

# Task Force on Climate-related Financial Disclosures (TCFD)

Our purpose underpins our drive to tackle carbon emissions. We aim to achieve net zero carbon emissions from source to sale by 2040 aligned to guidance from The Climate Pledge and Race to Zero.

## Our approach

We are committed to continually reducing our environmental footprint and the impact of our operations and products (see page 22-25). In 2022, we conducted a detailed analysis of our business following the TCFD recommendations. This process improved our understanding of the strength and resilience of our business under different climate scenarios, and emphasised the importance of having risk mitigation plans. Our knowledge of physical and transition risks and opportunities linked to climate change, and the expectations of investors, customers and consumers will continue to evolve. Therefore, we plan to refine our analysis and strategy regularly. The effects of climate change, such as extreme weather conditions, temperature rises or water scarcity, impact people's daily lives and companies such as Haleon.

Being a responsible business is one of Haleon's four key strategic priorities. Our responsible business strategy consists of three elements: environment, health inclusivity, and upholding our standards. It plays an integral role in fulfilling our purpose of delivering better everyday health with humanity. The environment pillar of our responsible business strategy covers climate change and includes targets which drive our actions to tackle carbon emissions and make our business more resilient to the impacts of climate change.

## Compliance

We comply with the FCA's Listing Rule 9.8.6R(8), and make disclosures consistent with the SEC's Guidance Regarding Disclosure Related to Climate Change (2010), and 2021 TCFD guidance and recommended disclosures across all four of the TCFD pillars, as set out on

pages 28-35. Haleon was established as a standalone business in July 2022 and is working to fully adopt all TCFD recommendations. The 'comply or explain' obligation has been considered, and due to the ongoing development of internal processes and data verification, we have chosen to explain our current position in Strategy, parts B (page 33) and C (page 33), and Metrics and Targets parts A (page 35) and C (page 34). We aim to be consistent with all TCFD recommendations and disclose these in our 2023 Annual Report. The rationale for explaining Haleon's plans are provided within respective disclosures.

## Next steps

Within each responsible business target we have established focus areas for 2023, which are described on pages 23-25.

## Governance

### Board's oversight of climate-related risks and opportunities

The Board oversees the Group's risks and opportunities, including climate change. Haleon has an Audit & Risk Committee (ARC) that supports the Board in risk-related responsibilities. The ARC's responsibilities include oversight of the Group's risk management system. It receives regular reports from the Head of Audit & Risk, which include climate-related risks. Further information about risk governance is set out on page 56. In September 2022, the Board approved Haleon's climate strategy and carbon-emission targets. Subsequently, the carbon-emissions targets were submitted to the Science Based Targets initiative (SBTi) for validation.

Together, the Executive Team and Heads of Audit & Risk and Ethics & Compliance form the Enterprise Risk and Compliance Committee (ERCC). The ERCC meets quarterly and ensures that risks are managed effectively. The ERCC discusses principal and emerging risks, including reviewing industry trends, regulatory developments, high-profile incidents, and critical audit findings. Each principal risk

has an assigned ERCC member responsible for designing and implementing a risk mitigation strategy and regularly reporting risk updates to both ARC and ERCC. This structure and process is applied to Haleon's environmental, social and governance (ESG) principal risk, which covers climate-related risks (see page 59). This is owned by the Head of Transformation and Sustainability and monitored through Haleon's risk management framework and processes built into the global functions' and business units' day-to-day activities.

Working groups in our global functions, categories and business units integrate responsible business targets, principles and initiatives (including climate change) into Haleon's strategic business planning process, capital planning and budgeting, day-to-day responsibilities and key performance indicator (KPI) management. This ensures that the Executive Team considers climate-related factors and monitors performance against metrics and targets as part of our core business activities. Climate change and wider responsible business considerations will be incorporated into the decision-making process for future potential divestments or acquisitions. Haleon was formed in July

2022 and at the date of publication of this Annual Report has not yet undertaken any significant divestments or acquisitions.

Day-to-day responsibility for setting and embedding responsible business targets, which include climate change, sits at the Executive Team level. Business scorecards at Enterprise and business unit levels are used to track KPI delivery and progress towards our external sustainability targets on a quarterly basis across both our environmental and social targets, including our targets to reduce carbon emissions. The Executive Team and regional leadership teams review scorecard performance quarterly and KPI delivery is linked to employee personal objectives and individual performance where relevant. Additionally, performance against our Scope 1 and 2 carbon emission reduction goal is linked to Haleon's Long Term Incentive Performance Share Plan.

The Executive Team receives quarterly updates on the status of KPIs measured on Haleon's responsible business scorecard and progression towards Haleon's 2025 and 2030 responsible business targets.

