

RUBIX

Task Force on Climate-related Financial Disclosure (TCFD)

March 2022





Rubix's approach to TCFD

In May 2021, Rubix officially signed its support for the Task Force on Climate-related Financial Disclosure (TCFD) which provides a disclosure framework to report on climate-related risks and opportunities, their actual and potential impacts on business, strategy, and financial planning, and how climate-related issues are embedded across organisational governance, strategy, risk management, and metrics and targets.

The Group views disclosure against the TCFD framework as an essential step on its ESG roadmap, both to provide greater transparency to stakeholders on Rubix's climate-related preparedness, and to further develop its understanding of and resilience to climate-related risks and opportunities.

This first disclosure in accordance with the TCFD framework builds upon the climate-related disclosures in the Group's 2021 CDP climate change response. Rubix's TCFD reporting process involved undertaking new areas of work such as climate scenario analysis, where risks and opportunities under various possible climate futures were evaluated, and climate-focused engagement sessions with key management.

The outcomes of the process have provided valuable insights on the physical and transition risks Rubix may face, its resiliency to these risks, as well as the potential transition opportunities available.

The Group's disclosures against the 11 TCFD recommendations are grouped under Governance, Strategy, Risk Management and Metrics and Targets.



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Governance

Board oversight of climate-related risks and opportunities

Rubix's Executive Board, led by the Group CEO, has adopted ESG as an integral component of the Group's business model and strategy, and has responsibility and oversight for the Group's ESG Strategy. This includes climate-related items and initiatives, such as greenhouse gas (GHG) accounting and reduction targets, climate-focused collaborations with suppliers and customers, and disclosure against climate-related frameworks such as the CDP and TCFD. The Executive Board regularly discusses the ongoing performance and planning of actions related to the Group's GHG inventory and reduction initiatives, collaboration with suppliers and customers, and reporting and disclosures. The Executive Board discussed and approved the climate-related commitments made as part of the roadmap contained in the Group's 2021 ESG report and maintains increasing involvement in overseeing the Group delivering on the climate strategy items.

Rubix's ESG Committee reports directly to the Executive Board. The ESG Committee is led by the MD of Services and the Group Sustainability Director, who are responsible for defining and driving the Group's ESG Strategy through an ESG Leadership Team comprising Group Function Heads, and country specific ESG representatives.

Rubix's CFO is a member of the Executive Board and provides oversight to the Board on aspects of financial risk associated with climate issues, such as those considered as part of financial scenario modelling and stress testing. Rubix's finance function supports financial evaluation of climate-related opportunities, and broader scenario modelling to stress test downside scenarios, including consideration of relevant climate-related risks.

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

Key climate-related responsibilities of Rubix's ESG Leadership Team, which are linked to assessing and managing climate-related risks and opportunities, include:



Establishing, standardising, and driving ESG-related data-collection processes



Identifying, prioritising, and driving the adoption of ESG initiatives and improvement measures



Internally sharing ESG best practices and local initiatives between regions



Promoting a Group-wide culture that integrates ESG into all aspects of the business

Rubix is exploring options for incorporating ESG performance, including climate-related metrics, into the balanced scorecard of its senior management team to inform incentive policies.

Climate-related risks and opportunities over the short, medium, and long term

Climate-related risks and opportunities most relevant for the Group were qualitatively defined in several stages, including benchmarking and desktop research, an internal consultation process involving key roles across the business and specific business segments, building on pre-existing information such as Rubix's risk management framework and outcomes of strategic risk management discussions, and commercial strategy considerations. Most transition drivers can be considered as either a risk, or an opportunity for Rubix depending on the Group's performance in relation to the specific subject. In accordance with the TCFD framework, the Group defined short-, medium-, and long-term time horizons as follows:

Short-term:	0-2 years (2022-2024)
Medium-term:	3-5 years (2025-2027)
Long-term:	6+ years (2028-2050)

Short- and medium-term horizons were designed to offer consistency with Rubix's 5-year planning approach, and the long-term horizon was designed to capture climate-related risks and opportunities likely to materialise beyond conventional timeframes. The long-term timeframe consideration of up to 2050, allows the Group to evaluate the range of drivers under a net zero by 2050 transition scenario and assess physical risks which manifest across longer horizons.

Climate-related issues that were determined as having the potential to impact Rubix to varying degrees from the short- to long-term include:

Physical risks: chronic and acute climate hazards	Rubix's own operations, customers or suppliers, may be directly or indirectly impacted by physical climate hazards, the effects of which may become more frequent and extreme with climate change. Physical climate hazards could cause direct disruptions to the Group's operations and upstream or downstream supply-chain and logistics, or impact upon the wider markets within which the business operates.
Policy and legal: carbon pricing and climate-related mandates	The implementation of mandatory carbon pricing and possible increases to existing carbon prices may increase operating costs for Rubix (such as costs relating to operational energy or fleet fuel use). Carbon pricing may also impact the costs of specific goods and services purchased by Rubix.
Market: changing customer expectations	Demand for Rubix's products and services: the Group's ability to generate revenue and maintain or increase market share, and overall competitiveness may be impacted by developments in its customers' climate-related strategies and targets. This driver is both a possible risk, and an opportunity both of which have been incorporated into the Group's, strategy and financial planning. The nature of this risk depends on the Group's ability to successfully meet, for example, growing demands for climate-related products and services and other climate-related expectations of its customers.
Technology: GHG emissions and technology changes	Technological transitions relating to climate, such as the availability and costs of renewable energy supplies, or lower-carbon technologies, industrial products, and equipment, could impact the Group's operations. These impacts may include its ability to reduce operational and fleet GHG emissions, the level of embodied carbon in its products, or the sustainability enabling technologies it supplies to customers. This driver is also both a risk and an opportunity depending upon wider technological developments and Rubix's ability to integrate them across its operations, fleet, and commercial offerings to customers.
Reputation: Access to finance, talent attraction and retention	Depending on the Group's financing needs and choices, the cost of capital for Rubix may be influenced by its climate-related performance. An example of this may include the quality and ambition of its ESG and climate strategy, its performance against this strategy, and its ability to meet stakeholders' climate-related expectations on reporting and disclosure. Additionally, the Group's ability to attract and retain talent and overall talent turnover may be impacted by its reputation surrounding sustainability and climate-related performance.

