AUGUST

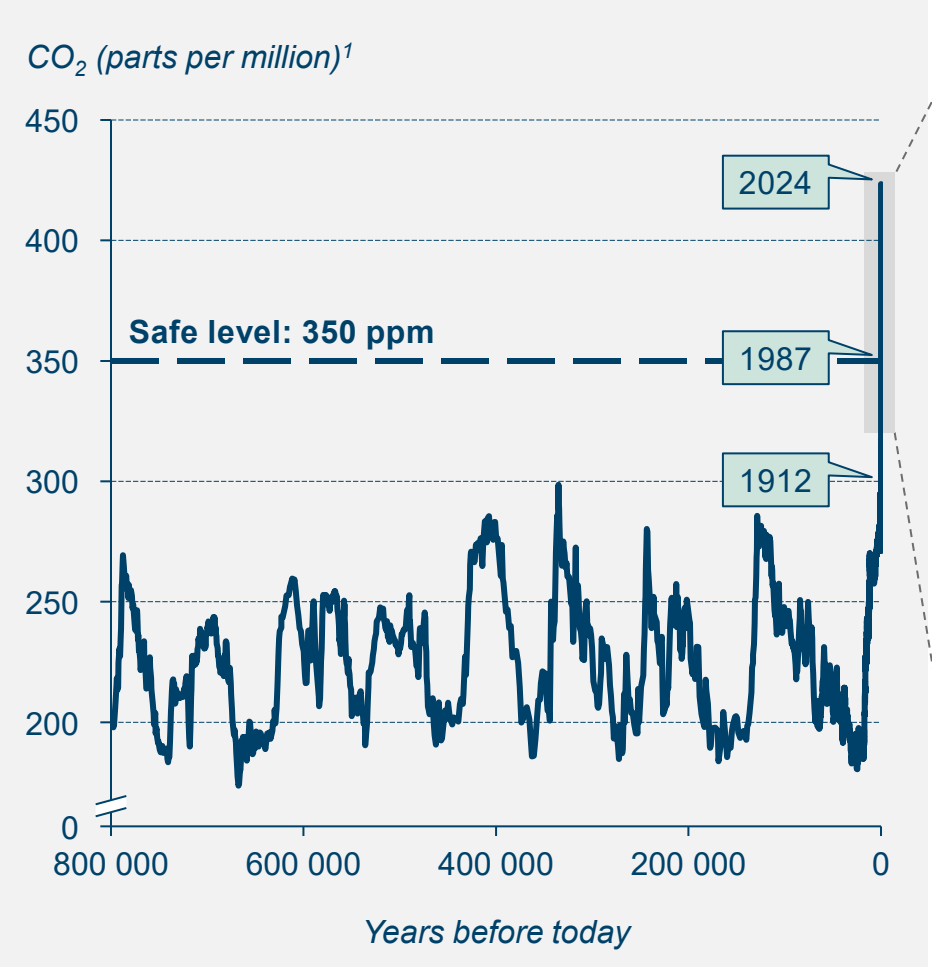
Climate transition planning – Brief introduction

