Climate Risk Report 2024

Aligned with the Task Force on Climate-related Financial Disclosure Recommendations

1 July 2023 – 30 June 2024

KPMG Australia

KPMG Australia's reporting suite

We report on our management of sustainability impacts and our broader contribution to climate action via Our Impact Plan. This year we have further progressed our reporting effort, reporting in accordance with the Global Reporting Initiative. In April 2023, we released our second Climate Action Plan 2023–2030, which details our position on climate change, our five key commitments and associated actions, metrics and targets.

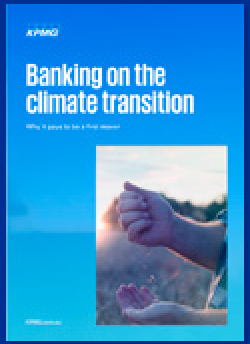
In the wake of the recent unveiling of the two IFRS® Sustainability Disclosure Standards (S1 and S2) from the International Sustainability Standards Board (ISSB), and the associated Exposure Drafts of the Australian Sustainability Reporting Standards, there has been a substantial shift in the climate reporting landscape that companies will need to navigate. Clients and stakeholders are increasingly requiring us to provide data and disclosures relating to our own climate risk and opportunities and to our contribution to how the broader economy will meet the requirements of the Paris Agreement. This inaugural Climate Risk Report represents a step change in transparency around our internal management and governance relating to these issues, and our ongoing climate-related action within and outside of KPMG Australia.

KPMG Australia's reporting suite

Our 2024 Impact Plan

Climate Action Plan goals and targets 2023–2030

Thought leadership



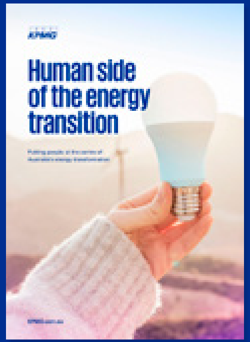


Table of contents

Message from our Chairman and COO

I am very pleased to present KPMG Australia's first Climate Risk Report, aligned to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Globally, the International Sustainability Standards Board has adopted the initial approach from TCFD and broadened this to all sustainability topics. Many jurisdictions are in the process of legislating these standards as a means of disclosure, including the Australian Sustainability Reporting Standards. This is a mechanism for companies to understand and manage their own ESG-related risks and opportunities.

For this Climate Risk Report, we leveraged the process that KPMG International implemented. KPMG Australia's National Board oversaw this year's risk and opportunity process, supporting and challenging how management can identify risk and opportunities for our firm, build resilience and support our clients in understanding, managing and disclosing their sustainability-related risks and opportunities. We will continue to test and modify our response to the many risks and opportunities we face in a changing climate and look forward to disclosing our progress to you into the future.

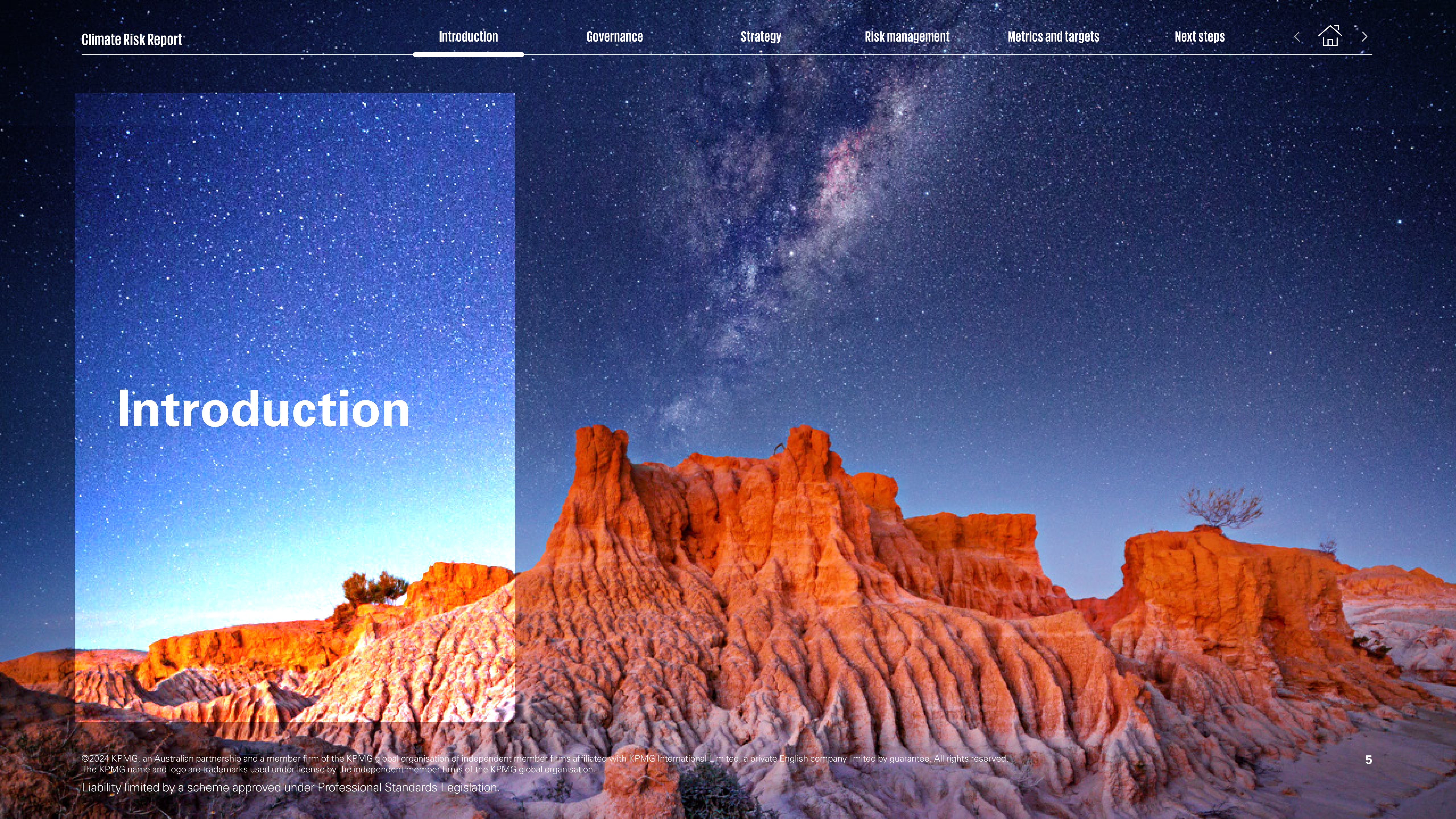
Martin Sheppard
National Chairman
KPMG Australia

It is in KPMG Australia's best interests to be adequately prepared for both the risks and opportunities that climate change presents to Australia and our wider region.

As the National Executive Committee, we participated in June 2024 in the first climate risk and opportunity workshop for KPMG in Australia. Our people and services in KPMG PNG and KPMG Fiji will be considered from next year onwards. This workshop was the first step in establishing a process that tests and modifies our response to our climate-related risks and opportunities. The process also allowed us to reflect on how we can best serve our clients as they identify and manage their own, including considering their mandatory and voluntary disclosures across jurisdictions.

We know that a changing climate and a shift to a low-carbon economy will continue to present many challenges and opportunities – we are excited to participate and contribute to a resilient society, economy and environment.

Eileen Hoggett
Chief Operating Officer
& Head of Corporate Affairs
KPMG Australia



Introduction

Our climate journey

KPMG Australia believes in a fair and just transition to net zero. As a leading provider of ESG services, we have a responsibility to lead by example by looking at the impact of our own operations and supply chain and to play a part in global decarbonisation efforts. Since 2017, when KPMG Australia set out its inaugural Climate Action Plan (CAP) 2018–2022, we have been committed to being a net zero emissions business and we are working hard to halve our carbon emissions by 2030 from a 2019 baseline.