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

Responsible business governance is an Executive Team responsibility managed via three executive-led committees (see diagram, right). These are the Environment, the Health Inclusivity, and the Human Rights Steering Committees. Our Head of Transformation and Sustainability (member of the Executive Team) chairs our Environment Steering Committee that makes strategic recommendations on managing our environmental footprint for approval by the Executive Team and the Board. It also monitors climate-related issues and works to integrate our sustainability strategy into our broader organisation. The Environment Steering Committee meets at least quarterly and regularly reviews our climate performance and other environmental KPIs. It is composed of members of senior management, including the Vice President of Sustainability, representatives from our categories and business units, the Chief Supply Chain Officer, the Chief Corporate Affairs Officer, the Chief Scientific Officer, the Chief Procurement Officer, the R&D

**Responsible Business governance structure**

Cross-functional steering committees help deliver our strategies and action plans and embed responsibility into our business and investment decisions.



Head of Packaging, the Head of Global Ethics & Compliance plus appropriate experts from the Sustainability team. Members of the Environment Steering Committee were chosen due to their functional expertise, and ownership of and responsibility for delivering our responsible business targets, including carbon emissions reduction targets.

To embed risk management in day-to-day business, a series of Compliance and Risk Forums (CRF) is run by our functional teams, categories and business units, including the sustainability team. The

Sustainability CRF is responsible for monitoring, assessing, and mitigating potential risks that may impact Haleon's responsible business strategy delivery, including risks associated with climate change. The Sustainability CRF meets monthly and consists of the Vice President of Sustainability, the members of the sustainability team and the Director of Sustainability Corporate Affairs. The outputs from the Sustainability CRF across the organisation feed into the ERCC as detailed above.

**Strategy**

**Climate-related risks and opportunities**

In 2022, with support from EY, we conducted a detailed analysis using TCFD's recommendations. The aim was to determine Haleon's risk resilience and identify the opportunities associated with transitioning to a low-carbon economy. We used three time horizons: short term (0-20 years), medium term (20-50 years) and long term (50-80 years). Going forward, Haleon will look to align the time horizons to our 2030 and 2040 carbon emissions reduction targets. We used three different scenarios:

- 'Business As Usual' (BAU) scenario with a +4.5°C temperature rise by 2100. In line with the Intergovernmental Panel on Climate Change (IPCC) RCP8.5 and the Network for Greening the Financial System (NGFS) scenario: Current Policies and Nationally Determined Contributions (NDCs).
- 'Policy-led transition' scenario with a temperature rise well below 2°C by 2100. In line with IPCC RCP2.6 and the NGFS scenarios: Divergent Net Zero and Delayed Transition.

- 'Consumer-led transition' scenario with +1.5°C temperature rise by 2100. In line with IPCC RCP2.6 and the NGFS scenario: Net Zero 2050.

The Representative Concentration Pathways (RCPs), developed by the IPCC, were used for the physical risks. We chose the IPCC scenarios because they are commonly known, used and provide a high level of granularity. We used the NGFS scenarios for the transition risks. The NGFS is a common starting point for analysing economic and financial climate risks. However, due to the complex nature and interconnectedness of climate policy, technological progress and consumer preferences, transition risk may materialise in ways that are difficult to foresee, and this is a limitation of this scenario analysis. Within the scenarios, we established the key factors driving exposure to risks and opportunities:

- Environmental factors: impact of climate change on business and society.
- Regulatory factors: implementation of carbon-related regulation, investment in low-carbon technologies.
- Competition: sustainable consumption trends, with new entrants from FMCG industries and the rise of e-commerce.

The team, which consisted of critical functions (including Finance, Sustainability, Risk Management, Procurement, Insurance, and Global Categories) and was supported by EY consultants, identified, and assessed Haleon's climate-related risks and opportunities. Our analysis was conducted at geographical level and covered Haleon's manufacturing sites, key third-party contract manufacturing organisations (CMOs) and key direct suppliers selected based on strategic importance. We used the expertise of these stakeholders combined with relevant data and tools such as EY Predict to assess the potential impact of identified risks. We did this in line with the process described in the 'Risk Management' TCFD disclosure on page 33.


As a result of the above process, we identified a group of risks and opportunities related to climate change:

- Increased occurrence of extreme-climate events (heavy rainfall, flooding, storm) impacting operations and supply chain.
- Impact of chronic and acute climate change on nature-based raw materials

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- Impact of increased extreme temperatures on demand for respiratory products.
  - Increase in fossil energy costs.
  - Limited ability of strategic suppliers/CMOs to quickly adapt to increased regulatory pressure.
  - Increase in carbon pricing.
  - Growing demand for sustainable and zero-deforestation raw materials.
  - Increasing sustainability competition in the consumer healthcare segment.
  - Strengthening of climate-related regulations (corporate-level requirements and mandates on products).
  - Increasing customer expectations on sustainability and demand for sustainable products.
  - Strengthening of relationship with strategic suppliers/CMOs around sustainability issues.
  - Decreasing cost of renewable and energy-efficient technologies.
- Haleon assessed the likelihood and impact of the risks and opportunities to understand their materiality. Specific climate-related issues potentially arising in each time horizon that could have a material fiscal impact on Haleon are described in the table below. Haleon, aware that the risks may increase in impact, or coincide, will continue to work with the relevant functions internally to ensure proper risk management is in place.

