

Task Force on Climate-related Financial Disclosures

Shree Cement Limited

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Task Force on Climate-related Financial Disclosures

Governance

At Shree Cement Limited, the Board of Directors have overall responsibility of guiding and steering the climate change vision and strategy. At Board Level, CSR and Sustainability Committee is primarily responsible for keeping oversight over ESG issues including climate-related risks and opportunities. The overall responsibility for business risks and opportunities lies with the Board level risk committee. The climate related aspects are on the agenda of Board meetings on a periodic basis, at least annually.

The Board of Directors are responsible for framing, implementing, and monitoring the risk management framework of the Company. A Risk Management Committee (RMC) has been constituted to monitor and oversee the effective implementation of the ERM policy and reports to the Board of Directors. Along with RMC, the ESG Committee, comprising of senior executives, reviews the results of the risk management process. The Chief Risk Officer (CRO) facilitates the operationalization of the ERM framework and updates the ESG Committee and the RMC periodically. The RMC meets at least once in a continuous span of 180 days in line with regulatory requirements. During the meeting, the RMC also reviews the risk exposure including the risk appetite and operating effectiveness of the ERM framework.

At Management level, the Company has Environment, Social and Governance Committee (ESG Committee) wherein the senior management of company including the Managing Director (MD) are members. The ESG committee oversees climate-related performance by institutionalizing clear goals and targets for the company. The ESG committee deliberates around recommendation and then present the same before CSR and Sustainability Committee.

Each Functional Head is responsible for closely reviewing and managing climate-related matters regularly. The functional heads take inputs from their team members for identification and submission of risks/opportunities related information at the plant and unit level.

Our Remuneration policy provides for considering the ESG parameters which include climate related achievement as one of the factors for deciding the annual appraisal of senior management. The CEO (MD) compensation is linked to various ESG performance indicators including achievement of targets on climate change, energy efficiency and reduction in emissions intensity. Executives and Business Unit Managers have performance linked incentives w.r.t emissions reduction and reduction in energy consumption respectively.

For strengthening our climate change governance framework, we have introduced Internal Carbon Price (ICP) based on shadow pricing approach. The ICP arrived at INR 1530/tCO_{2e} is being integrated into business decisions.

Strategy

Climate risks that constitute an immediate probability of occurrence within a span of 0-3 years, are classified as short- term risks. Our medium-term climate risks are expected to occur in the near future (3-10 years) whereas long term climate risks are potential risks with the probability of impacting our business after 10-30 years of timespan.

Transition risks

- Regulatory Risk (Short term and long term)
 - ✓ Increasingly stricter environmental laws and regulations such as the Renewable Energy Certificates (REC) mechanism, the Perform, Achieve, and Trade (PAT) mechanism, carbon emissions trading mechanisms, environmental standards for reducing air and water pollution as well as waste management policies altogether potentially increasing the cost of production.
- Technological Risks (Long Term)
 - ✓ Cement industry falls under “hard to abate” sectors from climate mitigation perspective. GHG emissions due to release of carbon during calcination process of limestone during clinker manufacturing are difficult to abate in near to medium term, across the cement industry.
 - ✓ Role of emerging decarbonization technologies such as carbon capture and storage to achieve the climate-related targets is being explored for their feasibility as well as affordability. There are instances of pilots / initial testing of such solutions globally. However, technology transfer and affordability remain as major challenges.
- Market Risks (Long Term)
 - ✓ Change in consumer preferences with increasing demand for low carbon products compounded by increased competition from substitute materials thus helping consumers decrease their dependency on company product.
 - ✓ With the advent of recent cross border adjustment mechanism, there is already a precedence on the carbon intensive products to be taxed. Should carbon tax be levied nationally, the impact on EBITDA is expected to be more than 5%.
- Reputational Risks (Short Term)
 - ✓ Shift in interest of the investors due to reduction in ESG ratings.

Transition Risk Resilience

We have taken various initiatives to mitigate transition risks. Some of the initiatives taken by company for decarbonizing its process and reduce its carbon footprint are as follows:

- ✓ Increasing renewables (solar and wind power) and Waste Heat Recovery (WHR) in energy-mix.
- ✓ Reducing specific energy consumption through continuous efficiency improvements and technology interventions.
- ✓ Exploring usage of low-carbon fuels (e.g., use of agro-waste/biomass instead of coal in some of our grinding units).
- ✓ Use of alternate fuels for process heating.
- ✓ Use of alternate raw materials and produce low carbon products.
- ✓ Exploring carbon capture, utilization, and storage mechanisms.
- ✓ Plantations, including green belt development.