This year, we have voluntarily improved transparency on our climate-related disclosures by publishing our first Climate Risk Report in alignment with the Task Force on Climate-related Financial Disclosures' recommendations, and in anticipation of the adoption of the Australian Sustainability Reporting Standards. In doing so, we aim to give our employees, clients and other stakeholders clear, comprehensive, high-quality information on the impacts of climate change on KPMG Australia. This complements KPMG International's global Climate Risk Report launched in March 2024.

We have taken steps to identify and address our climate impacts through efforts that include:

01 **Working towards targets aligned with leading standards.**

02 **Assessing our net zero readiness.**

03 **Investing in decarbonisation initiatives.**

04 **Making internal changes to consider climate impacts within our business.**

Publishing robust and transparent climate disclosures is a vital part of achieving our goals – both in terms of sustaining progress toward our commitments, and demonstrating the importance we place upon climate change mitigation and adaptation.

In April 2023, we released our Climate Action Plan (CAP) 2023–2030 in consultation with our people, subject matter experts and leading non-governmental organisations (NGOs). The CAP 2023–2030 builds on our previous CAP 2018–2022 and includes new and ambitious targets, actions and initiatives supporting Australia's transition to a net zero future, in line with the goals and targets set at a global level by KPMG International.

Importantly, KPMG Australia has a role to play in supporting our clients' decarbonisation efforts through our service offerings, solutions and capabilities.

Our goal is to strengthen our client portfolio's resilience to climate risk, leverage opportunities and support the decarbonisation of our clients across industries, including carbon-intensive ones.

As part of our commitment, KPMG is a member or supporter of leading taskforces, standard-setting bodies and other organisations supporting the global economy's transition to net zero, including the TCFD, the Taskforce on Nature-related Financial Disclosures (TNFD), and the Global Reporting Initiative (GRI).

In Australia, we've been supportive of the consolidation and standardisation of climate-related financial disclosures with the publication of the draft Australian Sustainability Reporting Standards (ASRS), focusing on climate first. We have also made regular contributions to government consultations on the topic (one of our consultation submissions is linked here).

What is the Task Force on Climate-related Financial Disclosures (TCFD)?

The Financial Stability Board (FSB) created the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to enhance climate-related financial risk disclosures. Prior to the framework's introduction, stakeholders lacked publicly available and transparent information on the plans and capabilities of businesses to transition to a low-carbon economy and adapt to a warming planet.

The TCFD has served as a market-leading standard for climate-related disclosures. Many countries and governing bodies have adopted its recommendations and encouraged business participation and action.

TCFD aligned disclosures are becoming a requirement in a number of jurisdictions, such as the European Union's Corporate Sustainability Reporting Directive (CSRD) and the UK Government's update to the Companies Act and guidance on climate-related financial disclosures. Further, with the adoption of TCFD recommendations in the International Sustainability Standards Board's (ISSB) climate-related and general sustainability-related disclosure standards, climate risk reporting is coming of age.

The ISSB was set up in 2021 at the UN Climate Change Conference (COP26) to develop globally comparable sustainability information for the capital markets. COP28 in 2023 marked the completion of the TCFD's work and the formal disbandment of the Task Force, with its recommendations being integrated into the ISSB standards, and the IFRS taking over the monitoring of progress on companies' climate-related disclosures.

In October 2023, the Australian Accounting Standards Board (AASB) released the **Exposure Draft ED SR1 Australian Sustainability Reporting Standards (ASRS) – Disclosure of Climate-related Financial Information,** which includes three proposed Standards (ASRS Standards) that include modifications to the baseline of IFRS Sustainability Disclosure Standards. The draft ASRS 1 and draft ASRS 2 are aligned to the ISSB IFRS S1 and IFRS S2, as well as the four pillars of the TCFD recommendations. The draft legislation requires certain reporting entities under Chapter 2M of the *Corporations Act 2001* (Cth) (Corporations Act) to publish annual sustainability reports in accordance with the draft ASRS Standards. While the KPMG Partnership does not report under Chapter 2M, this TCFD aligned report is the foundation for our future voluntary disclosure against the ASRSs.

Elements of the TCFD

The TCFD structured its recommendations around four key pillars for integrating climate into an organisation – Governance, Strategy, Risk management, and Metrics and targets, as illustrated below:

Core elements of the TCFD

Integrating climate-related considerations across all levels of governance, establishing a clear link between the business's long-term growth and performance.

Strengthening strategic resilience to climate change, embedding scenario planning approaches and climate-related considerations into all key decision-making processes.

Establishing robust climate risk management procedures, and integrating them into existing processes.

Implementing and measuring more encompassing climate-related targets, moving beyond carbon emissions towards the overarching environmental performance of its entire operations.

TCFD index

Our report has been structured around the four pillars of the TCFD, aligned with its 33 recommendations. These recommendations are contained within 11 disclosure areas, outlined in the table below.

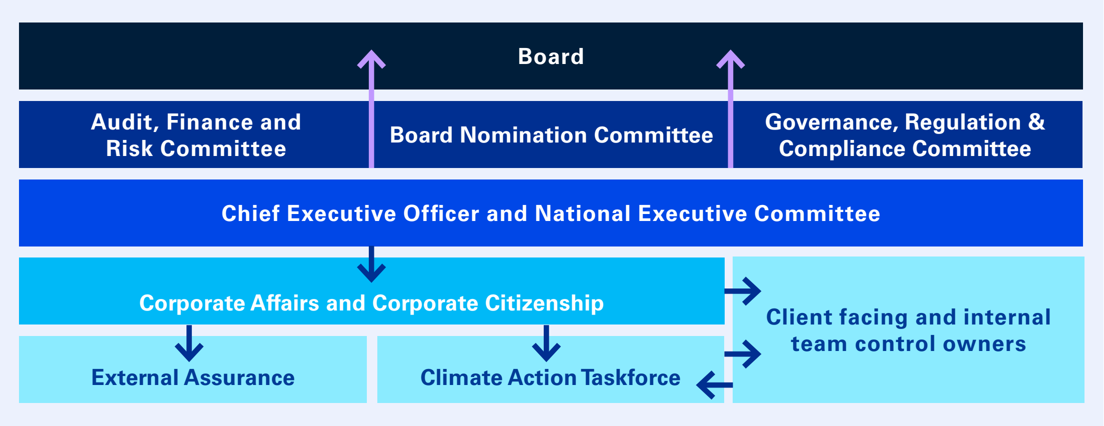
TCFD DISCLOSURE	RECOMMENDED DISCLOSURE	REPORT SECTION
Governance Disclose the organisation's governance around climate-related risks and opportunities.	a) Describe the board's oversight of climate-related risks and opportunities.	Governance, page 12.
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	Governance, page 13.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Strategy, page 19.
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	Risk management, page 28.
	b) Describe the organisation's processes for managing climate-related risks.	Risk management, page 29.
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Risk management, page 26.
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Metrics and targets, page 32.
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	

Governance

KPMG Australia

KPMG Australia is part of a global organisation of independent professional services firms, with more than 270,000 Partners and employees working in member firms spanning over 140 countries and territories around the world. KPMG Australia's governance arrangements are set in part by our membership of KPMG International and the associated rights, responsibilities and obligations of our network agreement. Detailed information on KPMG International's structure, leadership and governance can be found here: Governance – KPMG Global and in the Governance section of KPMG International's Climate Risk Report.

KPMG Australia's climate change governance



Board governance

National Board

The National Board is the principal governance body for KPMG Australia. The Board approves and oversees execution of the firm's climate change strategy and ensures there are rigorous processes in place for identifying and managing risk, including the firm's impacts on people, planet, and prosperity, as well as KPMG Australia's potential financial impacts, in relation to climate change. It is responsible for oversight and monitoring of the firm's climate risks and opportunities, performance and disclosure.

The Board reviews the firm's commitments, strategies and goals on sustainable development and receives regular updates on progress against Our Impact Plan commitments and associated action plans and targets, such as our Climate Action Plan and Climate Risk Report.