## Climate-related risks and opportunities

| Risk or opportunity   | Potential impact  | How it is managed |   |       |   |              |  |         |   |   |
|---|---|-------------------|---|-------|---|--------------|--|---------|---|---|
| <b>Physical risks</b>   |   |                   |   |       |   |              |  |         |   |   |
| <p>Damage and disruption caused by extreme weather events</p>  | <p>All our manufacturing sites were included in the scope of the analysis with the aim of understanding the potential impact of risks caused by acute (flooding, heavy precipitation, extreme winds) and chronic (drought and water stress, temperature variations) extreme weather events. The main outcomes were:</p> <ul style="list-style-type: none"> <li>– Flooding risk (flash flood and riverine flooding) that may impact our largest sites remains the main risk in terms of potential property damage and business interruption.</li> <li>– Drought risk that may impact our largest sites remains the main risk in terms of potential increase of operating expenses and capital expenditures, and reduced labour/capital productivity.</li> <li>– Drought risks and temperature-induced increase in operating expenses can be exacerbated by local water stress context leading to restrictions and strengthened regulations.</li> </ul> <table border="1"> <thead> <tr> <th>Risk</th> <th>Sites with the highest potential exposure</th> </tr> </thead> <tbody> <tr> <td>Flood</td> <td>TSKF (China), Dungarvan (Ireland), Nyon (Switzerland), Suzhou (China)</td> </tr> <tr> <td>Extreme wind</td> <td>Guayama (Puerto Rico), Mount Lavinia (Sri Lanka), Hsinchu (Taiwan), Suzhou (China)</td> </tr> <tr> <td>Drought</td> <td>Aprilia (Italy), Suzhou (China), TSKF (China)</td> </tr> </tbody> </table> <p>This analysis covered Haleon's key third-party manufacturing organisations and suppliers. It was identified that:</p> <ul style="list-style-type: none"> <li>– 61 out of 67 strategic CMO and suppliers' locations could be impacted by 2050 by acute climate-related risks.</li> <li>– 33 out of 67 strategic CMO and suppliers' locations selected could be impacted by 2050 by chronic climate-related risks.</li> </ul> <p>This physical risk is expected to have the highest potential impact under the assumptions of the BAU scenario and to materialise at the short- to mid-term time horizon.</p> | Risk              | Sites with the highest potential exposure | Flood | TSKF (China), Dungarvan (Ireland), Nyon (Switzerland), Suzhou (China) | Extreme wind | Guayama (Puerto Rico), Mount Lavinia (Sri Lanka), Hsinchu (Taiwan), Suzhou (China) | Drought | Aprilia (Italy), Suzhou (China), TSKF (China) | <p>Production sites are all included within a loss-prevention survey programme and are routinely visited to ensure appropriate resilience measures are in place, including flood, wind and storm protection. A continuous improvement programme is in operation to further enhance the ability of the sites to withstand extreme weather events. Our manufacturing sites have emergency plans, disaster recovery plans (DRPs) and business continuity plans (BCPs). DRPs cover recovery plans for any type of disaster. BCPs, where appropriate (especially for sites previously affected by climate-related events, such as hurricanes (Guayama, Puerto Rico site in 2017) or floods (Nyon, Switzerland site in 2015 and 2018)), have guidelines for environmental events. We established BCPs to:</p> <ul style="list-style-type: none"> <li>– Set out strategy and tactical steps to ensure business operations can recover in an appropriate time frames aligned with company objectives.</li> <li>– Minimise supply chain impact and time disruption through effective contingency and recovery of strategies</li> <li>– Allow for a quick and organised response.</li> </ul> <p>Our BCPs include options for multiple sourcing for manufacturing of our products. This is achieved by using a combination of Haleon or key third-party manufacturing organisations sites spread across different geographies. This strategy is supporting Haleon's supply continuity and aims to protect revenue, margin and market share. In response to the potential increase and impact of the physical risks we regularly review our network strategy. Over the coming years, we may need to relocate manufacturing sites or find alternative supply routes.</p> <p>To understand and manage water risks, we have two operational water targets which guide sites to consider their water use and impacts, and work collaboratively and transparently with others to address shared water challenges at the catchment-scale. Currently, we are working on a value-chain water footprint analysis which will help us better understand potential physical risks related to water in specific geographies and prioritise actions.</p> <p>The 'How it is managed' section of the risk 'Reduced availability and increased price volatility of raw materials due to climate change' describes how we are ensuring supply continuity. However, Haleon needs to engage with strategic suppliers and CMOs to assess their awareness and readiness to respond to the potential physical risks related to climate change.</p> |
| Risk  | Sites with the highest potential exposure   |                   |   |       |   |              |  |         |   |   |
| Flood   | TSKF (China), Dungarvan (Ireland), Nyon (Switzerland), Suzhou (China)   |                   |   |       |   |              |  |         |   |   |
| Extreme wind  | Guayama (Puerto Rico), Mount Lavinia (Sri Lanka), Hsinchu (Taiwan), Suzhou (China)  |                   |   |       |   |              |  |         |   |   |
| Drought   | Aprilia (Italy), Suzhou (China), TSKF (China)   |                   |   |       |   |              |  |         |   |   |