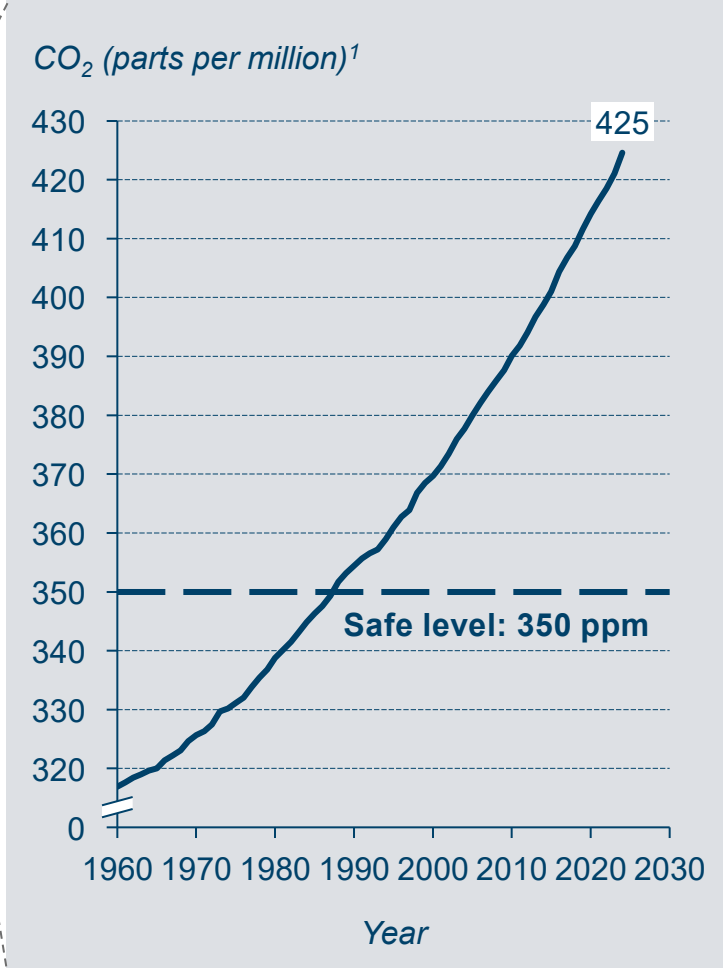
DISCUSSION MATERIAL

AUTUMN 2025

Global effort is needed to urgently decarbonize atmosphere and ensure safe life

ATMOSPHERIC CARBON DIOXIDE (CO_2): HISTORICAL LEVELS





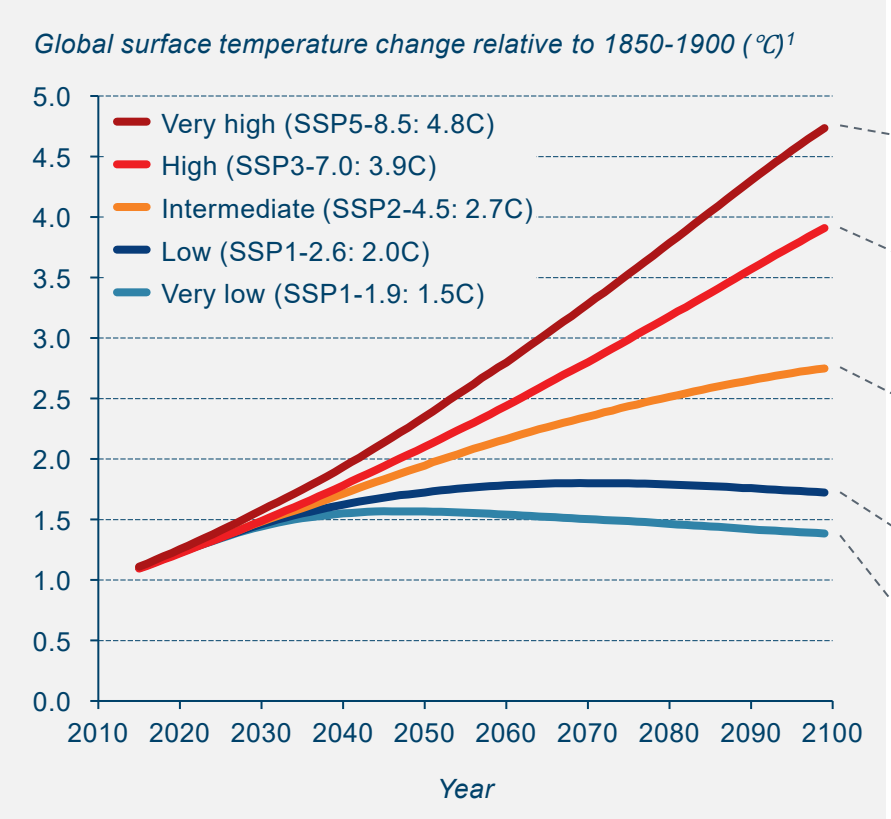
COMMENTS

- CO_2 levels in the atmosphere serve as the **single best and real-time indicator** of whether the world is **on track to a safe future**
- To preserve a planet on which human civilization has developed and to which life on Earth is adapted, **CO_2 levels must be reduced rapidly to 350 ppm**
- For companies, **taking part in the decarbonization** (through climate transition planning) is important for three key reasons:
  1) Maintaining **long-run competitiveness** in the changing operating environment
  2) Meeting new and evolving **regulatory requirements**
  3) Fulfilling our **ethical obligation** to our children and next generations more generally

1) Last ~70 years based on modern instrumental data, earlier figures based on ice core data
Sources: NASA, NOAA, USCD

Companies will face transition and/or physical impacts that change the status quo

CLIMATE SCENARIOS AND THEIR IMPLICATIONS TO COMPANIES' OVERALL OPERATIONAL ENVIRONMENT



Physical impact focus

Transition focus

Scenario outcome	Transition impacts[2]	Physical climate impacts[3]
Fossil-fueled growth, no mitigation	**Low** – minimal transition pressures, status quo continuing for a time, possible later abrupt policy shocks	**Extreme** – catastrophic physical risks, widespread damage to assets, operations and markets, global instability
Fragmented world, minimal cooperation	**Low/moderate** – limited decarbonization effort, less regulatory and market change, weak transition incentives	**Very high** – escalating chronic and acute physical risks, infrastructure damage, major economic disruption