The Chairman is responsible for leading the National Board, ensuring it meets its responsibilities of upholding the highest professional standards of governance, quality and integrity, and the overall strategic positioning of the firm. The National Chair represents the firm both locally and internationally.

In August 2024, the Board approved the climate change risk register and this inaugural Climate Risk Report. The principal governance document of the firm is our Partnership Agreement, which is overseen by the Board. Further information on our governance can be found here.

In August 2024, our Board approved the Climate Change Risk Register and this inaugural Climate Risk Report.

National Board skills matrix and assessment

To ensure that the collective knowledge and skills of the Board aligns with fast-moving developments and expectations around ESG, Board members continued to receive insights from internal and external experts on topics. The Board receives regular updates on developments in relation to climate change and the associated disclosures. This year, the Board received an update on ISSB and ASRS, as well as the results of KPMG Australia's inaugural climate risk assessment together with the associated controls.

Board composition and National Board Committees

The National Board is comprised of our Chairman, the CEO and ten other members, which includes three independent directors. Over the past six years, our experience has been that independent Board members play an important role in strengthening our governance by imparting contemporary external perspectives and challenge.

Our Partnership Agreement allows the appointment of up to three Board members who are not Partners of the firm.

Our Partnership Agreement permits the Board to delegate its duties and powers and to appoint supporting committees as appropriate. This year, we completed a refresh of our Board Committees and Committee Charters, including the establishment of a new Governance, Regulation & Compliance Committee.

Further information on our Board and Board Committees can be found here and within the Governance section of Our Impact Plan 2024.

The Chief Financial Officer considers any financial-related risks and opportunities, and the Chief Risk Officer owns the overall Enterprise Risk Management process.

Management governance

The Corporate Affairs team maintains oversight of the Climate Change Risk Register and develops both the Climate Risk Report and the Climate Action Plan, with support from subject experts from KPMG Australia's Climate Change and Sustainability team. The Corporate Affairs team also manages the firm's Climate Active submissions and independent limited assurance over our carbon-neutral claims, our emissions reporting, internal price on carbon (IPC) and the procurement of carbon credits, where required.

The Chief Operating Officer and the Chief Executive Officer are ultimately accountable at the management level for identifying and managing climate-related risks and opportunities, and for the emissions data and performance of the Australian firm. The Chief Financial Officer considers any financial-related risks and opportunities, and the Chief Risk Officer owns the overall Enterprise Risk Management process and the ongoing cadence of assessment and update.

The Chief Executive Officer leads the firm's principal management body, the National Executive Committee (NEC). This year, the NEC reviewed and approved the climate change risk assessment, together with the associated controls and assessed any further improvements required. The NEC also reviewed and approved this inaugural Climate Risk Report.

Chief Purpose Officer

Our CEO-appointed Chief Purpose Officer (CPO), and team continue to play a critical role in decisions made by the firm. The CPO was focused on educating and challenging leaders and teams to actively bring purpose to decision-making. Key progress this year included using our Purpose to align teams around how we work in energy transition, which informed our firm-wide risk guidance procedures.

Risk governance

KPMG Australia has a centralised risk function, and partners with risk responsibilities report to the Chief Risk Officer, who is part of the NEC. Every year, the NEC works to identify and assess the key risks which may impact the achievement of the firm's strategic objectives. This year, we also implemented a new Governance, Regulation & Compliance Board Committee to further strengthen our approach to risk governance.

Our firm adheres to our global Client and Engagement Acceptance and Continuance (CEAC) policies and processes which are designed to help KPMG firms identify and evaluate potential risks, including relevant ESG risks, prior to accepting or continuing a client relationship or performing a specific engagement. Further information about our risk governance can be viewed here.

As part of our engagement acceptance risk process, certain industries and activities are flagged as high risk, warranting broader reviews. For any energy transition engagements, a review process is triggered to assess if the potential engagement is within the principles we have set.

Governance for advisory and assurance climate-related engagements

It is more important than ever to ensure that climate-related advice is provided from reputable sources with the right skillsets and experience. Within KPMG Australia, we provide advice and assurance services across a wide range of sustainability topics including climate change. Most recently these services have included preparation for climate change related disclosure, greenhouse gas emissions assurance, climate strategy and decarbonisation planning.

We have one of the largest teams of climate change professionals in Australia within our Climate Change and Sustainability practice, and a leading Energy Transition team as well as broader skills in CFO Advisory and Consulting that are responding to clients' climate-related requirements.

Both our advisory and assurance engagements are reviewed and approved by accredited partners, and knowledge and experience sharing within the firm provides the latest thinking and application for our clients. As our Australian clients move to mandatory climate-related financial disclosure through the ASRS, our firm is well-placed to provide the wealth of scientific-based knowledge and financial application required.

Strategy

Responding to climate change is imperative to our ‘KPMG LEAP’ business strategy – it is central to achieving sustainable growth, attracting world-class talent and delivering exceptional client outcomes by helping them navigate their own climate-related risks and opportunities.

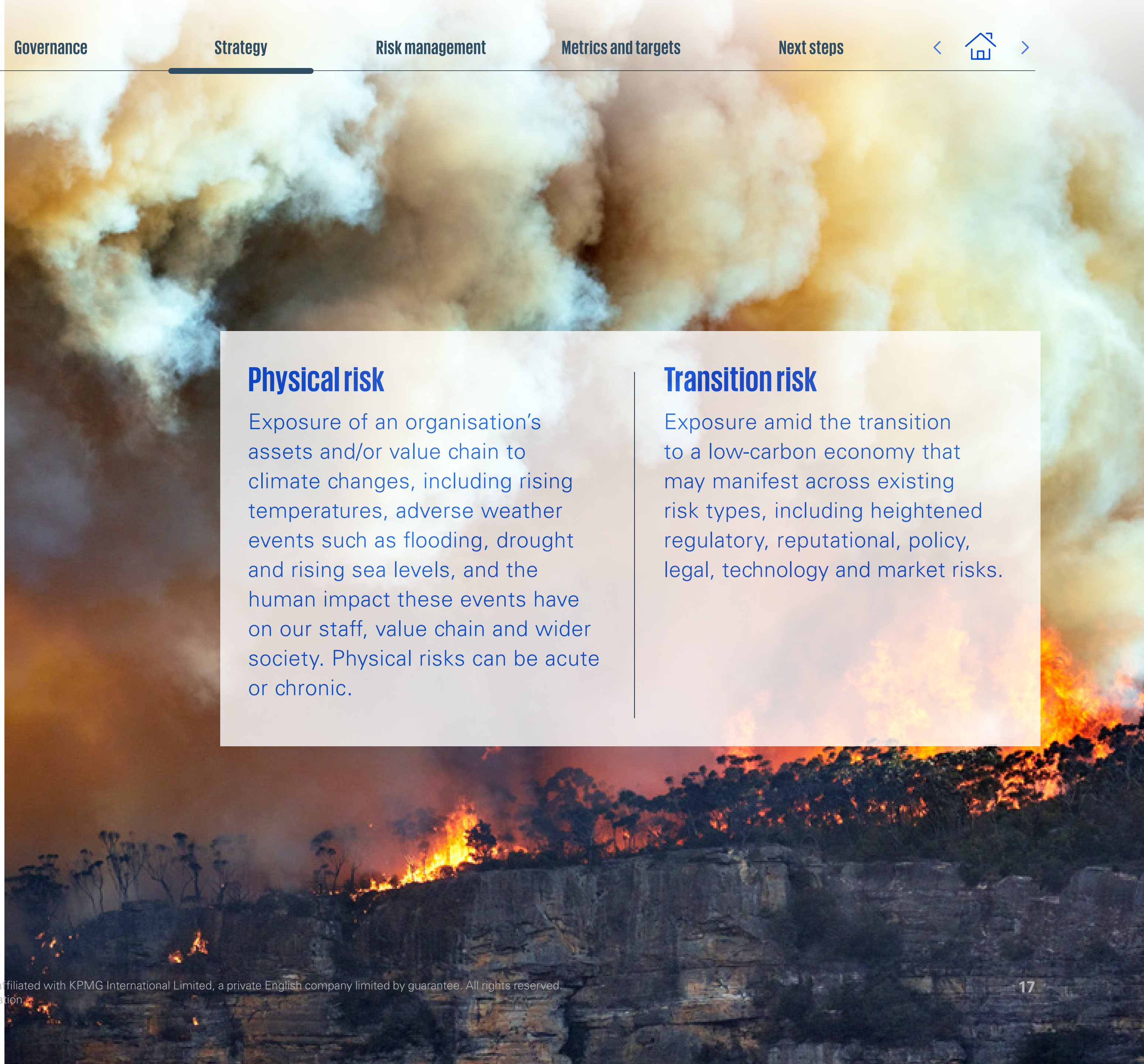
Climate-related risks and opportunities

KPMG Australia is committed to creating a fairer, more inclusive and more sustainable future for our communities, and to support our clients' and Australia's transition to net zero. It is essential for KPMG Australia to build a detailed understanding of our climate risks and opportunities profile across our whole value chain.