**Key Risks' financial impact**

- Low risk £10m-£40m
- Medium risk £40m-£80m
- High risk >£80m
- Opportunity

**Time horizon for impact**

- Short-term 0-20 years
- Medium-term 20-50 years
- Long-term 50-80 years

| Risk or opportunity   | Potential impact  | How it is managed  |
|---|---|--|
| <b>Physical risks continued</b>   |   |  |
| <p>Reduced availability and increased price volatility of raw materials due to climate change</p> | <p>Within the scope of this risk assessment were the materials from which we source key derivatives: corn, mint, palm oil and cellulose. Derivatives of these crops account for more than 95% of Haleon's key agricultural, forest and marine materials. We used qualitative analysis for all of the materials above. For corn, due to the high importance of corn derivatives (such as sorbitol), a quantitative analysis was also carried out. The table below is a summary of key findings for each raw material. The highest exposure to the physical risks is expected to materialise in the BAU scenario at short- to medium-term time horizon.</p> | <p>Continuity of supply is a priority for our procurement team. The strategy involves multiple sourcing from different geographical regions and holding materials' safety stocks where feasible. The effects of climate change and the need to comply with global legislation and NGOs' requirements have influenced the development of a Sustainable Sourcing, Scope 3 carbon emissions and Sustainable Packaging strategy. All programmes involve work between the Sustainability, Procurement and R&amp;D teams and our suppliers. Our aim is to deliver on our responsible business targets and, through this, reduce our carbon emissions, source key agricultural, forest and marine-derived materials sustainably and deforestation free and make our packaging more sustainable. We are aware that physical risks may impact material availability and price, therefore we may need to reformulate our products to overcome long-term supply issues. Progress against our sustainable sourcing strategy is described on page 24.</p> |

**Raw material Key findings**

|           |  |
|-----------|--|
| Corn      | <ul style="list-style-type: none"> <li>By 2050, up to 30% of corn yield loss could occur in the most exposed sourcing regions (US, China, France).</li> <li>Significantly, a 1% decrease in yield induces a corresponding increase in corn prices from 0.3% up to 5% (depending on the country).</li> <li>NGFS modelling anticipates a potential 25% yield gap for cereal by 2050 between a low (Consumer-led/Policy-led transition) and high (BAU) carbon emissions scenarios (RCP2.6 Vs. RCP8.5).</li> </ul>   |
| Mint      | <ul style="list-style-type: none"> <li>Mint sourcing locations are expected to be under a very high exposure to water stress (India, US) and flooding (US) within the medium-term horizon in the BAU scenario.</li> <li>India is the main global sourcing region for mint and is already suffering from high levels of water stress that will continue. Sourcing locations within India will be highly exposed, while the increased frequency and intensity of drought events will further increase the wildfire susceptibility (more than 150 days per year under a very high likelihood of wildfire within Barabanki region, for instance).</li> <li>Moreover, as most of India's mint oil comes from smallholder farms, this might lead to increased vulnerability due to smallholders having less mature adaptation and monitoring plans compared to large growers.</li> </ul> |
| Palm oil  | <ul style="list-style-type: none"> <li>Palm oil mills from which Haleon sources from are mostly located in Asia (Indonesia, Malaysia), in areas very highly exposed to flooding and heavy precipitations.</li> <li>Some mills in Indonesia and the southern part of Malaysia are exposed to coastal flooding events or riverine flooding events.</li> </ul>  |
| Cellulose | <ul style="list-style-type: none"> <li>Cellulose sourcing regions are located all over the world, therefore it was challenging to cover them all. We conducted analysis for sourcing based in the US. It was found that flooding (riverine and coastal) and heavy precipitation are the main physical risks.</li> </ul>  |