Delayed, uneven mitigation	**Moderate** – slower and more dispersed response reducing immediate transition, investment uncertainty	**High** – more frequent and severe physical impacts (heatwaves, floods, droughts, supply chain disruption)
Coordinated but moderate transition	**High** – significant transition pressures (strict regulation and shifting demand), but more predictable transition	**Moderate** – regional stress from heat and flooding, potential realization of closest irreversible tipping points
Very strong mitigation, rapid global decarbonization	**Very high** – aggressive policy, technology and market disruption (carbon prices and technology shifts)	**Low** – strong adaptation and low frequency of extreme physical events (local extreme weather still possible)

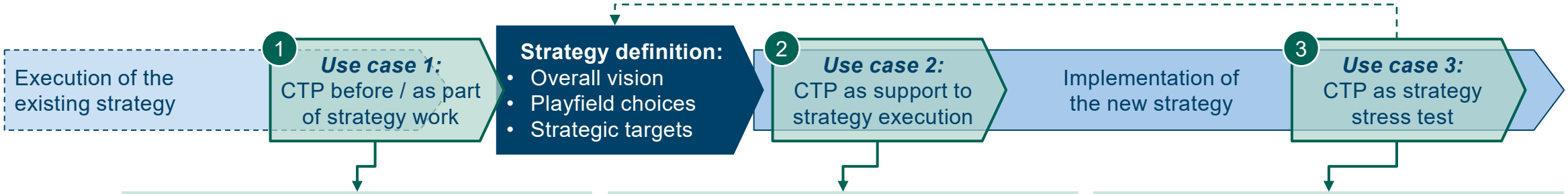
To companies, the different **climate scenarios have varying implications**, all of which denote considerable changes to the current operational environment. Therefore, to remain competitive and resilient, **companies must prepare for the different outcomes through climate transition planning**

1) *The scenarios represent alternative Shared Socio-economic Pathways (SSP) for how society, technology, economy and policy choices can shape future GHG emissions. As such, they describe how the world might evolve socially and economically and how successfully humanity can mitigate or adapt to climate change*
2) *Economic, policy and market effects arising from the society's shift towards a lower-carbon economy*
3) *Direct effects of climate change on operations, assets and supply chains*

