



# How is the impact of climate change reflected in the financial statements of the NZX50?

An analysis of NZX50 July to December 2022 reporters

Last year, we released reports investigating how climate change was reflected in the financial statements of NZX50 March and June reporters. In this latest edition, we have performed further analysis on NZX50 companies who report balance dates from 1 July to 31 December 2022. We look at how climate-related impacts on the financial statements were disclosed and how auditors considered these impacts in key audit matters (KAMs).

Given the recent extreme weather events globally and here in Aotearoa, and the fact that NZX50 reporters have to apply the External Reporting Board's (XRB) new Climate Disclosure Standards for periods starting this year, there is increasing interest from investors, and the regulator, in how companies are considering Environmental, Social, Governance (ESG) factors as well as how these impacts are reflected in financial statements.

This latest report includes a review of several discretionary businesses and consumer staples and the two dual-listed banks<sup>1</sup>. How are they reporting the impact of climate change on their businesses?



<sup>1</sup> To complete our analysis of the NZX50 companies that reported in 2022, our latest review included an additional March and a June reporter as a result of changes in the composition of the NZX50 and changes to year-ends of companies over the period of our analysis. This has impacted some of our comparative findings.

## Key findings<sup>2</sup>:



**13 businesses** on the NZX50 with July-December year ends have completed their financial reporting.



**8 reporters** discussed the impact of climate-related risks in their financial statements.



**0 businesses** included a quantification of the impacts of climate risk (physical or transition risks) in their financial statements.



**10 reporters** included some non-financial climate-related information outside of the financial statements.



**3 reporters** mentioned upcoming climate-related financial disclosures in their financial statements while 8 mentioned this in the front-half of their annual report or in a separate sustainability report (outside the financial statements).



**4 businesses** noted the use of green finance.



**1 audit report** included mention of climate change in KAMs.



<sup>2</sup> In our analysis we looked through the Fonterra Shareholders Fund and included data from the financial statements and sustainability report of Fonterra Cooperative Group Limited (Fonterra Cooperative) given the Fund invests only in the economic rights of Fonterra Cooperative. The data also includes information from the ANZ Australia and New Zealand Banking Group's Climate Related Financial Disclosures and ESG Supplement.

# How did the NZX50 July – December 2022 reporters respond to climate risks?

Our research reveals eight of the 13 July-December 2022 reporters referenced climate change in their financial statements. This is a significant increase compared to March and June 2022 reporters when only six out of the 39 mentioned it.

In most cases, the disclosures continue to be brief and the impacts of climate change risk are not always clearly articulated. However, we are starting to see more companies providing entity-specific considerations compared to earlier reporters.

The eight reporters that mentioned climate change in their financial statements included relevant disclosures in different parts. For example:

- One reporter included disclosure in the note covering significant judgements and estimates.
- Another mentioned climate change in a separate note related to material events and other significant items.
- One reporter had a separate note on climate change risk in their financial statements.
- Others included disclosures in notes related to:
  - Investment property valuation
  - Useful life of property, plant and equipment
  - Impairment testing of intangible assets
  - Financial risk management
  - Segment reporting.

There is no consistency in where this information is being included in financial statements. Over time we expect that climate risk, and its consideration, will become pervasive and referenced throughout financial statements, making disclosures far more user-friendly and helpful for decision making.

Similar to those in March and June 2022, none of the July-December 2022 reporters we reviewed quantified the impacts of climate risk or made an adjustment to the numbers in the financial statements.

## Why has the number of companies mentioning climate-related risks increased?

The reason for the increase could be the result of large NZX listed companies (those whose quoted equity securities' combined market price exceeds \$60 million) having to report under the new Climate Disclosure Standards for periods starting in 2023.

Eleven reporters mentioned the standards either in their financial statements or their sustainability or climate risk disclosures (outside the financial statements). We expect the thinking about how climate-related risks and opportunities impact their business and their financial statements will mature, as they prepare to report under those standards. In line with that, we anticipate better quality discussion about the impact of climate change on businesses in their financial statements.