**Key Risks' financial impact**


Low risk £10m-£40m
 Medium risk £40m-£80m
 High risk >£80m
 Opportunity


**Time horizon for impact**

Short-term 0-20 years
 Medium-term 20-50 years
 Long-term 50-80 years

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## Climate-related risks and opportunities continued

| Risk or opportunity  | Potential impact  | How it is managed   |
|--|---|---|
| <b>Transitional risks and opportunities</b>  |   |   |
| <p>Carbon pricing regulations</p>  | <p>The strengthening of carbon emissions control by introducing and increasing carbon taxes could expose Haleon to an increase in direct operating costs and an increase in the costs of purchasing carbon-intensive raw materials. Suppliers could pass on their increase in production costs to Haleon.</p> <p>Haleon and its suppliers have manufacturing, R&amp;D and sales operations across the globe. Carbon taxes on energy supply already exist in several countries e.g., UK and some EU countries.</p> <p>Haleon used two forward-looking scenarios (Consumer-led transition and Policy-led transition) to calculate the potential impact of carbon price changes in the short-term (£78-113/tCO<sub>2</sub>e by 2030).</p> <p>Analysis of the trends related to carbon pricing regulations found that:</p> <ul style="list-style-type: none"> <li>Carbon price is expected to be higher in the Policy-led transition scenario to incentivise investment in low-carbon technologies in the absence of strong market pressure.</li> <li>Carbon price will not significantly increase in the BAU scenario, only geographical coverage will evolve.</li> <li>Evolution of the sectoral coverage of the EU Emissions Trading System (ETS) and UK-ETS in 2025 is the main short-term risk.</li> <li>Extension of carbon pricing regulation to new states/provinces in the US and China is the main risk in the short-term.</li> </ul> | <p>Haleon has committed to reducing net Scope 1 and 2 carbon emissions by 100% by 2030, versus its 2020 baseline. This target is underpinned by a 95% absolute reduction target. Delivering these targets will mitigate our operations' exposure to future carbon pricing and environmental taxation.</p> <p>Haleon has an ambitious aim to reduce its Scope 3 carbon emissions by 42% by 2030, versus its 2020 baseline. Carbon emissions from purchased goods and services account for over half of our carbon emissions across Scope 1, 2 and 3. Therefore, we are working with our suppliers and partners like Manufacture 2030 to help suppliers map their carbon emissions and take actions to reduce them by: switching to renewable electricity and energy, making efficiency improvements and by identifying low or no greenhouse gas alternatives to feedstocks they use to make raw and packaging materials.</p> <p>More details about our Scope 1, 2 and 3 carbon emissions reduction strategy can be found in the 'Strategy' part of the TCFD disclosure on page 33.</p> |

| Risk/ Opportunity  |  |  |
|--|--|--|
| <p>Loss of attractiveness due to consumers' increasing expectations described, not quantified</p> <p>Additional revenue with sustainable products</p>  | <p>Consumers' and customers' expectations and demand for sustainable products are increasing. We analysed the relationship between sustainability and market share and estimated potential opportunities associated with improved sustainability performance. Investing in sustainability is expected to positively impact Haleon's performance in all three scenarios we tested. In the short-term (2030), demographic evolutions and regional growth differences will drive an increase in sustainably marketed products and services. Currently OECD and Europe represent the largest sustainability market. High consumer concern for sustainability issues in emerging economies, where fast market growth is expected and among generations Z and Alpha whose purchasing power is increasing over time, will accelerate the shift toward more sustainable products. The expansion and high growth rates of retailer-led sustainable choices ranges will also drive sustainability market growth.</p> | <p>We strive to always meet or exceed legal requirements and the expectations and requirements of our investors, NGOs, consumers, and customers. As part of this, we are fully committed to deliver on our responsible business strategy and targets (for details, see pages 22-25). We have carried out life cycle assessments for 11 key products across our top brands to better identify the risks and opportunities across their life cycle stages. Through collaborations with suppliers, external stakeholders, and organisations we are making progress within Scope 3 carbon emissions, sustainable sourcing and packaging workstreams which will help reduce our overall Haleon environmental impact and the impact of the key products across our top brands. Sustainability claims help make it easier for our consumers to fulfil their growing desire to buy sustainably. We are participating in externally verified sustainable choice ranges such as Amazon's Climate Pledge Friendly Programme and other customers' sustainable ranges (e.g. A.S. Watson Sustainable Choices), as well as making direct claims on our products and at point of sale. Where we do this, we see higher growth - driven by increased consumer appeal and preferential display and shelf position in retail. Our social strategy is focused on improving health inclusivity - empowering millions of people to be more included in opportunities for better everyday health. The health of people is inextricably linked to the health of the planet and our social target actions include equipping consumers and Health Professionals with advice on how to mitigate the impacts of climate change and related health impacts such as rising levels of air pollution on their everyday health (for more details, see page 23).</p> |

|            |  |   |
|------------|--|---|
| <b>Key</b> | <b>Risks' financial impact</b>   | <b>Time horizon for impact</b>  |
|            |  Low risk £10m-£40m  Medium risk £40m-£80m  High risk >£80m  Opportunity |  Short-term 0-20 years  Medium-term 20-50 years  Long-term 50-80 years |

