires us to capture landlord supplies from all of our operations internationally. Given that many of our sites won't have submetered supplies or in mixed tenanted buildings we will have to set up systems to capture this additional data. **Potential impact:** Increased operational cost **Timeframe:** Up to 1 year **Likelihood:** Virtually certain **Magnitude of impact:** low
International agreements	**Description:** The European Parliament and the Council adopted a proposal for a directive enhancing the transparency of large companies (> 500 employees) on social and environmental matters, by amending the Accounting Directives

	(Fourth and Seventh Accounting Directives on Annual and Consolidated Accounts, 78/660/EEC and 83/349/EEC, respectively). Once passed by the European Parliament and EU Member States in the Council, will become transposed in the UK and affect Balfour Beatty **Potential impact:** Increased operational cost **Timeframe:** 3 to 6 years **Likelihood:** Very likely **Magnitude of impact:** Medium
Uncertainty in market signals	**Description:** We operate across many countries and have found that markets are changing in both directions as a result of both political influence and catastrophic events such as Fukishima. We have to constantly review our business development opportunities in order not to get caught up in markets that could cease to exist. Many European countries for instance have decided to opt out of nuclear power, whereas other believe that nuclear offers a short term solution to reducing the amount of CO2 released to atmosphere **Potential impact:** Reduced demand for goods/services **Timeframe:** 1 to 3 years **Likelihood:** Likely **Magnitude of impact:** Medium-high
Reputation	**Description:** Failure to respond to and show leadership on climate change issues can potentially put at risk our ability to operate as a global market leading company. **Potential impact:** Inability to do business **Timeframe:** Up to 1 year **Likelihood:** Unlikely **Magnitude of impact:** Low-medium
Fluctuating socio-economic conditions	**Description:** Fluctuations in energy costs in the future, particularly in respect to the price of oil could present a major risk to transport costs and oil based materials such as asphalt. We know that security of oil supply is currently putting pressure on purchase prices, and is likely to become an increasing issue in the future. It is as yet unknown what impact this is going to have on material costs, haulage, mobility and resource movements. **Potential impact**: Increased operational cost **Timeframe:** 1 to 3 years **Likelihood:** Virtually certain **Magnitude of impact:** Medium-high
Changing consumer behaviour	**Description:** We have to be aware of the potential for climate change altering the behaviour of our clients both directly and indirectly. For example, our highways clients are experiencing higher levels of damage to the roads in the UK through more extreme weather, our rail and utilities clients are experiencing asset loss for the same reason and, indirectly, the potential for climate change is motivating those same clients to procure assets that have lower embodied and operational carbon **Potential impact**: Increased capital cost **Timeframe:** Up to 1 year **Likelihood:** Virtually certain **Magnitude of impact:** Medium-high

Physical Risks	
Risk driver	**Details**
Change in precipitation extremes and droughts	**Description:** As a company that builds infrastructure we are exposed to extreme weather conditions that can damage the roads, flood defences, overhead power lines and railways we build, causing maintenance issues and impact on the work we carry out on construction sites such delays to project timescales. **Potential impact:** Reduction/disruption in production capacity **Timeframe:** Up to 1 year **Likelihood:** Very likely **Magnitude of impact:** Low-medium
Change in temperature extremes	**Description:** Changes in temperature extremes can have an impact on the resilience of building materials and therefore determine the materials we are able to use. Extremes can also determine the heating and cooling systems that we specify. These may increase the costs of infrastructure we build. We may have to start using different building materials in the future, e.g. tarmac that can withstand higher temperatures or heating and ventilation equipment that can cater for wider temperature fluctuations which may have a significant impact on material and equipment costs. For own building, changes result in increased and heating or cooling costs depending on their geography. **Potential impact:** Increased capital cost **Timeframe:** >6 years **Likelihood:** Likely **Magnitude of impact:** Medium-high
Snow and ice	**Description:** We have had several instances where snow and ice have caused road closures and disruption on the railways, often resulting in our own staff not being able to attend work. Increased snow and ice are likely to cause severe delays to staff travelling to work or to project sites and thereby reduce their productivity, reducing our profit. **Potential impact:** Reduction/disruption in production capacity **Timeframe:** Up to 1 year **Likelihood:** Virtually certain **Magnitude of impact:** Medium
Induced changes in natural resources	**Description:** As climate change takes effect, there are likely to be greater crop failures, increasing the demand for land. Increased demand for biofuels will also increase the price food and biomass crops. There is also likely reduced availability of some materials such as timber. **Potential impact:** Increased operational cost **Timeframe:** Unknown **Likelihood:** Very likely **Magnitude of impact:** Medium
Sea level rise	**Description:** Sea levels rises will affect some of our clients, flooding their properties. **Potential impact:** Reduced demand for goods/services **Timeframe:** >6 years **Likelihood:** Very likely **Magnitude of impact:** High
Induced changes in human and	**Description:** As the changes of climate change starts to effect, it is likely that more people will be forced to migrate to large metropolitan cities pushing up demand for rentable space. In cities like London, New York and Hong Kong there is already demand

cultural environment	to convert existing commercial space into residential space that is more lucrative for developers and landlords. The effect of this is that rents for commercial space will increase. **Potential impact:** Increased operational cost **Timeframe:** >6 years **Likelihood:** Likely **Magnitude of impact:** High