The impact of recent extreme weather events globally, Cyclone Gabrielle and widespread flooding in Aotearoa New Zealand has drawn further attention to the effects of climate change and the importance of understanding climate risk. In Aotearoa New Zealand we have seen the wide-ranging repercussions including loss of access to premises or production facilities, power, communication, internet, soil contamination, food and fibre supply chain disruption and roading infrastructure fragility. We expect these events will influence future financial reporting as companies deepen their analysis of potential impacts and look to address the concerns of their stakeholders including investors and customers.

# How to enhance climate risk disclosures in financial statements

Our research shows some reporters have moved away from a passing mention of climate risk in the financial statements and have now provided more helpful disclosures explaining how climate risk has been taken into account in preparing their financial statements. These included disclosures with an explanation of the areas where climate change did not have a material impact but where it could be reasonably expected that there were some effects from climate-related risks. This also includes why the impact of climate change was not material.

Below are some examples of more extensive disclosures we have noted over the past year (we have also included two examples from June reporters' disclosures).

## Climate risk

The Group's operations may be impacted by future climate change. These impacts may be physical (e.g. severe or unusual weather patterns and events) or transitional (e.g. changes to government regulations or customer and supplier needs and demands).

The Group regularly assesses its operating environment with regard to the impact of climate change. Specific consideration has been given in these financial statements to the impact of future climate change on the useful lives of the Group's property, plant, and equipment, impairment of intangible assets (NZUs), and carrying value of loans and borrowings (ESG linked loans). No significant impacts have been noted.

*Synlait Milk Limited, Material Events and Other Significant Items, pages 53-54*

Identifies the areas of the financial statements that could be impacted and clearly discloses that there is no material impact at this stage.

## Note 32 Risk management, funding and liquidity risk and market risk (continued)

### Climate change risk

The Banking Group recognises climate change as a major threat to our collective wellbeing and is committed to transparency and action across its business to address climate change. While this is not a material financial risk as at 30 September 2022, climate change risk is evolving and is expected to have a more significant impact on the Banking Group's material financial risks in the future.

The two main sources of financial risks arising from climate change are physical risks and transition risks. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns or other long-term changes such as sea level rise. Transition risks are risks associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.

The Banking Group seeks to understand the potential for climate-related transition and physical risks to impact its business, including their possible impact on credit risk, regulatory and reporting obligations, and our reputation...

...The Banking Group has considered the impact of climate-related risks on its financial position and performance and while the effects of climate change represent a source of uncertainty, the Banking Group has concluded that climate-related risks do not have a material impact on the judgements, assumptions and estimates for the year ended 30 September 2022. Refer to Note 13.1 for further information on how climate change risk is considered as part of credit risk.

For a comprehensive and detailed outline of the Banking Group's approach to climate-related risks, refer to the Climate Risk Report for September 2022 and prior iterations which can be accessed at [www.westpac.co.nz/about-us/legal-information-privacy/disclosure-statements/](http://www.westpac.co.nz/about-us/legal-information-privacy/disclosure-statements/).

*Westpac New Zealand Limited, Note 32 Risk management, page 73 [extract]*

Identifies that the key area of focus is the impact of climate-related risks on credit risk assessments and refers to further information in the relevant note. Clearly states that there is no material impact at this stage.

### New Zealand ingredients manufacturing assets

The Group's New Zealand ingredients manufacturing sites are utilised as a single network for processing raw milk supply. In estimating useful lives and residual values of its New Zealand ingredients manufacturing assets, the Group has considered the impact of:

- possible flat or declining milk supply scenarios (together with individual plant peak milk processing requirements);
- environmental matters (such as the New Zealand Government's Emissions Reduction Plan); and
- the Group's investment in sustainability, including its decarbonisation plan to exit coal by 2037.

