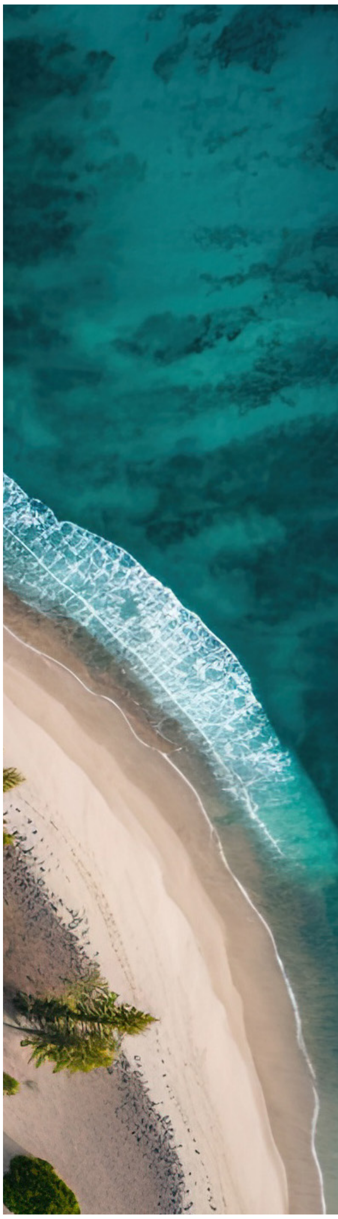
John Wood Group PLC

Task Force on Climate-related Financial Disclosures (TCFD) Report 2022



wood.

As the world adapts to a changing climate, Wood is evolving to build on the opportunity sustainability presents in the actions we take today to create a better tomorrow.

Contents

Foreword

Ken Gilmartin
Chief Executive, Wood

"We are committed to taking action to reduce the impact of our own activities while supporting our clients to reach their own net-zero ambitions."

In 2022, we have continued to exceed our own ambitious target to reduce our scope 1&2 emissions by 40% by 2030. Our emissions reduced by 65% compared to our 2019 baseline, reflecting the benefit of actions undertaken in line with our carbon reduction strategy such as increasing the proportion of energy procured from certified renewable sources and improving energy efficiency in our real estate portfolio. However, we recognise that as activity levels increase there is potential for the reduction in our scope 1 emissions to reverse and we have an obligation to monitor and manage the impact in line with our target.

We believe that Wood has a vital role to play in tackling climate change through our capabilities and expertise aligned to enabling a low carbon future. During 2022, climate-related matters including the energy transition and the adaptation towards low carbon and climate resilient infrastructure were key growth drivers underpinning our strategic direction during the year. The sale of our Built Environment Consulting business in September 2022 prompted us to review and refresh our strategy as we move into strategic cycle for 2023-2025. Energy transition remains a key driver for our revised strategy combined with a focus on the sustainable materials required for the energy transition, decarbonisation and the transition to a circular economy, balanced against the need for energy security.

We recognise that climate-related matters are a significant driver of opportunities from our strategy. However, they also present certain risks for our business which we manage through a robust and comprehensive governance process with oversight by the Board, as detailed in this report. Building on this strong foundation we are committed to continually evolve our understanding and approach to climate-related risks and opportunities. As part of this commitment and in light of our revised strategy we intend to update our scenario planning analysis in 2023 to ensure the ongoing resilience of our business and strategy.

We are pleased with our progress in meeting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as set out in this, our first standalone TCFD report.