KPMG Australia understands climate risk to be the potential for climate change to create adverse consequences for human or ecological systems that undermine financial stability. This includes negative impacts on lives, livelihoods, health and wellbeing, economic activity, social and cultural assets, as well as investments, infrastructure, services provision, ecosystems and species.

Climate risks are typically categorised as either physical or transition risks.

The transition to a low-carbon economy also presents opportunity, as capital is diverted from carbon-intensive activities to low-carbon alternatives. Understanding where and when this opportunity will emerge – and how KPMG Australia can support clients to secure that opportunity – is critical to long-term success.



Physical risk

Exposure of an organisation's assets and/or value chain to climate changes, including rising temperatures, adverse weather events such as flooding, drought and rising sea levels, and the human impact these events have on our staff, value chain and wider society. Physical risks can be acute or chronic.

Transition risk

Exposure amid the transition to a low-carbon economy that may manifest across existing risk types, including heightened regulatory, reputational, policy, legal, technology and market risks.

Our risks and opportunities

Our ambition is to be the most trusted and trustworthy professional services firm, positively impact society, be the number one choice for talent, empower clients and deliver sustainable growth. It is imperative that we have a robust and thorough approach to identifying, assessing and mitigating our climate risks and capturing our climate opportunities, and as such we have integrated ESG risks (including climate) in the KPMG Australia Enterprise Risk Management (ERM) framework. The results of our climate risk assessment are set out in the following sections. Details on our risk and opportunity identification processes and our assessment of materiality of identified risks is described in the Risk management section.

In line with the KPMG International ERM process, KPMG Australia assess our climate-related risk materiality based on three key risk-rating criteria including impact, likelihood, and time horizon in line with the KPMG International ERM process.

For further information on identifying base case and scenario risks and opportunities, please see page 28 onwards.

Risk impact

We categorise risks as:

- Minor
- Moderate
- Major
- Catastrophic

Substantive or material risks are defined as those with the potential to impact our annual revenue by 6–20%. Strategic risk is defined as risks that could impact our ability to achieve our strategy, or maintain our current business model.

Risk likelihood

The likelihood that the risk will occur is defined based on the following criteria:

LEVEL	DESCRIPTION	DEFINITION	LIKELIHOOD
1	Remote	Risk not likely to occur in the time period being considered.	<10% chance of occurrence
2	Low	Risk may occur in the time period being considered.	10–30% chance of occurrence
3	Medium	Risk likely to occur in the time period being considered.	31–60% chance of occurrence
4	High	Risk more likely to occur than not in the time period being considered.	>60% chance of occurrence

Risk time horizon

Risks are classified as short, medium, or long-term based on the time horizon of their potential impact, selected for alignment between risk management, strategy, and business planning processes.

At this point in time, we have assessed these time frames to be appropriate for the nature of our business and will continue to assess and update them when necessary.

CLASSIFICATION	TIME HORIZON (YEARS)	RATIONALE
Short	0–1	Alignment with the business planning process, and any risks associated with the short-term business objectives under this.
Medium	2–3	Alignment with the three-year period for assessing and managing risks under the ERM process.
Long	4–10	Due to the longer-term nature of ESG and specifically climate-related risks, we currently consider long-term risks up to a 10-year time period (aligning with our near-term Science Based Target – refer to the Metrics and targets section for further details). This is subject to review as we assess and manage our material ESG risks.

Key climate-related risks facing KPMG Australia

RISK	CATEGORY	DESCRIPTION	TIME HORIZON	LIKELIHOOD	IMPACT	IMPACT DESCRIPTION	KPMG AUSTRALIA APPROACH
Market/ financial risk	Transition risk	Contraction or failure of specific industry sectors with high exposure to transition risk	Long	Medium	Moderate – Major	KPMG Australia's portfolio of clients includes sectors which have a greater exposure to transition risk and greater impacts in case of failure to transition. The potential impact to KPMG Australia of businesses failing to transition include: – Revenue loss due to reduced demand as clients' businesses contract or fail. – Revenue loss due to reduced demand from clients incurring increased costs amid failure to decarbonise. – Failure of KPMG Australia to adapt services and products to client needs as they transition to a net zero economy, including supporting them with decarbonisation and climate transition. Under a 1.5°C warming scenario[1], we anticipate the risk impact and likelihood to remain similar to base-case. The carbon price will incentivise companies to decarbonise, and policy regime will speed up the attention and resources directed to achieve net zero. Physical impacts of climate change will be less, so productivity impacts and economic disruption would decrease.	*Portfolio business model* – KPMG Australia has a portfolio-based business model and we are well diversified by sector and geography, which helps mitigate the potential impact of a single sector contracting. It also means we are well placed to adapt to changes across the portfolio. – We have implemented an assessment of any potential new opportunities if they are associated with the energy transition. – We constantly re-evaluate industries, sectors, and the regulatory landscape. *Services and product offering* – Within our multidisciplinary model, our core client product and service offerings have a range of ESG and climate-related products and services that are designed to support clients on their decarbonisation journey. *ESG training* – We will continue to upskill our people with training on ESG, climate risk and transition services, including collaboration with leading academic institutions such as the University of Cambridge Judge Business School.

[1] KPMG Australia use the scenarios developed by KPMG International, using 1.5 degrees of warming for transition risks, and 5 degrees of warming for physical risks. See page 28 of this report for further detail.

RISK	CATEGORY	DESCRIPTION	TIME HORIZON	LIKELIHOOD	IMPACT	IMPACT DESCRIPTION	KPMG AUSTRALIA APPROACH
Market/ financial risk	Transition risk	Failure to decarbonise our operations, supply chain and property portfolio in the most economically viable way	Medium – Long	Low	Moderate	There are direct financial impacts of failing to decarbonise our own operations and our supply chain in the most economically viable way: – Increasing costs of carbon offsets. – Increased KPMG Australia costs due to potentially sourcing new renewable energy contracts, and increased cost of carbon in our supply chain. – Increased supplier costs amid more stringent climate requirements. – Increased recruitment costs with the expectation that access to talent may be reduced due to climate performance/poor reputation. Each year, KPMG Australia purchases carbon offsets to cover our residual emissions and maintain carbon neutrality under the Australian Government's Climate Active program. The market price is expected to significantly increase in the coming years. Additionally, there is increasing public scrutiny on the integrity of carbon offsets globally and in Australia – including investigations into credits which may have failed to deliver as claimed. Under a 1.5°C warming scenario[2], we anticipate the risk likelihood and impact severity to increase from BAU. The carbon price will increase and therefore a failure of reducing Scope 3 emissions will need to be offset with increasingly expensive carbon credits.	– We frequently engage with stakeholders, including clients, governments, our people, the not-for-profit sector, regulators and industry bodies and the general public, to understand how their expectations around climate change issues are evolving. – We are supporting climate and ESG initiatives beyond our value chain, such as the development of industry standards and funding support for nature and biodiversity initiatives, in line with our Climate Action Plan. – We monitor and report our carbon emissions on a monthly basis to leadership, including emissions from business air travel. – KPMG Australia has established an internal price on carbon (IPC) to make more visible and expensive the cost of air travel. KPMG Australia has updated its travel policy to encourage its people to consider alternatives to flying when appropriate. – We have strengthened our criteria and due diligence for carbon offsets and are progressing towards 100% credits from Australia (ACCUs) or Fiji/PNG by 2030, with a focus on high-quality offsets supporting nature and biodiversity outcomes. – Through our Renewable Energy Supply Agreement, we continue to source 100% renewable energy for KPMG tenancies. – We have set a target that 80% of our suppliers, by spend, will have their own Science Based Targets initiative (SBTi) targets or equivalent by 2025. – Through our Sustainable Procurement Framework, we continue to work directly with our suppliers to assist in identifying and implementing opportunities for better environmental practices and to promote knowledge-sharing. – We are working to enhance our methodology for calculating emissions from purchased goods and services. We are also considering the following additional transparency and mitigation measures: – Move to voluntary ASRS reporting including limited and reasonable assurance over qualitative claims. – Improve internal data analysis to enable assessment of carbon intensity of engagements, or having readily accessible data and ESG credentials for use.