*Fonterra Cooperative, Note 16 Property, plant and equipment, page 32*

Explains that the entity's carbon reduction plans have been taken into consideration when determining the useful life of fixed assets.

Climate change and environmental policies established by the New Zealand Government have an impact throughout the New Zealand energy sector and impacts the strategy of the business and therefore is reflected in the financial statements through:

- The Generation assets and energy derivatives are revalued to fair value at each period-end, with the wholesale electricity price path being the key driver of changes in the valuations. The wholesale electricity price path reflects the impact of the New Zealand Government's climate change policy which could have an impact on future prices. Refer to note B1.
- The useful lives of the Group's thermal assets are estimated to be up to 10 years. The useful lives of all assets are reviewed annually to determine whether there have been any changes due to operational or external factors, including climate change considerations, and updated as appropriate. Refer to note B1.
- The Group has provided for its share of the costs of the Kupe production facility at the end of life of this asset. Note the provision assumes the subsea pipeline will be left in situ. Refer to note C4.
- The investment and participation in renewable generation schemes including: a new joint venture agreement for the development of solar generation (refer to note D2); and new long-term power purchase agreements from the Kaiwaikawe wind farm and the Tauhara geothermal field (refer to note F8).
- The Group launched its Sustainable Finance Programme during the year that includes the issue of green bonds to fund green activities and the establishment of sustainability linked facilities that have variable payments linked to performance against the Group's sustainability targets. Refer to note E5.

*Genesis Energy, 2022 Annual Report, General Information and Significant Matters, page 56 [Extract] [Genesis Energy is a June reporter]*

Clearly identifies the key areas that are at risk to be impacted by climate-related risks. Refers to further information in the relevant notes.

### Key estimates and judgements

#### Wholesale electricity price path

The wholesale electricity price path is the key driver of changes in the valuation. The price path is an average of the internally generated price path and price paths published by two independent third parties, and as a result reflects the uncertainty surrounding Tiwai Point smelter operating beyond 2024 and the impact of the New Zealand Government's climate change policy, both of which could have an impact on future prices.

#### Internally generated price path

The internally generated price path assumes wholesale electricity demand will continue to grow based on the latest available industry analysis and Genesis' view of future economic growth. As the internally generated price path is underpinned by 83 years of historical hydrological inflow data, the impact of climate change on hydrology over this period has been reflected in the internally generated price path. New and retiring generation plant assumptions are based on publicly available information and Genesis' view on wholesale electricity prices required to support the plant. The internally generated price path assumes that Tiwai Point smelter will continue to operate beyond 2024.

#### Price paths published by independent third parties

Independent third party price path assumptions on the future of Tiwai Point smelter range from Tiwai Point smelter exiting in 2025 through to operating beyond 2025 or the generation load consumed by Tiwai Point smelter being replaced by other major industrial loads beyond 2025. However, consensus is now shifting towards Tiwai Point remaining open which is reflected in the 2025 ASX energy futures pricing. Significant unobservable inputs in the valuation model were: [related table can be found in the original document].

#### Other key assumptions

The valuation also includes assumptions around market fuel and electricity supply and demand. Our longer term demand assumption increases from industrial electrification and electric vehicle fleet growth in response to climate change. Changes in these interrelated factors will impact the wholesale electricity price path and generation volumes. These factors are reviewed for reasonableness by senior management personnel who are responsible for the price path used by the business.

*Genesis Energy, 2022 Annual Report, Property, plant and equipment – Generation assets, page 63 [Extract] [Genesis Energy was a June reporter]*

Explains how management considered the impact of climate change on assumptions underpinning key estimates and judgements.