## Strategy continued

### Impact of climate-related risks and opportunities

Where relevant, knowledge of how the risk or opportunity impacts our supply chain, operations or adaptation and mitigation activities is provided (see the table on the previous page). Haleon will assess how climate-related risks and opportunities may affect the remaining areas of our business, strategy, and financial planning: products and services, investment in research and development, acquisitions or divestments and access to capital. Climate-related issues are currently being considered as part of our manufacturing site network strategy and investment plans. Going forward we aim to integrate climate-related issues more widely into Haleon's financial planning process. As part of the TCFD analysis, the potential fiscal impact of climate-related issues was estimated using different scenarios as described in the tables on pages 30-32. Haleon provided this information using low, medium, and high-risk financial ranges. We see this as a first step towards considering climate-related issues as an input to financial planning.

Haleon's carbon emissions reduction targets are detailed on pages 24 and 34.

We aim to meet our Scope 1, 2 and 3 commitments by the following actions.

**Scope 1.** We have completed a desktop analysis of our Scope 1 footprint and created a bespoke high-level decarbonisation route map for each of our manufacturing sites. From this, we have built a high-level investment plan for capital planning purposes, which has been included in our strategic planning process. In 2023 and 2024, we will develop the

decarbonisation route map into a fully costed plan and detailed engineering designs that will be taken forward into execution in time to meet our targets. The decarbonisation solutions combine technologies, including: heat pumps, steam generators and renewable fuels, including green gas and hydrogen.

**Scope 2.** In the 2022 reporting period (1 December 2021 to 30 November 2022), we achieved our target of using 100% renewable electricity across all of Haleon's manufacturing sites (where we have operational control). This has been achieved through the procurement of renewable electricity via RECs, solar installation at 12 of our 24 sites and two flagship projects in North America (see page 199). Where we have generated electricity on site, we have procured carbon offsets to cover the fossil fuels we have used. We have a small amount of municipal steam and minimal fugitive emissions remaining.

**Scope 3.** We updated our 2020 scope-3 carbon-emission baseline and calculated our 2022 carbon-emission footprint (reporting period 1 July 2021 to 30 June 2022). The result shows that in the 2022 reporting period, our Scope 3 carbon emissions from source to sale had decreased marginally by c.5,000 tonnes, a ~0% change versus our 2020 baseline. This modest reduction in Scope 3 carbon emissions, despite strong sales volume growth and an increase in strategic inventory of raw and packaging materials linked to the Pandemic, shows we are starting to decouple business growth from Scope 3 carbon emissions. To build on this our priority focus is on reducing carbon emissions from purchased goods and services, which account for over half of our total carbon emissions across scope 1, 2, and 3. Our action plan includes working

with third-party manufacturing organisations and critical raw and packaging materials suppliers to drive their transition to renewable electricity. Our medium-term action plan includes removing, reducing, and replacing carbon-intensive raw and packaging materials and is likely to require us to offset residual emissions, to achieve our aim of reducing our Scope 3 carbon emissions from source to sale by 42% by 2030, versus our 2020 baseline. To fulfil our 2040 Net Zero carbon emissions target from source to sale will require significant development work across our product portfolio and innovation in new formats and alternative raw and packaging materials. Given the development, testing and regulatory lead times associated with this, work is starting now to identify low/no carbon sources alternatives. Haleon has decided to 'explain' its current position on this recommendation. In the future, where we determine that carbon offsets are required, we will consider the Climate Pledge and Race to Zero guidance on appropriate practice.

### Resilience of the organisation's strategy

The TCFD analysis conducted in 2022 provided Haleon with many insights on how climate change may impact Haleon under assumptions of different scenarios. Haleon used three scenarios: one 'high carbon' (BAU) and two 'low carbon' (Consumer-led and Policy-led transition). Information on how our strategy and its resilience may be impacted by climate change is captured on pages 30-32. The column 'Potential impact' explains scenarios and how our strategy may be affected. The column 'How it is managed' explains how resilient the strategy is and what solutions Haleon has. Haleon has decided to 'explain' its current position on this recommendation.

## Risk management

### Organisation's processes for identifying and assessing climate-related risks

Functional groups in Haleon, including the Sustainability team, have regular CRF meetings. As described in the 'Governance' section, the Sustainability CRF consists of the Vice President of Sustainability, experts from the Sustainability team, including experts in climate, water, sustainable sourcing and nature/biodiversity and the Corporate Affairs team representative.

At Haleon, continual assessment and management of risk are embedded in our strategy to achieve our long-term targets, including climate-related targets. We continuously assess and evaluate the risks posed by the changing environments in which we operate to ensure an appropriate, measured, and timely response by considering potential impacts and most likely scenarios.