[2] KPMG Australia use the scenarios developed by KPMG International, using 1.5 degrees of warming for transition risks, and 5 degrees of warming for physical risks. See page 28 of this report for further detail.

RISK	CATEGORY	DESCRIPTION	TIME HORIZON	LIKELIHOOD	IMPACT	IMPACT DESCRIPTION	KPMG AUSTRALIA APPROACH
Reputational risk **Financial risk**	Transition risk	Actual or perceived failure to demonstrate the expected commitment to climate change	Medium	Remote	Moderate	– Risk of not making sufficient progress against our public climate commitments and targets. – Risk of reporting inaccurate or incomplete climate data. – Poor progress or erroneous metrics on our carbon emissions and climate targets will impact our clients' willingness to work with us as we may not meet ESG procurement requirements. This could lead to removal from government panels and loss of work. Under a 1.5°C warming scenario[3], we anticipate the risk likelihood and impact severity to increase from BAU. There will be greater expectation for action and for KPMG Australia to play an active part in our decarbonisation. There will also be increased assurance requirements.	– KPMG Australia has made a public commitment to reduce emissions by 50% by 2030 from our 2019 baseline. – KPMG Australia issued our Climate Action Plan 2023–2030 with clear actions and targets to support our decarbonisation commitment across operations, supply chain, clients and community partners. – We voluntarily report annually and transparently on climate action and decarbonisation progress through Our Impact Plan, which in 2024 is prepared in accordance with GRI Standards. – From 2024, the publication of the KPMG Australia Climate Risk Report. – We have received third party independent assurance on our emissions data and carbon neutral claim. – We renew our Australian Government Climate Active certification each year, with our public disclosure statement accessible to all online. – We have strengthened our criteria and due diligence for carbon offsets and are progressing towards procuring 100% of our offsets from the regions within which we operate, with a focus on high-quality offsets.
Regulation risk	Transition risk	Failure to comply with current and emerging regulation and failing to appropriately remedy/ respond to regulatory requirement breaches	Medium – Long	Low	Moderate	KPMG Australia is subject to an increasing number of climate and sustainability-related regulations, including potential disclosure standards. Failure of KPMG Australia to meet regulatory requirements may have financial and reputational impacts. Under a 1.5°C warming scenario[4], we anticipate the risk impact and likelihood to increase from BAU as regulatory requirements, consequences and targets increase.	– KPMG Australia must comply with current and emerging regulation. – We are involved in climate-related consultation and submissions across proposed changes globally and in Australia. We leverage our internal expertise such as our Climate Change and Sustainability team and Corporate Affairs and Government Relations teams to respond ahead of time, including through voluntary publication of our Climate Risk Report ahead of regulation. – KPMG Australia has response systems in place in the event there is a breach.

[3,4] KPMG Australia use the scenarios developed by KPMG International, using 1.5 degrees of warming for transition risks, and 5 degrees of warming for physical risks. See page 28 of this report for further detail.

RISK	CATEGORY	DESCRIPTION	TIME HORIZON	LIKELIHOOD	IMPACT	IMPACT DESCRIPTION	KPMG AUSTRALIA APPROACH
Financial risk **Health and safety risk**	Acute/ chronic physical risk	Frequency and severity of periodic disruption from extreme weather events on offices, other business support locations, our people, suppliers, clients and communities we operate in.	Short, Medium, Long	Medium	Moderate	Extreme weather could cause KPMG Australia to suffer direct or indirect financial loss due to the impact on offices or other business support locations, our people, suppliers, clients, and communities we operate in. While KPMG Australia currently experiences periodic disruption from extreme weather events, we anticipate that the frequency and severity of these events will increase in the medium to long term, potentially resulting in: – Increased insurance premiums or lease costs on buildings previously damaged. – Lost revenue due to business/travel disruption. – Lost revenue due to client business disruption. – Lost revenue/increased costs due to critical supplier disruption. – Loss of revenue due to wider disruption in the communities we operate in. – Health and wellbeing issues with our people due to extreme weather events. In the case of severe long-term impacts such as flooding or significant temperature increases, impacts could also include: – Costs incurred and/or revenue lost as our business, clients and/or critical suppliers need to withdraw from specific locations or relocate. – Revenue loss from significant disruption in an individual sector. Under a 5°C warming scenario[5], KPMG Australia anticipates the risk likelihood and impact severity to increase significantly from the BAU base case. There may be a material impact on productivity and wellbeing from employees experiencing heat stress, respiratory irritation from bushfires, disaster disruption and other health impacts. There would also be significant and widespread economic and infrastructure impacts through our region.	KPMG Australia has well-established operational climate resilience processes that are guided by available international standards and embedded in policy where possible. *Location-related disruption* – Remote working arrangements allow KPMG Australia to pivot operations amid climate-related disruption. – Our offices and other support locations are mainly leased and our property strategy factors in operational resilience, including climate factors. *Travel and other supply chain disruption* – KPMG Australia supplier and procurement processes include operational resilience requirements, with climate risk considerations being integrated into these. Remote working arrangements allow KPMG Australia to pivot operations amid climate-related disruption. *Client and wider socio-economic related disruption* – We are well diversified by sector and geography, which limits the potential impact of disruption in a particular sector or geographic location. – KPMG Australia undertakes ISO engagement risk assessments to identify hazards and appropriate controls. – KPMG Australia's People & Inclusion (P&I) team's risk profile captures impacts due to extreme weather events and includes disaster relief. – Where outside and remote works are required, safety is a priority and exposure to high heat and humidity are already current issues which our clients have taken management and mitigation measures for.

5 KPMG Australia use the scenarios developed by KPMG International, using 1.5 degrees of warming for transition risks, and 5 degrees of warming for physical risks. See page 28 of this report for further detail.