### 3 Climate Risk

Meridian is exposed to future changes in climate, which may impact on our industry, our business and our customers. Future impacts may be physical, such as changes in weather patterns or rising temperatures, or they may be more transitional in nature, such as amendments to government policy and regulation, or changes in customer energy needs and demands. Meridian actively assesses the operating environment in New Zealand, in respect of the potential future impacts that changes in climate may have on Meridian. We report formally on this process each year in our detailed Climate Related Disclosures (also referred to as “TCFD reporting”), which can be found on our corporate website at [meridianenergy.co.nz/about-us/investors/sustainability](https://meridianenergy.co.nz/about-us/investors/sustainability). Meridian uses a 30-year time horizon in which to consider various climate-scenarios and the impact these may have to supply and demand in the New Zealand electricity system. Any mitigating actions are embedded into the relevant area of Meridian’s business and longer-term observations are incorporated in our business strategy.

In accordance with Meridian’s risk management policy, we identify and assess climate risks and opportunities using a likelihood and consequence matrix, which allows us to determine the appropriate level of response for each potential impact identified. Meridian also sets various targets for our own emissions profile, and identifies the metrics we use in tracking our progress towards our objectives.

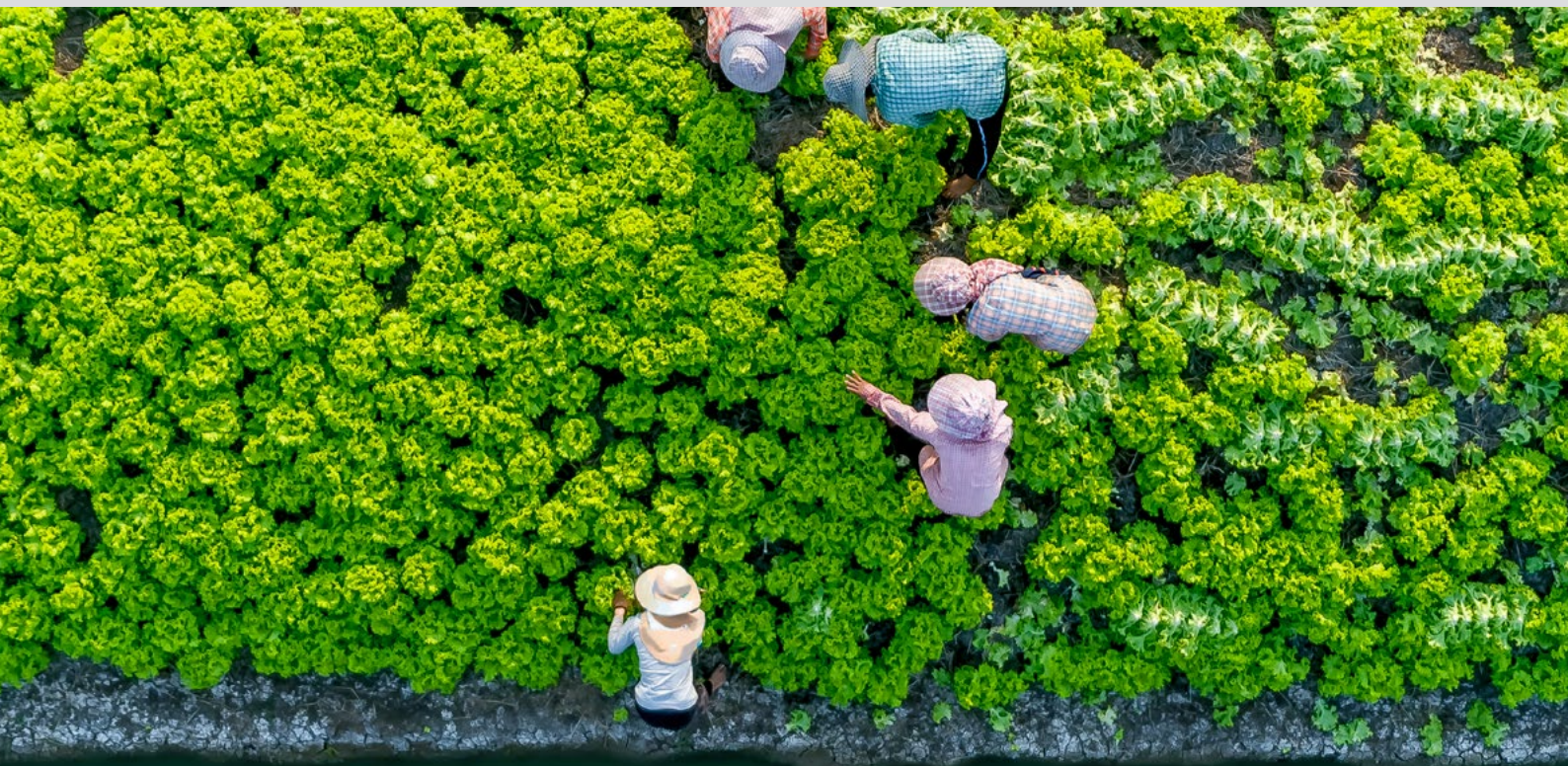
As part of preparing this report, Meridian considers climate risk and whether it may have any impact on our financial statements and associated disclosures. At this point, the most material area we see climate risk potentially having a future impact is on our valuation of generation structures, which we account for at fair value. Refer to Section B of the financial report for further detail on this asset class, including a sensitivity analysis indicating how much their value may change with variations in key inputs, such as generation volumes and wholesale market prices.