Compliance with TCFD

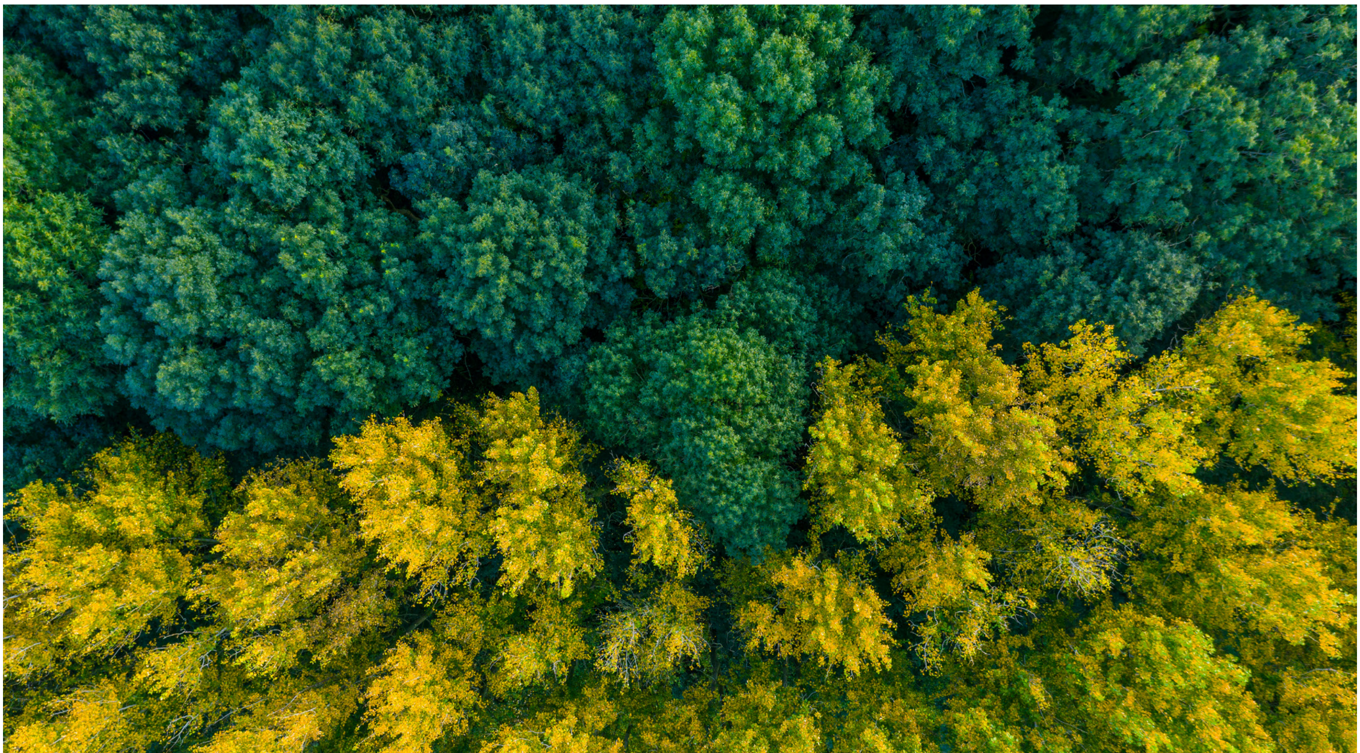
TCFD recommendations

Our disclosures are consistent with the TCFD Recommendations and Recommended Disclosures. We are fully compliant with nine of the 11 recommended disclosures. Below is a summary of the status of our compliance, together with page references in this report where the relevant disclosures can be found. In addition, where relevant we provide the expected time horizon to achieve full compliance for any disclosure that we require more time to implement.

	Status	Page
Governance		
Describe the board's oversight of climate-related risks and opportunities	Compliant	03
Describe management's role in assessing and managing climate-related risks and opportunities	Compliant	03
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Compliant	04-05
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	Compliant	06-07
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario[1]	Partially compliant	04
Risk management		
Describe the organisation's processes for identifying and assessing climate-related risks	Compliant	08-09
Describe the organisation's processes for managing climate-related risks	Compliant	08-09
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Compliant	08-09
Metrics and targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process[2]	Partially compliant	10-11
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Compliant	10-11
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Compliant	10-11

Footnotes:

1. Although qualitative scenario planning has previously been undertaken, to ensure full compliance we intend to refresh our scenario planning in 2023 taking into account climate-related scenarios, specifically including a 2°C or lower scenario and setting out our key assumptions. Our refreshed 2023-2025 strategy rolled out in late 2022 will form the foundation of our scenario planning
2. Consideration around establishing internal carbon prices will follow the completion of the re-baselining of our scope 1 & 2 emissions to reflect the impact of the sale of our Built Environment Consulting business. This re-baselining exercise will be undertaken during 2023. Following the roll-out of our revised strategy in late 2022 an exercise is underway to define our metric for measuring client support aligned to the energy transition which is expected to be completed in 2023



Governance

Board oversight of climate-related risks and opportunities

At Wood, the Board as a whole has accountability for sustainability matters, including those related to climate. Detailed reviews of Wood's sustainability strategy and performance, including performance against climate targets, are undertaken by the Board twice per year. However, to ensure sufficient and more frequent oversight of Wood's sustainability strategy and performance it has delegated certain responsibilities to a Safety and Sustainability Committee.

The Safety and Sustainability Committee is chaired by a non-executive director and meets four times per year, reporting to the Board after each meeting on matters discussed and recommendations. The Committee's responsibilities include reviewing and making recommendations on:

- the effectiveness of management's plans on environment and climate action, including the setting, disclosing and achievement of targets
- the progress against priorities and objectives including compliance with public commitments on sustainability matters, responding to sustainability risks

Wood has unique consulting and engineering skills that are critical to solving the global challenges of decarbonisation and energy transition, as well as energy security. Through oversight for the overarching business strategy, the Board considers Wood's climate-related opportunities and climate-related impacts on the sustainability of the business model. It does this by assessing the key market drivers and uncertainties for market development, key customers and competitors across each of Wood's focus geographies, Wood's historical track record of performance, major risks to delivery and how will they be mitigated. The Board increases its understanding of climate-related opportunities by developing strategic partnerships as well as supporting global initiatives on climate advocacy such the UN Global Sustainable Development Goals (SDGs).

The Board has responsibility for identifying the nature and extent of the emerging and principal risks faced by the business; determining the extent of those risks it is willing to take in achieving its strategic objectives (its "risk appetite"); performing a robust assessment of those risks; and monitoring and reviewing the risk management and internal control systems and providing oversight of the processes that management follows. The Board is assisted in this assessment by the Audit, Risk and Ethics Committee and the Safety and Sustainability Committee, who are delegated responsibility for various aspects of risk, internal control and assurance.

Climate-related risks are considered as part of the overall process for managing principal and emerging risks, with principal risks being reviewed by the Board twice per year and emerging risks escalated to the Board as required.

This process includes cross-check against the principal and emerging risks identified by Wood's peer group which helps to inform the Board's mid-year discussion on risk. In addition, at the half-year and year-end, a series of one-to-one interviews are carried out by the President – Group Audit & Risk and the Group Risk Vice President with each of the non-executive directors to understand their perception of emerging risks, including those from climate-related matters.

Further Board oversight for climate-related matters is undertaken by the following Board committees:

- Audit, Risk and Ethics Committee – Responsible for, amongst other things, monitoring the integrity of Wood's financial statements and strategic report, including climate related disclosures
- Remuneration Committee – Supporting delivery of the sustainability strategy, including climate-related objectives, through incorporation of environment, social and governance (ESG) targets in leadership team bonus schemes and long-term incentive plans

Management's role in assessing and managing climate-related risks and opportunities

The Executive President of Business Sustainability & Assurance, as a member of the Executive Leadership Team (ELT) oversees the delivery of the sustainability strategy and has overall accountability for climate-related actions and risk management. The Safety and Sustainability Committee forms the main channel of communication between management and the Board. The Executive President of Business Sustainability & Assurance attends these Committee meetings to provides regular reports on progress, including updates progress against our climate-related targets.