Sources: IPCC, August analysis

Therefore, climate transition planning (CTP) *is* strategy work

CLIMATE TRANSITION PLANNING (CTP): TYPICAL USE CASES WITH RESPECT TO STRATEGY CREATION AND EXECUTION



Use case	1 CTP before / as part of strategy work	2 CTP as support to strategy execution	3 CTP as strategy stress test
Purpose	**Input to strategy work:** Inform strategic choices about how the company must evolve in the longer run given the climate scenarios	**Detailing the climate plan:** Explore how the strategic choices made can be executed with an ideal climate footprint	**Acid testing the strategy:** Evaluate the longer-run feasibility of the current strategy under different climate scenarios
Typical main topics covered	• Analysis of the emissions profile / intensity and value chain dependencies • Identification of the key drivers for climate-related opportunities and risks • Evaluation of the operational environment and business outcomes (incl. revenue, profitability and capex implications) under the different climate scenarios • Synthesis of key themes to strategy work	• Analysis of the emissions baseline per organizational unit (in suitable granularity) • Elaboration of decarbonization levers • Analysis of decarbonization potential (CO_2e) and related financial implications (€), given the strategic choices made • Target setting and investment prioritization • Development of sustainability reporting and steering (to support CTP execution)	• Identification / update of the key climate-related opportunities and risks • Analysis of the operational environment and market under the climate scenarios • Evaluation of the robustness of the current strategic choices under the climate scenarios (incl. financial implications) • Synthesis of required updates to the current strategy

Note: Climate transition planning, as defined here, provides simultaneously key inputs to the corresponding CTP requirements in CSRD

Lately, we supported a large industrial equipment company in compiling an ambitious plan to reduce emissions and increasing the involvement of each business

BACKGROUND

- As a **manufacturer of industrial equipment**, the client has substantial emissions that are mostly generated in the **use phase of the solutions**
- After launching its new strategy and operating model, the client wanted to **renew its climate program** to address a few key needs, such as:
  - Ensuring relevance of the company's climate targets
  - Assessing CO_2e potential and financial implications of decarbonization
  - Outlining BA-level targets as well as increasing buy-in and involvement of the entire organization
  - Incorporating climate topics and targets to overall business steering
  - Meeting regulatory requirements
- August **supported the client's global sustainability team** in running the climate transition plan work through e.g. analysis and facilitation[1]

WHAT AUGUST DID IN PRACTICE

1. Decarbonization lever validation	• Building on the client's initial thinking, creating a comprehensive list of potential decarbonization levers for all phases of the value chain • Estimating the emissions reduction / avoidance potential associated with each lever
2. Quantification of financial implications	• For each decarbonization lever, estimation of a) investment requirements and b) potential cost and top-line impacts • Outlining of a coherent overall view of the financial implications for top management
3. KPI and steering definition	• Detailing the company-level KPIs to track the progress of the climate transition plan • Specifying the BA-specific targets to steer the business towards the overall targets • Design / review of suitable steering practices
4. Synthesis of the company plan	• Confirmation of the company and BA targets • Communication to a variety of stakeholders • Outlining of the implementation roadmap • Crystallization of the further development needs (e.g. related to emissions reporting)

OUTCOMES

- **More ambitious and comprehensive climate plan** than earlier (incl. BA-level target setting and involvement)
- **"Return on sustainability" systematically addressed** to maximize CO_2e reduction per investment or operational expense
- Special attention to the **customer perspective and commercialization** of sustainability actions
- Basis for focused **additional data collection and reporting development** for more informed decisions
- Crystallized materials on the **"business case for sustainability" for top management use**
- Overall, **increased understanding on and buy-in for the climate agenda** in the broader organization (concerning e.g. current emissions and their implications for specific businesses)

1) *After the work, the client's sustainability team was responsible for incorporating the relevant outcomes also to CSRD reporting (as defined in ESRS E1 concerning climate transition planning)*

Let us know if interested to discuss more

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