*Meridian Energy, 2022 Annual Report, Significant matters in the financial year – S3 Climate risk, page 150 [Meridian was a June reporter]*

Links financial statement disclosures to Task Force on Climate-Related Financial Disclosures (TCFD) disclosures and Meridian’s risk management policies and highlights the key area that could be impacted by climate change and refers to further information in the relevant note.

Unlike those noted above, some companies that did mention climate change did not give sufficient detail in their financial statements to provide meaningful information to readers, especially when considering the extensive discussion about climate risks and opportunities in the front half of their annual report or sustainability report.

Going forward, we expect reporters to move away from boilerplate statements such as ‘climate has been considered’ and provide more insights related to relevant assumptions and uncertainties.



# The importance of consistency in an annual report

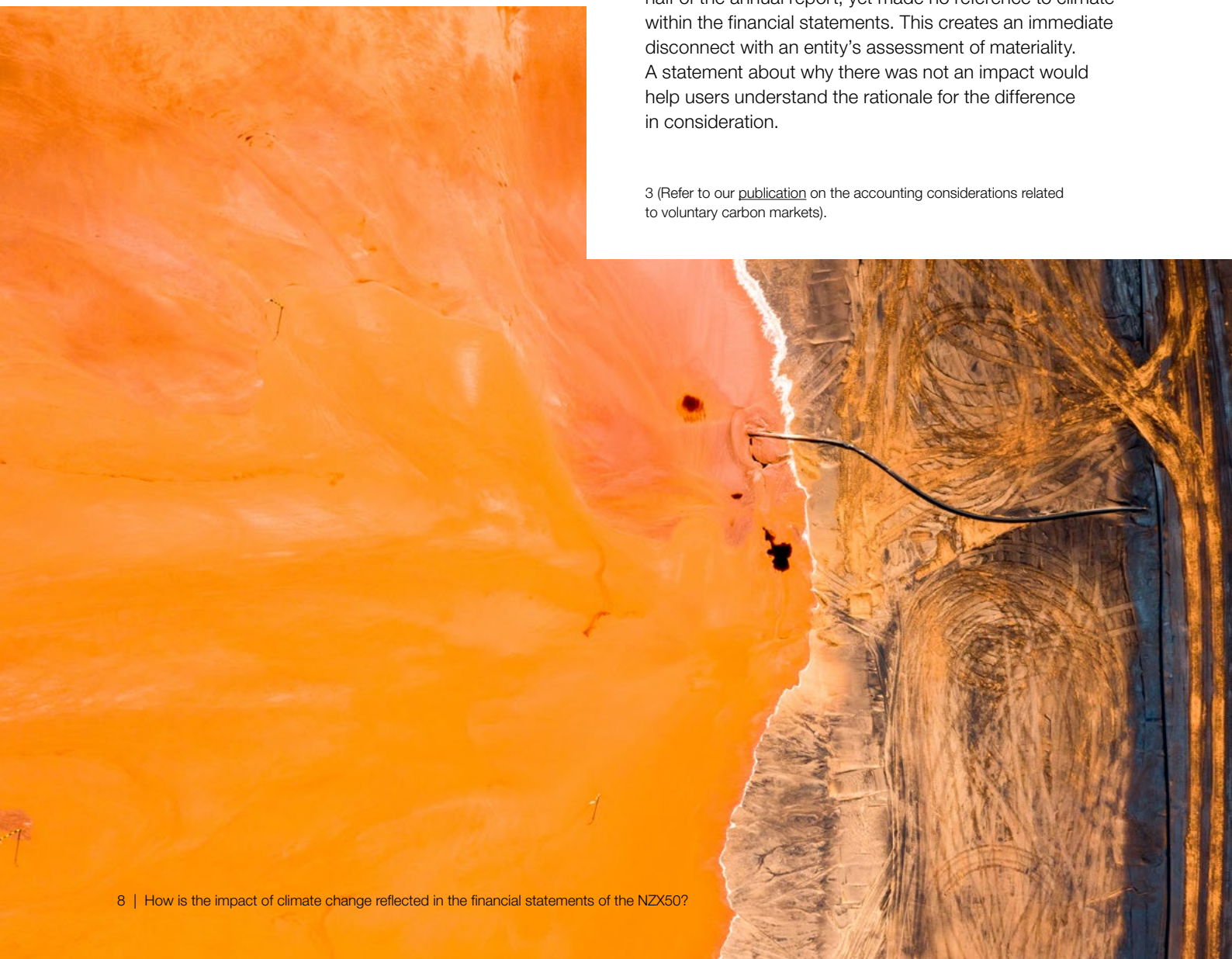
To provide helpful information to the readers of financial statements and annual reports, there needs to be a link between what's discussed in the front half of the annual report (i.e. in management commentary) and public statements made by the company, and the financial statements.

For example, several reporters highlighted net zero or carbon reduction commitments, such as a commitment to electrify parts of their fleet of vehicles or equipment. Most did not explain how they had considered the impact of these plans on the valuation and useful economic lives of assets currently owned by the company.

Some reporters referenced the use of green financing and carbon offsets, yet there was no mention of these in the financial statements. Where these features are material, we expect both borrowers and lenders to include a clear explanation of the related accounting policies. Entities also need to consider and disclose how carbon offsets and carbon credits<sup>3</sup> are accounted for.

Companies also need to reflect on the level of emphasis placed on climate change risk in the front half of their report or in other public communications. They need to make sure it is consistent with the extent of disclosure about how those uncertainties have been reflected in the financial statements. For example, several reporters included pages of climate-related discussion in the front half of the annual report, yet made no reference to climate within the financial statements. This creates an immediate disconnect with an entity's assessment of materiality. A statement about why there was not an impact would help users understand the rationale for the difference in consideration.

<sup>3</sup> (Refer to our [publication](#) on the accounting considerations related to voluntary carbon markets).





# Assessing materiality in relation to climate-related financial statements disclosure

## When is information material?

Information is material if omitting it or misstating it could influence decisions made on the basis of financial information about a company. Materiality assessments are made on the basis of size (quantitative) and nature (qualitative) factors, or a combination of both. External qualitative factors such as the industry in which the entity operates, and investor expectations are part of what needs to be considered when making materiality judgements about required disclosures in the financial statements.

This information could influence primary users' decisions regardless of the amount of the adjustment. A quantitative threshold could even reduce to zero – for example when information about a transaction, other event or the condition is highly scrutinised by the primary users. Disclosure about the lack of exposure to a particular type of risk could be material for the entity.