The President of Sustainability reports to the Executive President of Business Sustainability & Assurance and is responsible for the development, execution and monitoring of the sustainability strategy, including any climate-related actions and targets. The President of Sustainability also oversees the Environment, Social and Governance (ESG) risk management framework which includes a climate change risk register.

Wood's Growth & Development (G&D) function is responsible for business development, including building on growth opportunities in energy transition and decarbonisation which have climate-change as a key driver. The President of Sustainability collaborates closely with Wood's G&D function to enhance Wood's ability to compete and secure work in this space and oversees the reporting against our target of doubling client support aligned to the energy transition by 2030.

Climate governance

Strategy

Climate-related risks and opportunities

It is important to note that the following sections discuss the impact of climate-related matters on our strategy and business for the year ended 31 December 2022. In September 2022, Wood completed the sale of its Built Environment Consulting business that was aligned to built environment markets for the development of sustainable infrastructure and which accounted for approximately 20% of group revenue. In light of this significant change to our business, we updated our strategy for the 2023-2025 cycle and this was set out in a capital markets day on 29 November 2022. Our revised strategy is aligned to two broad end markets of Energy and Materials, which are driven by trends in energy transition, energy security, sustainable materials, circular economy and decarbonisation. As a result, climate-related matters remain a core consideration of our revised strategy and will be detailed in our 2023 TCFD report.

As an engineering and consulting company operating across energy and built environment markets in 2022, climate-related matters including the energy transition and the adaptation towards low carbon and climate resilient infrastructure were key growth drivers underpinning our strategic direction during the year. As such, we recognise the potential for climate-related risks and opportunities to impact on our business.

In 2019, as part of our strategic planning process, we undertook qualitative scenario planning exploring the pace and depth of the low-carbon energy transition required to meet Paris Agreement targets and have continued to assess the risks and opportunities throughout our strategic cycle to 2022. Our scenario planning considered two focal questions which considered the climate-related impacts on the key drivers of our strategy, that is, energy transition and the development of sustainable infrastructure. Our assessment explored two major uncertainties for each question, resulting in four scenarios to test the resilience of our strategy in order to:

- Ensure our business is financially resilient across a range of market scenarios with respect to the pace, scope and scale of energy transition changes
- Enable our business model resources to be optimised in response to specific short to near-term market and geographical opportunities
- Supporting our clients with differentiated service offerings, engineering solutions and delivery capabilities to help them meet their individual climate-related net-zero targets

Energy Transition focal question: To what extent will energy source provision, distribution and demand change in the world over the next 15 years?

Uncertainties:

- Degree of alignment across key stakeholders, i.e. social, government, investors and businesses
- Rate of innovation and the adoption of renewable and low carbon energy

Sustainable infrastructure focal question: How will urban infrastructure evolve over the next 15 years?

Uncertainties:

- Ability of cities to generate wealth and release capital
- Depth of society's connectedness to data and technology

As result of these assessments, we identified a comprehensive list of risks and opportunities in our climate change risk register. From this list, we identified the climate-related risks and opportunities that are likely to have the most significant potential effects on our business, strategy and financial planning Further detail on our process to determine the impact of climate-related considerations on our business risks is included in 'Risk Management' below. Our assessments considered climate related risks and opportunities over short, medium and long-term time horizons. We define these time horizons as follows:

- **Short-term: Between 0 and 3 years** – We review climate-related risk on an annual basis and therefore consider 0 to 3 years to be a suitable short-term assessment period. This aligns with our going concern assessment period which covers a period of at least 12 months from the date of approval of the financial statements.
- **Medium-term: Between 3 and 5 years** – In line with our overall business strategic cycle, sales pipeline and contracting periods, and Wood's sustainability materiality assessment cycle, we define medium term as between 3 and 5 years. This aligns to the assessment period utilised for Wood's viability statement which assesses the group's viability over a period of three years and models the impacts of risks over a five-year period.
- **Long-term: Between 5 and 100 years** – Long-term considers periods beyond our strategic cycle and extends up to 100 years to account for known historic climate events and the likelihood of future occurrence, as well as applying current scientific knowledge to understand longer term impacts of climate change. Factors considered include, but are not limited to, longer term government policy, advances in technology and innovation, as well as physical climate scenarios.