Physical Risks

- Chronic (Long Term)
 - ✓ Erratic monsoons, rise in global temperatures and increasing usage of water by industries and domestic users, will impact the availability of water, resulting into increased water stress.
 - ✓ Water unavailability may lead to significant operational impacts to our plants located in regions with high water stress.
- Acute (Short Term- Long Term)
 - ✓ Extreme climatic events leading to operational shutdowns and/or service disruptions, disruptions in procurement as well as sales logistics.

Physical Risk Resilience

We have taken various steps to mitigate the impact of physical risk on our operations. Due to various water conservation and recycling measures adopted by company, the company is 7-times water positive. Some of the major steps taken by us are as follows:

- ✓ Use of 100% wastewater generated in our operation.
- ✓ Zero Liquid Discharge (ZLD) in accordance with our philosophy of responsible consumption and production.
- ✓ Water conservation initiative in and around the plant boundaries by constructing water harvesting structures. Ponds are constructed to collect rainwater and majority of the water requirement is fulfilled through this harvested rainwater.
- ✓ Organizing awareness program on water conservation.
- ✓ Use of treated municipal STP water in our plant operations, to reduce our freshwater consumption.

Climate Related Opportunities

Efforts to mitigate and adapt to climate change also produce opportunities for organizations, for example, through resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets, and building resilience along the supply chain. With increasing need for infrastructure, blended (low carbon) cement will play a major role in establishing the foundations of decarbonisation to support the global low carbon agenda. Furthermore, increasing policy and regulatory push towards low-carbon growth creates advantage for our ongoing innovation in low carbon products. While we recognize that not all these measures are viable today, we are continuously monitoring the landscape to ensure that we do not miss the bus on any of these opportunities as and when they do turn the corner.

Scenario Analysis

We adopted 2DS scenario analysis for climate related strategy and implementation.

The assumptions and area of focus for 2DS scenario analysis are listed below

- Cement production was projected based on current and future capacity additions planned at various locations.
- GHG emissions were projected based on production and specific emissions for the last five years.
- It is assumed that the specific emissions would decrease at a rate equivalent to rate of decrease in specific energy consumption (SEC).
- Difference scenario developed based on reduction in SEC varying 5-7% in every phase of PAT.
- Only scopes 1 and 2 are considered as scope 3 may not be proportional to production.

Risk Management

Risk Identification and Impact Assessment

Company level identification and management of risk- including climate related risks is systematically carried out using our Enterprise Risk Management (ERM) framework. The ERM framework enables regular review of the identified risks, their mitigation measures, and associated opportunities.

The Risk Management Committee of the Board keeps an eye on execution of the risk management plan of the Company and advises the management on strengthening mitigating measures wherever required. The actual identification, assessment and mitigation of risks are however done by respective functional teams of the Company in a systematic manner. The risks are prioritized according to their significance and likelihood of occurrence. Risks having high likelihood and high significance are classified as 'key risk'.

Risk Management and Mitigation

Once the risks are prioritized, we perform analysis to determine whether the risk can be treated with available resource or investment, whether the risk can be insured through third party involvement and whether the risk is required to be assumed being the nature of such risk cannot be avoided as same being part of process and hard to abate. Based on above analysis, a mitigation strategy is developed keeping in mind the short term and long-term implications of the risks on the organisation.

Risk Monitoring and Reporting

We consider monitoring and reviewing to be the key factors in continual improvement of risk management. The identified risks and their corresponding mitigation measures are reported regularly through our Integrated Annual Report.

Metrics and Targets

Following metrics are tracked annually-

- 1) Scope 1 GHG emissions
- 2) Scope 2 GHG emissions
- 3) Scope 3 GHG emissions
- 4) Fresh Water Consumption – Million m³
- 5) Energy Consumption
- 6) Consumption of Power from renewable sources

Shree Cement has committed to reduce specific scope 1 GHG emissions 12.7% per ton of cementitious materials by 2030 from a 2019 base year. Shree Cement has also committed to reduce specific scope 2 GHG emissions 27.1% per ton of cementitious materials within the same timeframe. These targets are validated by Science Based Target initiative (SBTi).