## Materiality and climate-related risks

With the heightened level of scrutiny on how a company is addressing climate-related risks as well as an increase in climate content in the front half of an annual report, reporters need to improve the quality of disclosures in the financial statements. Alternatively, reporters need to stand back and assess whether all of the content they are including in the front half of the annual report is actually material to the entity.

Companies especially in industries that are likely to be affected by climate change (e.g. banking, insurance, energy, transportation, agriculture and forest products etc), should assess if it is necessary to explain whether, and how, they have considered climate-related risk in their impairment assessments. They also need to think through how climate-related risks have affected other decisions made in relation to the recognition or measurement of items in the financial statements. This could be the case even if the entity did not recognise any material impairment write-down or other impacts in the financial statements<sup>4</sup>.

<sup>4</sup> For further discussion of this topic refer to the AASB and AUASB's [Joint Bulletin on Climate-related and other emerging risks disclosures: assessing financial statement materiality](#).



# How did auditors respond?

Only one of the 13 audit reports mentioned climate change in key audit matters (KAMs) and this was in relation to the valuation of property. This is consistent with previous KAMs that mentioned climate change, noted in our earlier reports.

As mentioned in our previous editions, KAMs show where auditors applied the most judgement in the financial statements and provide transparency. Auditors should reference climate risk in KAMs if it is of significance to the financial statements. With very little discussion of climate risk in the financial statements, it's not surprising this is not being carried through into KAMs.

# What is the regulator focusing on?

In our [previous publication](#) we mentioned that the Financial Markets Authority (FMA) issued its [Approach to oversight of financial statements](#) in July 2022 in which it said in its financial reporting reviews it will be focused on:

- entities' assessment of climate change and its effect on their financial statements; and, where relevant, entities' consideration of climate-related matters when applying accounting standards including level of disclosures; and
- consistency between the information presented outside of the financial statements relating to climate change and the financial statements.

In a [further statement](#) in October 2022, the FMA set clear expectations for management and directors of regulated entities when preparing financial statements to:

- consider climate risks throughout their risk assessment process and look at how this impacts the preparation of financial statements;
- prepare high-quality technical papers for all material areas impacted by climate risk, including materiality assessments and accounting considerations of decisions made to support financial statement disclosures; and
- have adequate documentation in minutes of board and audit committee meetings that includes discussions, analysis and conclusions for accounting areas impacted by climate change.

The FMA expects companies to consider climate change when applying accounting standards and its likely effect in the context of the financial statements (taken as a whole). This includes the level of disclosures relevant for investors to understand the impact of climate-related matters on the reporting entity, if that impact is assessed to be material. When considering materiality, companies should consider quantitative disclosures such as the impact of climate change on the impairment of assets, as well as disclosures that could reasonably be expected to influence the economic decisions of users, based on the financial statements as a whole. Where decisions are made that items are deemed immaterial, these decisions should also be included in the documentation.





## Contacts



**Karen Shires**  
Chief Risk and Reputation Officer  
[karen.f.shires@pwc.com](mailto:karen.f.shires@pwc.com)  
+64 21 501 043



**Tiniya du Plessis**  
Partner  
[tiniya.b.du.plessis@pwc.com](mailto:tiniya.b.du.plessis@pwc.com)  
+64 21 495 856



**Jonathan Skilton**  
Partner  
[jonathan.m.skilton@pwc.com](mailto:jonathan.m.skilton@pwc.com)  
+64 21 355 879



**Mariann Trieber**  
Executive Director  
[mariann.m.trieber@pwc.com](mailto:mariann.m.trieber@pwc.com)  
+64 210 621 812



This content is accurate as at 24 March 2023. This content is for general information purposes only, and should not be used as a substitute for consultation with our professional advisors. To find an advisor and to see more of our general guidance for businesses, please visit our website at [www.pwc.co.nz](http://www.pwc.co.nz)

© 2023 PricewaterhouseCoopers New Zealand. All rights reserved. 'PwC' and 'PricewaterhouseCoopers' refer to the New Zealand member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.