	Category	Status	Business impact
Opportunities			
Increased client scope for energy transition and decarbonisation services. The measurement of this opportunity is reflected in our target of doubling of client support for the energy transition, see 'Metrics & targets' below.	Opportunity – Markets, Products & services	Short, Medium & Long	The current global aim of attaining a maximum of 1.5ºC of warming requires investment in energy transition and efficiency and this provides Wood with opportunities to deliver growth in these areas and diversify our client portfolio. This opportunity is likely to have a group-wide impact with the most significant energy transition impacts in hydrogen, carbon capture, renewables and decarbonisation activity.
Access to competitive lending rates. The measurement of this opportunity is reflected in our target of top quartile ESG ratings, see 'Metrics & targets' below.	Opportunity - Markets	Short, medium & long	The increasing adoption of the Principles of Responsible Investment and incorporation of climate change considerations into capital allocation decisions provides an opportunity for the Group to continue to access the most competitive lending rates as a result of its strategy aligned to delivering solutions for a net-zero future and appropriate management of our own ESG risks.
Risks			
Undertaking high carbon projects that are inconsistent with Wood's positioning of pivoting to support clients in their pursuit of net-zero and decarbonisation. This is recognised in our principal risk Strategic Delivery, see 'Risk management' below.	Transition risk – Market & reputation	Short, medium & long	Undertaking high carbon projects may result in a loss of investor confidence, exposing Wood to disinvestment in the fossil fuel industry and impacting Wood's access to capital.
Energy transition and decarbonisation markets do not generate sufficient revenues required to meet targets and/or Wood does not have the ability to attract or retain the appropriately skilled workforce. This is recognised in our principal risk Strategic Delivery, see 'Risk management' below.	Transition risk - Market	Short & medium	Failure to keep pace with client demands and competitive forces in energy transition and decarbonisation and/or inability to attract or retain the appropriately skilled workforce may impact on Wood's competitive position resulting in an inability to compete for energy transition and decarbonisation work effectively. This risk is likely to have a group-wide impact with the most significant impact in hydrogen, carbon capture, renewables and decarbonisation activity and in our Built Environment business prior to its sale in September 2022.
Failure to meet carbon targets through lack of engagement, investment and/or accountability, resulting in Wood being unable to effect behavioural change. This is recognised in our principal risk ESG Strategy & Performance, see 'Risk management' below.	Transition risk – Policy & legal, reputation	Short, medium & long	Failure to effect the behavioural change required to meet our carbon target may give rise to risks of environmental harm and loss of stakeholder confidence. Our commitment to reduce scope 1 and 2 emissions by 40% by 2030 is underpinned by a strategic delivery plan. The key elements of the plan include group wide actions, such as transitioning to renewable/green energy tariffs and driving carbon efficiency improvements in our real estate portfolio, as well as localised carbon reduction programmes for each business unit.
Increasing carbon management costs, including administrative costs of compliance with current and emerging carbon related reporting and regulation and increasing carbon taxation.	Transition risk – Policy & legal	Short, medium & long	Carbon related reporting and regulation and carbon tax schemes present incentives to cut Green House Gases (GHG) emissions cost-effectively through reputational and financial drivers. However, compliance with them can also present significant administrative burdens for organisation. As a company listed on the London Stock Exchange, Wood is required to comply with the Companies Act 2006 (Strategic Report and Directors Report) Regulations and the Streamlined Energy and Carbon Reporting (SECR) legislation in respect of reporting carbon emissions and energy consumption. Wood is also subject to Article 8 of the EU Energy Efficiency Directive, in the UK (through the Energy Savings Opportunity Scheme Regulations 2014) and in other EU member states.
Changing precipitation and increasing extreme variability in weather (severe storms, heat, fires) as result of climate change resulting in disruption to operations and increased insurance costs or reduced access to insurance. This is recognised in our principal risk Project Execution, see 'Risk management' below.	Physical risk - Acute	Short, medium & long	With a global portfolio of locations, Wood's offices and facilities are increasingly at risk from severe storms, heat and fires which may lead to increasing risk to our people living, working and travelling to and from affected areas, damage to facilities, downtime and lost productivity. This may also affect insurance cover which may become more expensive, restricted or unavailable. The most significant potential impacts are in our Projects business unit with engineering, procurement & construction (EPC) and engineering, procurement & construction management (EPCM) projects the most likely to suffer business interruption. Mitigations in place consist of an internal weather risk modelling tool used to assess the probabilistic impacts and inform contracting terms.

Details of adaptation and mitigation activities undertaken to address climate risk and any changes from the prior year are set out in section 'Risk management' below.

Strategy continued

Impact on businesses, strategy & financial planning

Impact on strategy

Our scenario planning analysis has informed our strategic planning throughout our strategic cycle to 2022. This has guided our focus on growth markets in energy transition and decarbonisation and our actions to ensure we have the appropriate management and teams in place and to form strategic partnerships to develop the solutions required to respond to climate change. Through these strategic actions we aim to ensure that Wood benefits from opportunities from increased client scope for energy transition and decarbonisation services as well as manage the risks of not meeting our revenue generation targets and our ability to attract and retain the skilled workforce to enable us to compete effectively for energy transition and decarbonisation work.

Wood has a flexible business model and a long track record of evolving to position our capabilities and technical expertise to take advantage of growth trends and changes in our markets. As part of our strategic process we carry out a comprehensive strategy review every three years and establish strategic direction at a high enough level to enable agile leadership adjustments leveraging our flexible model, over the strategy horizon to account for evolution in climate related risks and opportunities in our markets.

Our principal risk of Strategic Delivery recognises the potential market and reputational impacts of undertaking high carbon projects that are inconsistent with Wood's positioning of pivoting to support clients in their pursuit of net-zero and decarbonisation. Our strategic actions throughout 2022 focusing on growth opportunities from energy transition and the adaptation towards low carbon and climate resilient infrastructure have significantly mitigated this risk and as a result, reducing carbon intensity is a feature of almost all of the contracts we are delivering today. Whilst Wood has declined a number of high-carbon scopes of work (related to coal activities), to further improve governance in this area we recognise the need for an enterprise-wide method to assess projects for consistency with our strategic approach. During 2022, the ELT began considering ways to implement an enterprise-wide approach and this will continue to be an area of focus in 2023.

As part of our corporate development process, we continually evaluate our business and consider the investment opportunities to accelerate delivery against our strategy. In considering such investment opportunities we apply a tailored diligence approach that takes into consideration the totality of the business across climate change risks. As climate-related impacts are a key driver of conditions in our market and of client requirements, our processes are agile and robust enough to determine the materiality of climate risks in all transactions.

In addition to our business strategy aligned to enabling our clients to transition to a low carbon economy, our sustainability strategy contains the plans required for our own transition. We have committed to reducing our scope 1 and 2 carbon emissions by 40% by 2030, from a 2019 baseline of 173,585 tonnes CO2e. This target forms the foundation of our plans to transition to a low-carbon economy and is the driver for group-wide strategic actions.