Key climate-related opportunities facing KPMG Australia

OPPORTUNITY	OPPORTUNITY DRIVERS	TIME HORIZON	LIKELIHOOD	IMPACT	IMPACT DESCRIPTION	KPMG AUSTRALIA APPROACH
Differentiating ourselves as a market leader in climate and ESG	– Enhancing reputation – Increasing market share	Short – Medium	Medium	Moderate	Expectations are increasing among a range of key stakeholders in terms of understanding KPMG Australia's approach to climate change and climate transition. There is an opportunity for us to differentiate ourselves as a market leader in climate and ESG, encompassing internal commitments and the professional services we provide, ultimately helping to maintain trust with our clients, the markets and other stakeholders. Increased trust supports our growth ambition, as this will enhance our revenue, talent attraction and retention, and operational efficiencies. Under a 1.5°C warming scenario[6], we anticipate an increased positive impact on KPMG Australia if the opportunity is successfully undertaken. Expectations may shift from dialogue and target projections to actual performance. However, if we are not actively contributing to decarbonisation, this could instead be called out by the millennial employee market.	Refer to KPMG Australia's approach to the '*actual or perceived failure to demonstrate the expected commitment to climate change*' transitional risk above. This year, KPMG Australia carried out an internal annual Climate Action Survey to understand our people's perception of our climate action. This year's survey revealed 89% of our people agreed that 'KPMG Australia's commitments to Climate Action are ambitious', 61% agreed that 'KPMG Australia fosters best practice environmental sustainability in its operations and supply chain'[7] and 42% of our people are involved in climate action through client or pro bono engagements, ESG training, or volunteering. We are also considering the following additional mitigation measures: – Increasing investment in high impact programs that differentiate KPMG Australia in the market and to our people. – Showcasing client work relating to supporting decarbonisation and the energy transition. – Working with our value chain to provide support in relation to accounting for and reducing their emissions, and in turn helping to reduce our own Scope 3 emissions.

[6] KPMG Australia use the scenarios developed by KPMG International, using 1.5 degrees of warming for transition risks, and 5 degrees of warming for physical risks. See page 28 of this report for further detail.
[7] Based on over 1,150 surveys completed, where respondents 'somewhat agreed, agreed or strongly agreed' with the statements. More information in Our Impact Plan.

OPPORTUNITY	OPPORTUNITY DRIVERS	TIME HORIZON	LIKELIHOOD	IMPACT	IMPACT DESCRIPTION	KPMG AUSTRALIA APPROACH
Products and services – increased demand for ESG advisory/ professional services	– New products and services – Enhancing reputation – Increasing market share	Short – Medium	High	Major	Increased demand for climate and ESG-related professional services should improve future revenue and financial resilience. Australia's economy is energy and emissions intensive; there is therefore an opportunity to support its decarbonisation and transition to a net zero future. Additionally, maintaining quality and innovation will further enhance our reputation and trust in KPMG Australia, enhance employee attraction and retention, and potentially support new partnerships and alliances on future go-to-market offerings. We recognise our most significant lever for positive ESG impact is through our client work and the role we play in helping clients respond to a range of climate and ESG challenges, driven by regulation, strategy and purpose. Under a 1.5°C warming scenario[8], we anticipate a further increased positive impact on KPMG Australia if the opportunity is successfully undertaken. Increasing prices on carbon liability, increased market pressure to decarbonise and incentives/legislative regime to act will increase revenue from KPMG Australia assisting clients.	KPMG Australia's global strategy has been developed with a focus on the impact of ESG across all professional services to capitalise on potential growth areas amid the global economy's transition to net zero. Service and product development is based on subject matter expertise, sector insights, regional knowledge, and alliance partners. We contribute to and benefit from our global delivery assets, IP, tooling, and subject matter experts, while developing local expertise regarding climate and ESG-related professional services. Client opportunities can be categorised into three broad areas: – Regulation and reporting driven – supporting clients regarding compliance with emerging ESG regulation, voluntary standards and assurance. – Strategy driven – supporting clients where ESG provides a clear strategic opportunity. – Purpose driven – supporting clients with an approach to business that goes beyond pure commercials.
Sector-related growth relating to anticipating the needs of different client sectors and building KPMG Australia capacity in response	– Capacity building – New products and services – Increasing market share	Short – Medium	Medium	Major	We recognise that as we transition to a low-carbon economy, different client sectors are likely to be impacted by climate opportunities in different ways. Anticipating the needs of these sectors and building our capacity in response can help us grow revenue and increase market share while supporting these sectors through the transition. Under a 1.5°C warming scenario[9], we anticipate potential capability and capacity restraints. Challenges include improving climate literacy, increasing the skillsets of our people, and leveraging the subject matter experts within the firm to the maximum extent possible.	We are aligning, expanding and tailoring our offerings both to support clients through low-carbon transition and to capitalise on potential growth areas within the global economy's transition to net zero.

[8,9] KPMG Australia use the scenarios developed by KPMG International, using 1.5 degrees of warming for transition risks, and 5 degrees of warming for physical risks. See page 28 of this report for further detail.

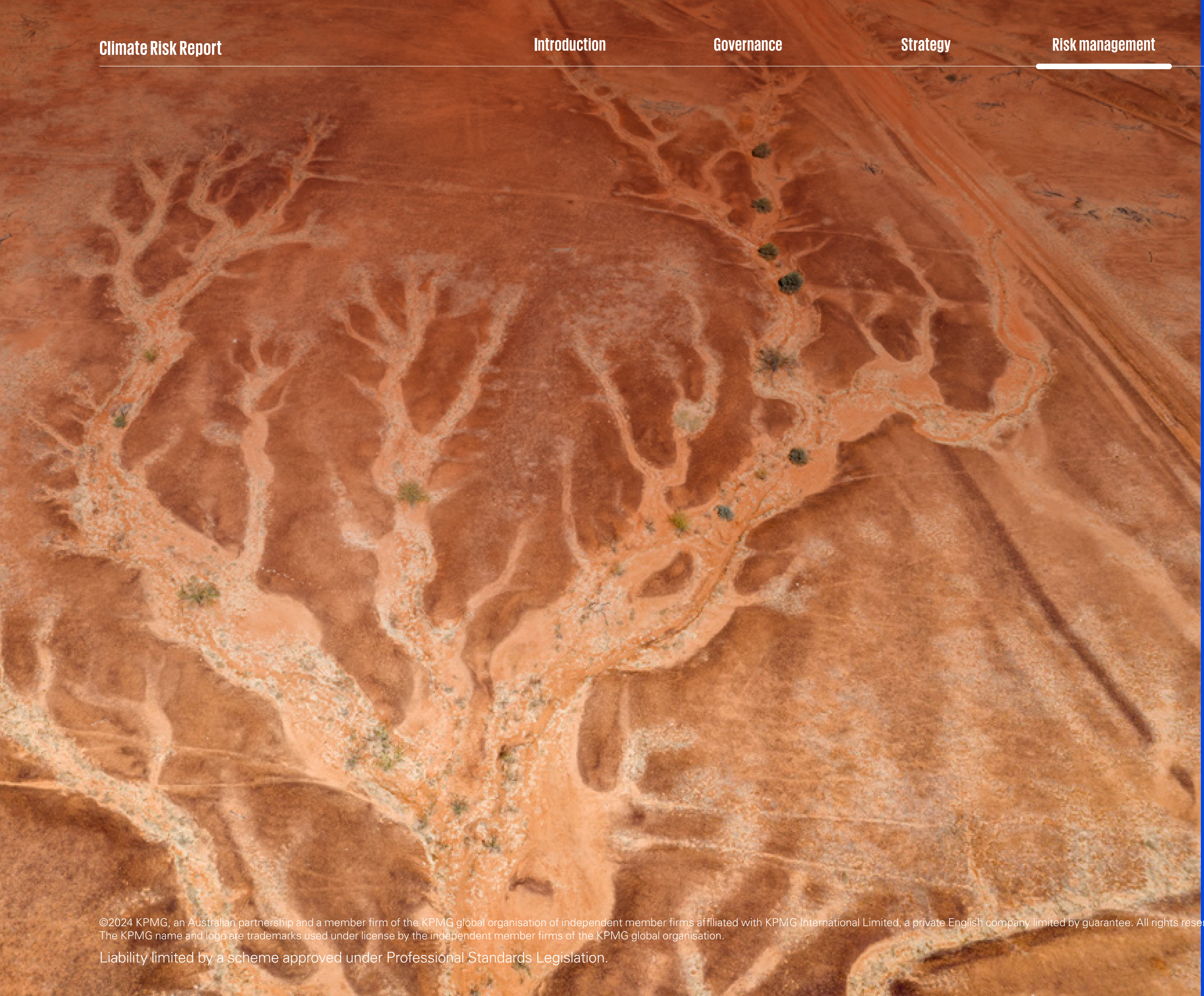
Risk management

KPMG global risk management framework

KPMG International use an Enterprise Risk Management (ERM) program led by the Global Management Team and overseen by the Global Board's Quality, Risk Management and Reputation Committee and, ultimately, the Global Board. The ERM program uses KPMG International's internal risk assessment criteria and Dynamic Risk Assessment (DRA) tool to identify, connect and visualise risks across four dimensions (below).