The Sustainability CRF, used its team of experts to map the circumstances that could lead to failure or delay in delivering our responsible business targets, including climate-related targets. This involved

asking a series of questions: What could go wrong? Therefore, what risk does this create? Resulting in an impact/consequence/likelihood of? This resulted in a risk rating that guided prioritisation. This top-down process is complemented by horizon scanning to identify external trends, such as legal and regulatory developments, evolving customer and consumer expectations and opportunities, and emerging science/expert opinion. In addition, inputs from CRFs in different parts of the organisation were sought to help identify risks and opportunities.

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## Risk management continued

### Organisation's processes for managing climate-related risks

The purpose of CRFs is to stimulate the identification of risks using a combination of internal knowledge and external factors and to develop action plans to mitigate, transfer or accept the risks. The Sustainability CRF is dedicated to identifying and managing risks impacting the responsible business strategy, including transition and physical climate-related risks. In addition, thanks to the tiered accountability for risk management across the organisation, other groups may identify climate-related risks and discharge them to the appropriate CRF where the risk is best managed (e.g., Sustainability, Procurement, Supply Chain CRFs). Identified risks are then processed to establish materiality using an internally documented process.

### Integration of climate-related risks into the organisation's overall risk management

Haleon's procedure for risk management, including climate-related risks, uses an internal control framework (ICF) methodology based on recognised international standards (e.g., ISO31000, COSO) and is used at all levels of the organisation. Haleon's ICF helps identify, prioritise, and mitigate risks as follows. Firstly, the ICF quantifies the risk's likelihood and its impact, then it applies a series of checks and balances designed to reduce the likelihood of any risk materialising and its impact as well as tracking that planned mitigations are working. Combining these elements produces a risk heat map and classifies the risks as 'low', 'medium', 'high', or 'very high'. For TCFD, we are treating 'high' and 'very high' risks as one category: 'high'. Risks

classified as 'high' are prioritised, and mitigating action plans are developed to reduce such risks' impact, likelihood, or both. The next step is to record the risk rating rationale and assign an action owner. With support from the Sustainability CRF's members and other relevant stakeholders, the risk owner proposes risk mitigation actions. The Sustainability CRF meets monthly and assesses the progress of risk mitigation plans to ensure these are effective and that the risk is controlled. If necessary, the Sustainability CRF can escalate unresolved issues (including climate-related issues) to senior leaders via the Environment Steering Committee and onwards to the Executive Team, ARC and the Board, if needed.

## Metrics and targets

### Targets used by the organisation to manage climate-related risks and opportunities

In September 2022, the Board approved Haleon's responsible business targets (including climate-related targets that are part of the Environment pillar). Haleon's 2022 performance and focus areas for 2023 are described on pages 22-25. Haleon's responsible business scorecards, described in the 'Governance' section of the TCFD disclosure on page 28, are used to track, and performance-manage progress against our external targets. We do not have a target regarding avoided carbon emissions through the entire product life cycle or net revenue targets for products and services designed for a low-carbon economy. However, as part of our innovation process, we have developed a quantitative impact assessment tool which enables the team to quantify the carbon, packaging and trusted ingredient impact of product and packaging design choices. Results are reviewed as part of Project Management Board meetings (PMB meetings) to ensure the climate impact of design choices is considered when progressing projects. Haleon has decided to "explain" its current position on this recommendation.

### Haleon's targets

We aim to:

- Reduce our net Scope 1 and 2 carbon emissions by 100% by 2030.<sup>1</sup>
- Reduce our Scope 3 carbon emissions from source to sale by 42% by 2030.<sup>1</sup>
- Achieve Net Zero carbon emissions by 2040 aligned to guidance from The Climate Pledge and Race to Zero.
- Reduce our use of virgin petroleum-based plastic by 10% by 2025 and a third by 2030.<sup>2</sup>
- Develop solutions for all product packaging to be recycle-ready by 2025 and recyclable or reusable by 2030.<sup>3</sup>
- Work with partners to drive global and local initiatives to collect, sort and recycle our packaging at scale by 2030.
- Ensure that all of our key agricultural, forest and marine-derived materials used in our ingredients and packaging are sustainably sourced and deforestation free by 2030.<sup>4</sup>
- Achieve TRUE certification at our own manufacturing sites by 2030.
- Achieve the Alliance for Water Stewardship standard at all our own manufacturing sites by 2025 and to achieve water neutrality at all our own manufacturing sites in water-stressed basins by 2030.

<sup>1</sup> Versus our 2020 baseline. Our goal to reduce net Scope 1 and 2 carbon emissions by 100% by 2030 is underpinned by a 95% absolute reduction target. We have submitted our Scope 1, 2 and 3 goals to the Science Based Targets initiative for verification and have registered our commitment to Net Zero.

<sup>2</sup> Versus our 2020 baseline.

<sup>3</sup> Where safety, quality and regulations permit.

<sup>4</sup> Scope includes Haleon's globally managed spend on key materials which are agricultural, forestry or marine-derived. Globally managed spend covers the majority of our internal spend and expands across some of our third-party manufacturing network.