Of the total Scope 1 and 2 baseline emissions, 54% arise from purchased electrical energy, 28% from fleet transport and 18% from combustion of fossil fuels predominantly for heating purposes. Therefore, our plans to achieve our carbon emissions reduction target are focused on principle strategic levers to address the areas where Wood has both significant emissions signatures and exercises operational control to change or eliminate them. Our initial focus to meet the first milestone, a 40% reduction, centres around:

Real Estate occupancy efficiency
Through rationalising our real estate portfolio to reduce square footage and increase workplace density, we can reduce the carbon emissions associated with the operation of our buildings. Building on our experience of the Covid-19 pandemic, we have been able to maintain employee productivity for some types of occupations in a hybrid and virtual work environment thereby enabling some real estate rationalisation. However, we recognise there is an inevitable scope 3 carbon emissions impact associated with remote and hybrid working that we will need to find ways to mitigate.

In addition to rationalising our real estate portfolio, we are focused on ensuring increased efficiency specifications on the procurement of new real estate.

Renewable energy procurement
We are taking action to switch our energy procurement to certified renewable energy sources. By the end of 2022, 55% of our total purchased electricity was from certified renewable sources and we expect this to increase further, to around 60%.

Impact on business & financial planning

The material impacts of climate related issues on our business are set out in the table on page 05. The following sets out the impacts on our financial planning.

Wood participates in a number of markets where climate considerations may affect demand for our services, including hydrogen, carbon capture, oil & gas, chemicals, minerals and, prior to the sale of our Built Environment Consulting business in September 2022, sustainable infrastructure. We factor this into our robust revenue forecasting by analysing addressable markets and prospective growth rates over time. In our recent process to update our strategy we engaged with external industry consultants and clients to inform our planning process out to 2025 which considered movements of our markets inclusive of climate-related impacts. This data along with a sales pipeline that tracks opportunities aligned to our capabilities and strategy, form the basis of our financial modelling.

Climate-related issues also impact our financial planning when making decisions on our sources of borrowing. Our strategy and capabilities aligned to the energy transition have provided us with the opportunity to access wider sources of borrowing including sustainability linked facilities. As a result, in 2022 Wood had a balanced portfolio of debt facilities which included a five-year committed sustainable revolving credit facility and a UK government backed loan linked to energy transition.

Climate-related issues are not currently a significant feature of budgeting for operating costs. There is potential for elements of our carbon reduction strategy to result in incremental costs, such as switching to the procurement of energy from renewable sources. However, these are not considered to be significant and the actions to date have been relatively low cost or cost neutral. Our insurance costs reflect the impacts of physical climate-related risks. They also reflect transitional risks and opportunities, to the extent that our overall insurance risk profile is influenced by market and reputational considerations driven by changes in our strategy and demand for our services due to climate-related factors. To date, the effect on our insurance costs have been more influenced by macro global insurance market factors than by Wood specific climate risk factors.

The area where climate-related issues could impact on the group's assets and liabilities is on goodwill and other intangible assets which are tested for impairment on an annual basis by comparing the carrying value of the assets to the value in use calculations, which are underpinned by the financial forecasts approved by the Board. As highlighted above, climate considerations may impact demand for our services and therefore either increase or reduce future cash flows of the Group, affecting the value of goodwill. Energy transition and decarbonisation trends represent significant growth drivers for the Group which is well placed to benefit from significant levels of investment required by our clients to achieve net zero. Oil & gas markets continue to generate significant value for the group in the short-term due to the global focus on energy security, whilst in the medium to long-term we expect a shifting demand in oil & gas markets towards decarbonising operations. The relative sizes of the markets and the influence of climate-related matters on the rates of growth in both our energy transition related and fossil fuel related activities could influence the valuation of goodwill.

In 2022, whilst energy security was a key driver of revenue growth, climate-related opportunities contributed to good growth in our services related to decarbonisation, sustainable fuels & materials recycling and carbon capture. Going forward we expect the impact of climate-related matters to drive further growth in our energy transition and sustainable materials markets. In 2022, the impact of climate-related matters on assets and liabilities were considered, amongst many other factors, in the overall market growth rates forecast in the annual impairment review of goodwill and other intangibles. Further information on the impairment review is contained in note 10 to the 2022 financial statements.

Building climate resilience into our business strategy

In September 2022, Wood completed the sale of its Built Environment Consulting business that was aligned to the markets for the development of sustainable infrastructure. Following the sale and as we enter our next strategic cycle, our updated strategy from 2023 to 2025 was rolled out in a capital markets day in November 2022. In developing our strategy, high-level climate-related risks and opportunities were considered. During 2023 we intend to refresh our scenario planning, taking into account different climate related scenarios including a 2°C or lower scenario, to assess the resilience of our strategy.

Risk management

Our overall risk management framework integrating climate-related risk assessment

Wood's process for identifying, assessing and responding to climate-related risks and opportunities is incorporated within our enterprise-wide risk management process and framework. This framework feeds into our principal risks and uncertainties reviewed by the Board and the ELT. The Wood Risk Management Framework delivers compliance with the UK Corporate Governance Code and alignment with the ISO 31000 principles.

Our group risk management standard is the formal overarching risk management process within Wood that complements current policies and processes across the Group. The purpose of the standard is to:

- Ensure there is a formal, structured and consistent risk management process across Wood
- Identify, mitigate, and manage risks that occur
- Provide visibility over business risks to inform leadership

Our risk framework starts with the analysis of our business and the external environment within which we operate to ensure our approach to assessing risk is current, and that our risk culture can evolve and adapt to the everchanging risk landscape. A bottom up and top-down approach is followed to facilitate the risk management process within the organisation as laid out in the group risk management framework shown below. During 2022, our enterprise risk management system (BRisk) was upgraded to enhance governance and oversight of the control environment as a key milestone in Wood's risk management strategy.