At KPMG Australia, we refer to the ERM program and use a similar DRA tool to assess our enterprise risks.

We measure, monitor, and manage climate-related risk as a part of our wider ESG risk which, in line with KPMG International, we define as a failure to understand, prepare for, and take action to mitigate potential risks across the ESG agenda that could erode our licence to operate or negatively impact our brand. In FY23, KPMG International formally integrated ESG risks, including climate, into the ERM framework and as such, KPMG Australia have chosen to utilise the KPMG International ERM process to manage our climate-related risks.



Key ESG risk indicators

In alignment with KPMG International, we have identified and assessed our key risk indicators for ESG, including climate-related, to include the failure of KPMG Australia to:

- Meet legal and regulatory ESG compliance requirements.
- Inform and meet evolving ESG reporting standards.
- Close any real or perceived gap between our own ESG commitments and actions.
- Adapt our business and delivery model to address the impact of climate change.
- Deliver and evolve our publicly stated ESG commitments.
- Integrate ESG into our systems, processes and decision-making.
- Assure our internal and external stakeholders that we are serious about ESG.

Identifying and assessing climate-related risks and opportunities

KPMG International has developed scenarios for transition and physical risks within the KPMGI Climate Risk Report (March 2024) of which the transition-scenario analysis utilised data from 10 KPMG reporting firms, including Australia.

As such, we have utilised the KPMG International transitional and physical risks as a starting point for our own KPMG Australia climate-related risks and through a risk identification, assessment, and validation process informed by engagement with internal KPMG Australia stakeholders, refined it to have KPMG Australia specific risk priorities. This year, we have only considered Australia during the process and have not included KPMG Fiji and KPMG PNG – however, they will be included in subsequent years. The outcomes of the process are presented in the Strategy section. The following approach to risk identification, assessment, and validation was utilised:

Risk identification

1. Identify all key climate-related risks and opportunities faced by KPMG Australia as presented by KPMG International, informed by scenario analysis.
2. Assess the relevance of each KPMG International climate-related risk and opportunity to KPMG Australia and if necessary, refine to ensure it is better aligned to our own context.
3. Identify any additional key risks and opportunities not presented by KPMG International but which may be material to KPMG Australia.

Risk assessment and validation

For each relevant risk identified during the risk identification process:

1. Identify any KPMG Australia controls currently in place.
2. Assuming a base-case scenario, assess the adequacy of current controls in managing the risk and whether further controls are necessary. If further controls are necessary, identify other controls which could be considered.
3. Assuming a base-case scenario, assess the residual impact, likelihood, and time horizon of the risk using the ERM framework detailed in the section above.
4. Assess how the residual impact, likelihood, and time horizon of the risk can change under a 1.5°C warming scenario if it is a transition risk and a 5°C warming scenario if it is a physical risk.

We will undertake this process on an annual basis, with the aim to include Fiji and PNG from the next financial year.

Managing our climate-related risks and opportunities

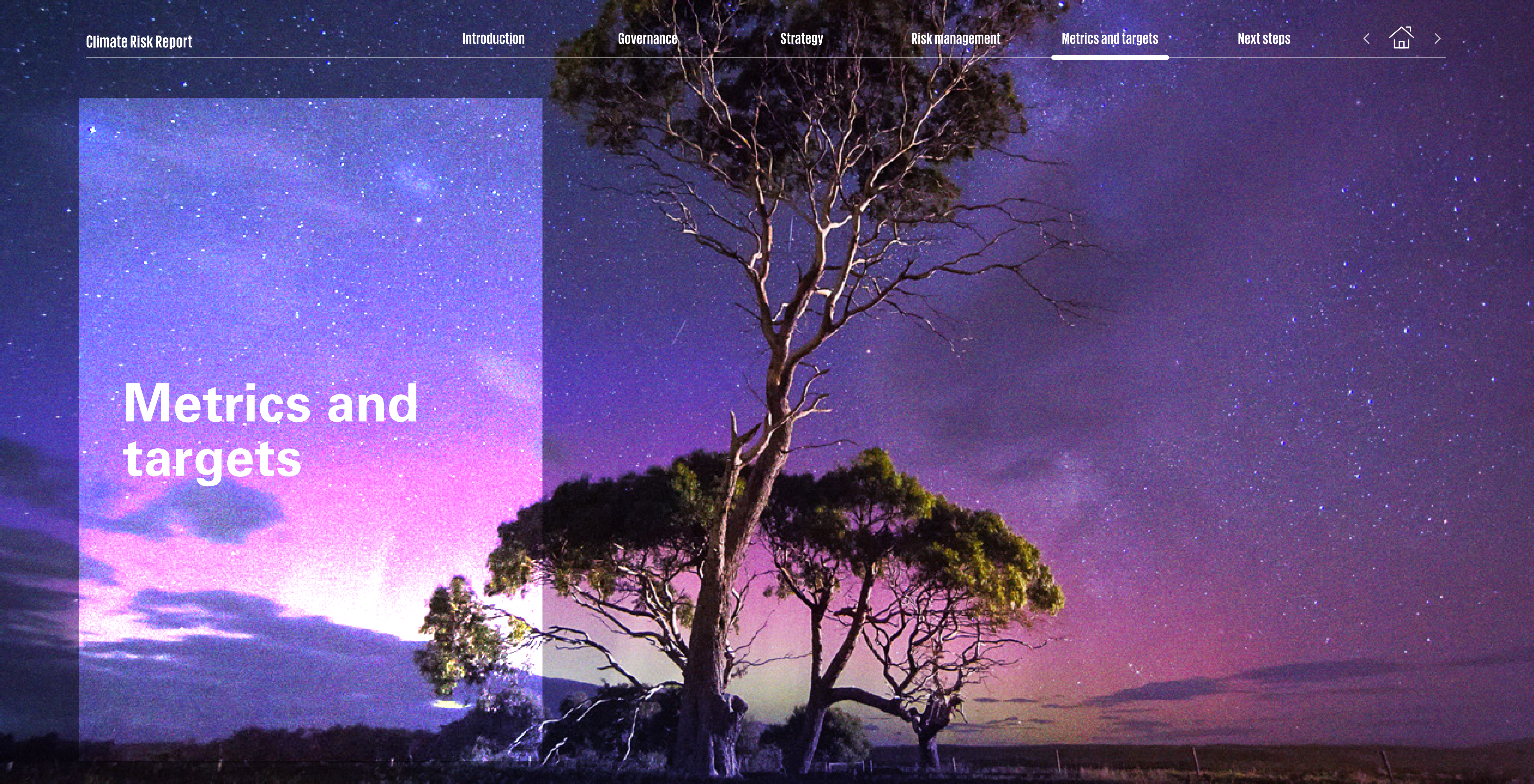
To adequately manage the climate-related risks and opportunities we have identified and assessed in this report (refer to the Strategy section), KPMG Australia has taken the following approach, in alignment with the KPMG International ERM process:

01 Assigned a risk or opportunity owner to ensure accountability.

02 Developed, implemented, managed, and overseen an appropriate response, with key processes, activities and controls either in place or being planned to manage and/or mitigate the risk and/or reduce the likelihood and/or severity of impact; or responses are in place to adequately leverage and monitor identified opportunities.

03 Assessed the adequacy of the response and determined if actions in place or planned are appropriate, or if minor or major improvements are required.