### Metrics used by the organisation to assess climate-related risks and opportunities

Since its creation in 2022, Haleon has made rapid progress in establishing its standalone responsible business strategy, targets, delivery plans, performance and risk management forums, and processes. However, we are still developing some metrics recommended by TCFD: transition risks (amount and extent of assets or business activities vulnerable to transition risks), climate-related opportunities (proportion of revenue, assets, or other business activities aligned with climate-related opportunities), capital deployment (amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities). Currently, we are measuring our carbon emissions (disclosed, in the table on the right) and the number of sites under water-stress (now four out of 24 sites). Regarding remuneration, at Haleon, specific responsible business-related (including climate-related) KPIs are built into individuals' objectives and performance where relevant. Additionally, performance against our Scope 1 and 2 carbon emission reduction target is linked to Haleon's Performance Share Bonus Plan. During the TCFD analysis, to understand our exposure to carbon pricing regulations, we used the following carbon prices £78-£113/tCO<sub>2</sub>e. In 2023 and 2024, we will focus on developing the remaining metrics recommended by TCFD. Haleon uses metrics related to renewable energy and electricity (as shown below).

|                                  | 2020<br>Baseline<br>Year | 2021 | 2022 |
|----------------------------------|--------------------------|------|------|
| % Renewable electricity consumed | 85                       | 86   | 100  |
| % Renewable energy consumed      | 47                       | 47   | 55   |

Additionally, Haleon has started to measure progress against waste reduction and circularity, water reduction and energy reduction. Haleon has decided to 'explain' its current position on this recommendation.

### Scope 1, Scope 2 and Scope 3 disclosure

Haleon calculates and discloses Scope 1, 2 and 3 carbon emissions, on page 199, where we disclose Scope 1 and 2 in line with Streamlined Energy and Carbon Reporting guidance. We used carbon emissions calculated based on 2020 data as the baseline for determining our targets

related to carbon emissions. This data was crucial for determining our exposure to carbon pricing regulations risk. The analysis showed that this risk is the most material for Haleon. The potential impact and risk management are described on page 32.

|   | 2020<br>Baseline Year | 2021  | 2022  |
|---|-----------------------|-------|-------|
| Total Scope 1 emissions (thousands of tonnes CO <sub>2</sub> e, including on-site fuel use, fleet mileage and refrigerant losses) | 57                    | 60    | 55    |
| Total Scope 2 emissions (location-based) (thousands of tonnes CO <sub>2</sub> e)  | 141                   | 145   | 137   |
| Total Scope 2 emissions (market-based) (thousands of tonnes CO <sub>2</sub> e)  | 32                    | 15    | 7     |
| Total Scope 1 & 2 emissions (location-based) (thousands of tonnes CO <sub>2</sub> e)  | 198                   | 205   | 192   |
| Total Scope 1 & 2 emissions (market-based) (thousands of tonnes CO <sub>2</sub> e)  | 89                    | 75    | 62    |
| Total Scope 3 emissions (thousands of tonnes CO <sub>2</sub> e)   | 1,755                 | 1,830 | 1,721 |

## Our Net Zero Commitment

### Net Zero Goal

We aim to achieve Net Zero carbon emissions from source to sale by 2040 aligned to guidance from The Climate Pledge and Race to Zero (versus our 2020 baseline). We have submitted our Scope 1, 2 and 3 goals to the Science Based Targets initiative for verification and registered our commitment to Net Zero carbon emissions\*.

- Our short-term action plan includes working with suppliers to accelerate their transition to renewable electricity
- Our medium-term action plan includes reducing and/or replacing carbon emission intensive raw and pack materials, to achieve our aim of reducing our Scope 3 emissions from source to sale by 42% by 2030.

### Impact on our business

Achieving Net Zero carbon emissions from source to sale by 2040 requires significant change in our upstream supply chain.

- We are focusing first on Purchased Goods and Services (over half of our total carbon emissions across Scope 1, 2 and 3), building joint action plans with suppliers to address our highest carbon emission intensive raw and pack materials.
- Challenges include the availability at affordable cost and scale of low/no carbon emission intensive raw and pack materials

### Progress

In our first reporting year, our Scope 3 carbon emissions from source to sale decreased marginally by about 5,000 tonnes, a 0% change from our 2020 baseline.

- This modest reduction in Scope-3 carbon emissions, despite high volume growth and increased inventory related to the pandemic shows we are starting to decouple business growth from Scope 3 carbon emissions.

\* Scope-3 carbon emissions are reported in line with the Greenhouse Gas Protocol Corporate Standard | Greenhouse Gas Protocol (ghgprotocol.org), the industry standard for corporate reporting on scope-3 carbon emissions. Our Net Zero and Scope 3 carbon emissions targets span all carbon-emission categories from source to sale (excluding GHG-protocol categories 6, 7, 10-15).