Group risk framework

Risk Escalation

Contract/ project Monthly project governance risk review → **Business groupings** Quarterly risk review → **Business units** Quarterly risk review → **Quarterly business review** Quarterly BU risk review → **Group Risk Committee** Biannual Group risk & principal risk review → **Board** Biannual principal risk review

Risk registers are developed at an individual contract or project level, escalated to the business grouping (BG) and captured in the Corporate Risk Management system (BRisk) and rolled up into business unit (BU) risk registers, which are reviewed respectively by the BG and BU Leadership Teams every quarter. The physical risks associated with climate change, such as abnormal temperatures and weather, are considered in the contract/project risk registers. Depending on the materiality, these may then be reflected within the Project Execution principal risk at a BG and BU level.

The BU risk registers are subsequently reviewed as part of the Quarterly Business Reviews which are chaired by the Chief Executive Officer (CEO) with attendance by the CFO, the other members of the ELT and the respective BU Leadership Team.

Group level functional risk registers are also maintained with the functional leadership teams reviewing these risk registers twice a year. Group level climate change risks are considered through the ESG risk register which is overseen by the HSSES group function.

Business unit and functional risk registers are then aggregated into a group risk register which is reviewed at least twice per year by the Group Risk Committee (GRC) to ensure that the principal risks, including climate-related impacts, are identified, agreed, appropriately measured and effectively controlled, while also monitoring emerging risks. The output of the GRC reviews is a summary of the principal risks which is formally reviewed and challenged by the Board twice per year.

Wood's Risk Management Framework includes a focus on identifying and assessing potential emerging risks, including those related to climate matters. Emerging risks are identified throughout the year via the Business Grouping, Business Unit and functional risk processes and escalated and discussed during the GRC and further escalated to the Board as required. This process follows the group risk management framework, which applies to all risks. As noted in section 'Governance' above, a cross-check is also undertaken against the principal and emerging risks identified by Wood's peer group which helps to inform the mid-year Board discussion on risk. At the half-year and at the year-end, a series of one-to-one interviews are carried out by the President – Group Audit & Risk and the Group Risk VP with each of the non-executive directors to understand their perception of emerging risks. The outputs of these one-to-one interviews are fed into the half-year and year end GRC and Board risk sessions.

Managing climate-related risks

As noted in 'Governance' above, climate-related risks are considered as part of the overall process for managing principal and emerging risks which includes consideration of both existing and emerging regulatory requirements. From our analysis, climate change risk is not considered to be a standalone principal risk given its diverse nature but regarded as a contributing factor to other principal risks. As such, the prioritisation and materiality of climate-related risks is considered as part of the overall materiality assessment of principal risks for the group.

Principal risks are those considered to be the most material from a financial perspective. The assessment of materiality of principal risks is completed by the ELT, using past event experience as the reference point. This is further challenged and assessed by the Board during the Board risk sessions. Further detail on this process is set out on page 80 of our 2022 annual report. Reflecting the importance of climate-related risks, the impact of the various aspects of climate-related risk for Wood are reviewed during the bi-annual GRC and Board risk sessions, as an integral part of our risk management framework.

The major impacts of climate-related issues for Wood are considered to be on our strategy to address energy transition, and therefore feeds into the Strategic Delivery principal risk. This has been a strategic priority in 2022 and has been a major focus for the Board. They are also reflected in our ESG Strategy & Performance principal risk which considers the risks related to the effectiveness of our ESG strategy to address, amongst others, our environmental responsibilities including climate change.

Our Project Execution risk considers any material climate-related risks that impact on our ability to successfully execute projects safely, to the expected quality, on time and within budget. Localised events arising from physical climate-related risks such as those from abnormal temperatures and weather are reflected in project risk registers, which map back to the Project Execution principal risk at a business group and business unit level, depending on the materiality.

The table below sets out our principal risks that are impacted by climate-related matters and the mitigations, monitoring and assurance in place to address those risks. The table also includes any changes to mitigations from the prior year to show the evolution in our approach to managing such risks.

Principal risk	Mitigation, monitoring & Assurance	Changes to mitigations/adaptations compared to prior year
Strategic Delivery - Lack of ability to deliver on the new strategy by effectively addressing the external and internal risks associated with the strategic plan to 2025.	• Strategic review of our portfolio and identified priority markets with external consultants and internal experts to refine our focus • Strategic risks analysed and appropriate mitigation actions put in place • New strategy rolled out to 400 of the company leaders and communicated externally at our capital markets day with medium-term targets • Company level metrics/targets set and cascaded into business units with execution plans to achieve our strategy • Quarterly Business Review (QBR) process implemented across the Executive Leadership Team (ELT) to measure progress both from a business and functional perspective	• Implementation of revised strategy focusing on priority markets (including those driven by trends in energy transition, sustainable materials, circular economy and decarbonisation), supported by business unit execution plans and internal metrics/targets • Implementation of QBRs to measure progress against strategy
ESG strategy and performance - Our ESG strategy and performance does not effectively address our environmental, social and governance responsibilities, including in relation to climate change and regulatory obligations, leading to our business becoming an unattractive investment proposition for our employees, investors, lenders, communities, and other stakeholders.	• Existing policies, procedures, management structures and Board oversight covering compliance with the key components of ESG • Monitoring of compliance and reporting in line with the UK Corporate Governance Code, covering governance responsibilities, with oversight provided by the Audit, Risk and Ethics Committee and the Board • Integrated ESG risk management with company risk management framework • Safety & Sustainability Committee includes oversight of sustainability aspects with additional review by the full Board on an annual basis with Sustainability targets sanctioned by the Board • Sustainability targets agreed with the Board; strategies and strategic plans in place for target achievement • BUs developing bespoke operations sustainability plans supporting target achievements, for their operations	• Further enterprise-wide embedding of ESG risk management framework through integration with enterprise risk management (ERM) framework and ERM system (BRisk) • Development of sustainability plans at BU level to complement existing group level plans and embed accountability for achieving targets throughout the business
Project Execution - Failure to successfully execute projects safely and to expected quality, on time and within budget.	• Start up, project management, technical and resourcing execution plans for key projects supported by monitoring and reporting • Strategic projects team assist in start-up phase of key projects and embed learnings from previous projects • Tender governance processes including Tender Review Committee at Group level and BU levels in line with established Delegation of Authority • Financial Management Framework in place to ensure disciplined contract compliance, including variation orders and contractual requirements, at all phases of the project • Quarterly Business Reviews of BUs & Top 10 Projects, chaired by the CEO and attended by the Group CFO and BU Executive Presidents • Operational Excellence functions in each of the BUs supporting consistent project delivery through focus on common operating model, standardised delivery applications and project management academy	• The process for assessing and approving certain fixed price or lump sum (and other high risk) is being modified to reflect the Group's reduced risk appetite regarding lump sum turnkey and large scale EPC projects, which carry higher risk of physical climate-related impacts. The process for ongoing monitoring of such contracts continues to include quarterly BU project governance meetings attended by the CEO, CFO and the BU Executive Presidents.