04 Documented and provided necessary information to KPMG Australia's NEC and the KPMG Australia Board, at least annually, to facilitate their review. At least annually, KPMG Australia will review and report to KPMG International the status of identified risks and opportunities, including the adequacy of our response and progress made to reduce risks to an acceptable level, or take advantage of opportunities. KPMG Australia will also consider if there are any significant emerging risks that warrant consideration as an enterprise risk or, conversely, enterprise risks that have decreased in exposure and are no longer significant enough to be enterprise risks.



Metrics and targets

Our approach to target setting

As a leading provider of ESG services to the Australian market, we have a responsibility to quantify and mitigate the impacts of our operations and supply chain on the planet, and to support our people, our clients and our economy as we transition towards a net zero future. We have continued to collaborate and advocate with our stakeholders to help build a more sustainable and resilient future.

Our targets and commitments

Each year we report against our Climate Action Plan commitments and targets in KPMG Australia's Our Impact Plan 2024 within the Planet section. This table reflects Our Impact Plan Scorecard FY24:

Planet

Impact Plan Commitment	FY24 Progress metric	2024	FY24 Progress update
Decarbonise our operations and supply chain towards net zero	Change in gross Scope 1, 2 and 3 emissions (50% reduction target by 2030)	-28%	Positive progress
	Spend towards suppliers with science-based net zero targets (80% target by 2025)	59%	Positive progress
Support our clients' and Australia's transition to net zero	Carbon intensity of our client portfolio (kg CO_2-e/$ revenue)	0.17 kg	Positive progress
Strengthen climate resilience with our people, clients and community partners	Engagement in climate-related initiatives (50% target by 2030)	42%	Positive progress
Advance our commitment to circularity	Waste diversion/recycling rate (90% annual target)	79%	Positive progress
Understand and improve our impact on nature and biodiversity	Investment in improving outcomes for nature and biodiversity	–	Positive progress

For more information about our progress against each commitment, please click here. Year on year comparative data and additional environmental metrics are provided in Our Impact Plan 2024 Databook.

Legend

Achieved:	Target or key initiatives have been achieved or exceeded.
Positive progress:	Substantive advancement against target or key initiatives.
Insufficient progress:	Progress against target or key initiatives was slower than expected or unsatisfactory.
Not achieved:	Target or key initiatives have not been achieved.
–	Progress point not applicable or not available for the year.

Our internal carbon price

Our internal price on carbon (IPC) was established two years ago by placing a fee on our national and international air travel emissions which was anchored to the market price for Australian Carbon Credit Units (ACCUs). The intent was to make the impact of our business air travel more visible to the firm and to encourage our teams and leaders to consider alternatives to flying.

In 2023, the funds generated by our IPC went towards purchasing carbon credits and initiatives focused on biodiversity conservation and regrowth of native forest. Importantly, we increased the proportion of ACCUs in our portfolio from 8% last year to over 35% this year, making strong progress towards our target of procuring 100% offsets from the countries we operate in (namely Australia, Fiji and PNG) by 2030.

This year, to further support our decarbonisation efforts, we reviewed our IPC by carrying out a scenario analysis which led to the decision to increase the price to A$45 per tonne.

Executive remuneration

KPMG Australia is committed to integrating sustainability and climate change principles into our overall strategy. In line with this commitment, climate change related risks are considered as one of many inputs into our executive remuneration framework to ensure alignment with our long-term environmental, social, and governance (ESG) objectives. The remuneration framework for KPMG's senior executives includes responsibilities for all risks including climate-related risks and opportunities.

Support our clients' and Australia's transition to net zero

KPMG Australia continues to progress towards our vision to be a leader in sustainable decarbonisation pathways, supporting a deep transformational change in the private and public sector to achieve net zero. We are committed to strengthening our client portfolio's resilience to climate risk and support the decarbonisation of our clients across industries, including carbon-intensive ones, by 2030.

To support our clients' and Australia's transition to net zero, we have committed to:

- Reporting on our investment in climate change and decarbonisation service offerings, solutions and capabilities.
- Monitoring and reporting the carbon intensity of our client portfolio annually.
- Monitoring the percentage of ASX-listed clients that have set science-based net zero targets annually.
- Demonstrating the impact of our climate change, decarbonisation and energy transition services.

Our decarbonisation proposition

In 2023, we launched our new decarbonisation proposition which brought together the services and solutions we offer to proactively support clients to achieve their decarbonisation goals. All parts of our firm – spanning climate change and sustainability, reporting, data and analytics, economics, infrastructure and engineering, human rights and governance – are actively engaged in helping clients progress and accelerate their ESG journeys and plan for a just and sustainable transition to net zero.

Ensuring our shift to clean energy benefits First Nations communities

In 2023, KPMG Australia was commissioned by the Clean Energy Council – the peak body for the clean energy industry in Australia – to co-develop a set of leading-practice guidelines for renewable energy companies when engaging with First Nations communities. The guidelines build on the 10 principles developed by the First Nations Clean Energy Network – a partnership of Indigenous people, community organisations, land councils, industry groups, legal experts and renewable energy companies – to help ensure First Nations communities, people and businesses participate in and benefit from the renewable energy transition.

Monitoring and reporting the carbon intensity of our client portfolio

Building trust in climate transition plans also requires accountability. For the past three years, we have been monitoring and disclosing the carbon intensity of our client portfolio. We are committed to actively supporting and accelerating our clients' unique decarbonisation journeys – and this includes those in carbon-intensive industries. We continue to use and refine our leading innovative methodology that we developed in 2021, which helps us assess the carbon emissions generated through the work we do for clients for every dollar of revenue. This process helps us understand the nature of the industries that form part of our client portfolio and the extent to which they are positive, neutral or negative to our economy's decarbonisation. The firm has identified industries with elevated risks and created additional guidance for engagement teams outlining expected minimum practices regarding these unique challenges.

In FY23 we estimated the carbon intensity of our client portfolio to be 0.17 kg for every dollar of revenue generated, compared with 0.18 kg in FY22.

CARBON INTENSITY	2022	2023
kg CO2e/$ revenue	0.18	0.17

Drivers

Analysis of the emissions from our revenue streams showed that there had been decreases in sector emissions intensity across the board.

There was a significant decrease in carbon intensity from Energy & Utilities, Banking & Capital Markets and Property, Construction & Logistics.

For the second year we also monitored the percentage of our ASX 200-listed clients who have publicly set science-based net zero targets:

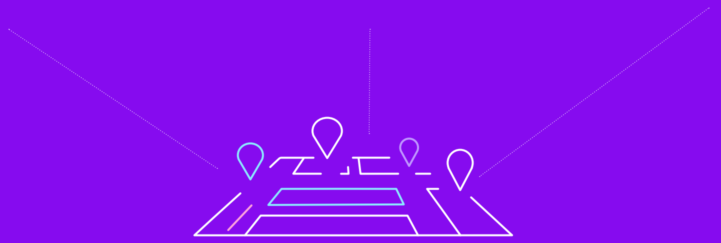
19% have publicly set Science Based Targets initiative (SBTi) approved targets (vs 32% last year).

69% have set net zero targets that have not been publicly approved or validated by the SBTi (vs 57% last year).

12% have no publicly set targets (vs 11% last year).

Next steps

- Conduct an annual assessment of climate-related risks and opportunities and use of additional signposts/external drivers to stress test scenarios, particularly physical impacts of climate change, reputational risk and the strategy differentiating ourselves as an ESG market leader.
- Ongoing decarbonisation roadmap and forecasts development and review.
- Continue to support clients in addressing their climate-related risks and opportunities, investing in technology, skills and people to provide the best available contemporary processes and solutions.



Contact us

Eileen Hoggett
Chief Operating Officer
& Head of Corporate Affairs
E: ehoggett@kpmg.com.au

Adrian King
Partner in Charge, ESG Advisory & Assurance
E: avking@kpmg.com.au

Rita Fentener van Vlissingen
Director, Impact & Citizenship
E: ritafentener@kpmg.com.au

KPMG.com.au

August 2024. 1251834342CA.