The above table provides details of our principal risks and mitigations as they relate to climate-related matters. Refer to p84-87 of the 2022 annual report for a full discussion of principal risks and mitigations.

Regular oversight of these risks at the GRC, Safety & Sustainability and Board Risk Committees ensures the content of the related principal risks remains focused on our perception of climate-related risk on the business. The Wood risk management framework provides a process for all associated risks to be governed by these oversight committees where the associated risks, plans and KPIs are reported and reviewed. The framework and process to identify principal risks also includes the establishment of mitigation, monitoring and assurance processes to ensure the risks are appropriately managed on an on-going basis.

Metrics & targets

Wood's purpose and strategy is founded on responding to the challenges of our changing climate by delivering engineering solutions to provide access to energy and to transition to a low carbon future. At the same time, we recognise the need to manage our own environmental impact.

To measure our climate-related opportunities and ensure accountability for our climate-related impacts, our Board endorsed the targets set out below. These targets form part of our wider sustainability strategy and are aligned to the UN Sustainable Development Goals. They are embedded in the bonus and long-term incentive plans of our Executive Directors and senior leadership team.

Measuring climate-related opportunities & risks

In line with our strategy aligned to energy transition and decarbonisation and the climate-related impacts reflected in our Strategic Delivery principal risk, our key metric for measuring climate related opportunities is the revenue derived from our solutions that help to mitigate the impacts of climate change such as renewable energy, alternative fuels and decarbonising existing energy assets and operations. Our target is to double client support aligned to the energy transition by 2030.

As demonstrated by our principal risk of ESG Strategy & Performance, we also recognise that our approach to climate-related matters forms a key part of our ESG investment ratings and as such we utilise those ratings as another metric of our performance. Our target is to be consistently ranked in the top quartile within our sector by 2025.

To measure our performance in reducing our own climate impacts we have established two targets, firstly to reduce scope 1 and 2 carbon emissions and secondly, to reduce consumption of single use plastics in our offices.

In respect of our scope 1 and 2 emissions reduction target, whilst we see the setting of internal carbon prices as a significant aspect of our carbon reduction strategy this is an area that requires more time to implement. In particular, following the sale of our Built Environment Consulting business and as required by the Greenhouse Gas Protocol, we will undertake an exercise to re-baseline our scope 1 and 2 carbon emissions for the purposes of our metric and target to exclude the emissions from the disposed business. This re-baselining exercise is expected to be completed in Q1 2023. During 2023 our focus will be on utilising the revised emissions to establish a baseline amount of emissions for each of our business units to set "carbon budgets". We believe that this approach will provide us with the appropriate platform to establish internal carbon prices in the longer-term.

To reflect the importance of our ESG and sustainability programme, a range of ESG targets were incorporated in the application of our remuneration policies for the leadership team and wider workforce.

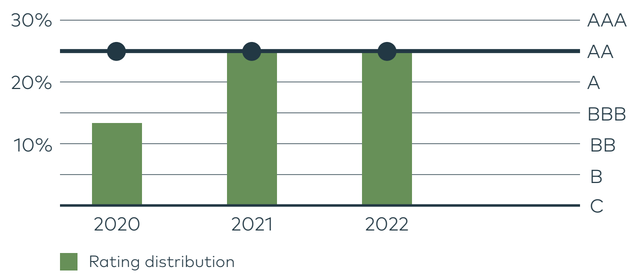
For 2021 and 2022 long-term incentive awards, a specific climate-related performance measure related to achieving our target of 40% reduction in scope 1 and 2 carbon emissions by 2030 was introduced for awards made to Executive Directors and the Executive Leadership Team. This performance measure is worth 5% of the total award and performance is assessed over a three-year period. Qualitative personal objectives for eligible participants of the short-term incentive plan may incorporate broader climate and ESG targets aligned with strategy as appropriate to the job role and are measured over a twelve-month period. To enhance the rigour in which performance is reviewed, and avoiding reward for failure, the Remuneration Committee of the Board utilises the discretionary matrix when assessing bonus and long-term incentive plan outcomes in addition to the formulaic outcomes which considers any year-on-year changes, market conditions and relevant environmental, social and governance (ESG) matters. More details on specific measures and disclosed 2022 outcomes can be found on pages 141-152 in our 2022 annual report.

Our Aim	Target	Matric
To be trusted to solve the challenges of our changing climate and developing populations	Doubling client support aligned to the energy transition by 2030	As noted in 'Strategy' above, Wood's revised strategy was announced in November 2022. As such, an exercise is ongoing to define the metric for measurement of client support
	Consistently ranked in the Top Quartile ESG investment ratings within our sector group by 2025	MSCI rating and industry/peer group ranking
To take responsibility for the impact of the work we do and how we deliver it on the planet we share	To reduce Wood's scope 1 and 2 carbon emissions by 40% by 2030 on our journey towards 'net-zero'	Absolute reduction in scope 1 and 2 carbon emissions from a baseline of 173,585 tonnes CO_2e in 2019
	To ensure all Wood offices are single use plastic free by 2025	Percentage of offices single use plastic free

Client support aligned to the energy transition

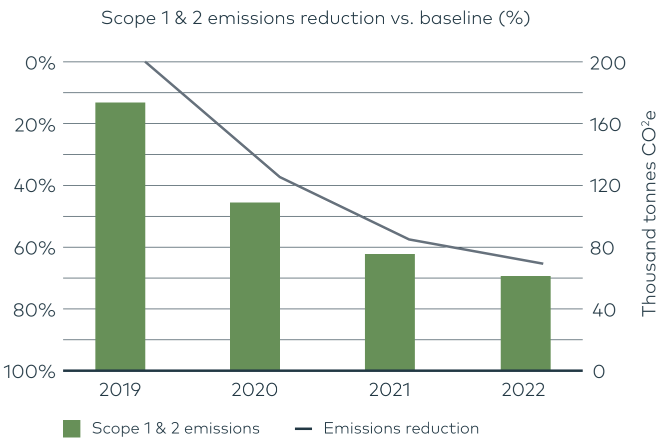
Following the roll-out of our revised strategy in late 2022 an exercise is underway to define our metric for measuring client support aligned to the energy transition which is expected to be completed in 2023. Once the metric has been defined and a baseline measurement established we will report progress against our target annually.

MSCI rating and peer group ranking



Since the introduction of our target in 2020, Wood's ESG performance has consistently been ranked by MSCI as in the top quartile compared to our industry peers. In addition, Wood has maintained a "AA Leader" rating from MSCI for at least 8 consecutive years.

Greenhouse gas (GHG) emissions



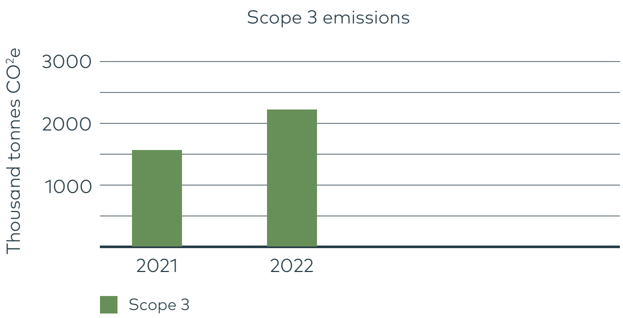
Our methodology for calculating GHG emissions is set out in our 2022 annual report on page 54. Our carbon emissions data is externally verified by Carbon Intelligence in line with the requirements of ISO 14064-3. The sale of our Built Environment Consulting business completed in late September 2022. As our carbon reporting period runs from 1 October to 30 September, the data associated with the Built Environment Consulting business is included in the results for 2022 carbon year. The sale represents a significant change to Wood's carbon emissions profile and, following guidelines set down in the GHG Protocol, has necessitated an exercise to re-baseline Wood's carbon footprint which will be completed in early 2023.

In 2022, we achieved a 20% reduction in absolute scope 1 and 2 emissions (market-based) compared to the prior year. This reduction includes the impact of actions undertaken in line with our carbon reduction strategy such as increasing energy efficiency in our real estate portfolio but is primarily due to:

- The sale of the Martinez power plant in California that had significant scope 1 & 2 emissions and accounted for all our scope 3 emissions in the downstream and leased assets category
- The impact of reduced activity, particularly in our Projects business unit

We believe that during 2022 we have largely transitioned into a post pandemic normal with all global offices reopening and employees encouraged to return to the office with the ability to choose to choose flexible and hybrid working, where in country legislation and client terms allow. As such, future trends in our emissions data will be driven by our carbon reduction strategy as opposed to the effects of the pandemic.

To date we have achieved a 65% reduction from our 2019 baseline, compared to our goal of 40% reduction in scope 1 and 2 emissions by 2030. This reduction has been achieved without the use of carbon offsets. As we move into a growth phase this reduction in scope 1 emissions will potentially reverse to a certain extent as greater activity at project site level and direct fuel use in travel will increase.



We recognise that scope 3 forms the largest part of our total emissions. We commenced reporting of scope 3 in 2021 to provide greater transparency over the drivers of these emissions. This has allowed us to initiate foundations that will in the future help us to address our scope 3 footprint. As part of these foundations, during 2022 in-house online climate change training was provided to our Supply Chain teams and our Tier 1 Suppliers. The course was designed to inform and build awareness on the need for climate action and where they can play their part. To date, 45% of our Supply Chain colleagues and 82% of our Tier 1 Suppliers have completed the course.

By its nature, the calculation of scope 3 emissions relies on a significant amount of estimated data. The rise in our scope 3 emissions in 2022 was largely driven by increasing accuracy in our data as our approach continues to mature.

Further information on our GHG emissions including intensity ratios is available on page 54 of our 2022 annual report.

Single use plastic consumption

In 2022, we commenced a process to assess SUP consumption in our offices to attribute a rating according to plastic usage. By the end of 2022, 25% of our offices, had been assessed. Currently, 7% are SUP free and 11% are substantially SUP free. Progress is slower than anticipated. Going forward, our focus is to ensure all office locations owned or leased by Wood has an elimination plan in place in order to achieve our target by 2025.

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