The impact of climate-related risks and opportunities on Rubix

Climate-related issues have influenced Rubix's business, strategy, and financial planning in several ways to date, and continue to shape the Group's plans.

The Group's response to these issues include several commitments defined in its ESG roadmap: CDP climate change and TCFD disclosure, completing a Scope 3 GHG inventory, setting science-based targets, developing a renewable electricity roadmap and defining a strategy for net-zero.

The Group has successfully disclosed in accordance with the CDP and TCFD frameworks and has set a Scope 1 and 2 GHG emission reduction target, which will be reviewed in line with its science-based target roadmap.

Physical risks:	To date, physical climate hazards have had no material impact on Rubix group. While certain localised physical climate events have the potential to cause acute disruption to specific distribution centres or supply chains, the Group's operations are highly decentralised, driving considerable resilience to such risks.
Policy and legal:	Rubix complies with all relevant climate-related requirements, such as the Streamlined Energy and Carbon Reporting (SECR) requirements in the UK, and is now positioned to comply with TCFD aligned reporting requirements. Climate-related legal and policy matters have not represented material costs to Rubix.
Markets:	Rubix is uniquely positioned to support its customers and suppliers in fulfilling their own climate strategies, which has already influenced aspects of the business and commercial strategy. For example, the Group's Services division facilitates customer GHG reduction and efficiency through product and service offerings such as vendor managed inventory, Insite™ solutions, and technical services such as air leakage reductions and condition monitoring. Technical services, such as air leak surveys, condition monitoring, and repairs, typically help Rubix's customers collectively avoid several thousand tonnes of CO2e per year. In 2021, Rubix maintained its EcoVadis silver rating, and Rubix's customers are able to integrate the EcoVadis scorecard into their business practices (such as vendor registration, compliance, sourcing, and supplier performance and relationship management), driving sustainable procurement decisions while positively incentivising trading partners that align with Rubix's own sustainability practices. In addition, Rubix works actively with customers to explore how the Group can collaborate with and support customers in reducing their environmental footprints, and is exploring ways to engage with suppliers to evaluate and reduce greenhouse gas emissions across the end-to-end supply chain.
Technology:	Climate-related technological developments and enablers have so far served as an opportunity for Rubix. Over the past two years, the Group has accelerated its digital strategy, which has reduced the GHG footprint from business travel, and reduced the need for physical commercial materials and waste-related emissions. Other aspects of the Group's operations that have benefited, include the UK national distribution centre which now uses energy-efficient lighting and a new heating system which is 56% more efficient, thus reducing associated GHG emissions from energy use. The Group's Italian national distribution centre in Brignano Gera d'Adda uses cutting edge automation and modern features to optimise logistics flows, minimise energy usage and waste, and reduce associated GHG emissions. Rubix is also committed to minimising its fleet-related fuel usage and associated GHG emissions, working with suppliers to achieve mutual improvements - since 2019, delivery mileage has been reduced by over 20% primarily by switching deliveries to direct dispatch. In addition, the Group continues to explore low-carbon fuel and technology improvements to optimise its logistics activities.
Reputation:	To date, Rubix's reputation surrounding climate-related performance, including its climate-related offerings and engagements with customers, has had a positive commercial impact for the Group. For example, as part of Rubix's Key Account strategy, there is regular engagement with customers' sustainability teams, including climate-related discussions. This proactive approach has resulted in several significant commercial opportunities for Rubix to support customers' ESG and climate roadmaps.

Strategic resilience under different climate-related scenarios

As part of Rubix's TCFD reporting process, the Group conducted its first iteration of climate-related scenario analysis to evaluate against multiple climate scenarios.

Scenarios applied:

High Transition Risk	IEA Net Zero by 2050
High Physical Risk	IPCC SSP5-8.5
Mid-range	IPCC SSP2-4.5

The IEA's Net Zero by 2050 scenario was selected as a "2°C or lower scenario" in accordance with the TCFD recommendations to explore transition risks.

This scenario aligns with the Group's ambitions to define a net zero strategy. In addition, this scenario is highly relevant to the sector and markets in which the Group operates, offering key assumptions surrounding industrial transitions, and carbon pricing. The IPCC's SSP5-8.5 and SSP2-4.5 were applied as a means to explore physical risks and Rubix's possible exposure to climate hazards under a worst-case scenario and a middle of the road scenario.

Where possible, climate risks were evaluated in terms of their potential to result in 'substantive financial impact' or 'substantial strategic impact' to Rubix. Substantive financial impact is defined as a €5m impact to Adjusted Earnings Before Interest Tax and Amortisation.

Substantive strategic impact is characterised as any impact that prevents the business from delivering its key strategic priorities over the medium- or long-term: key account growth, network development (the addition of branches), digital and services growth, own brand development and continuous improvement/efficiencies.



Transition scenario analysis and outcome

To quantitatively evaluate transition risks relating to carbon pricing, the advanced economies' carbon prices from the IEA's Net Zero by 2050 scenario were applied to the Group's Scope 1 and 2 emissions.

The Group's long-term GHG emissions reduction trajectory is assumed to progress at the same pace and scale as its existing target, resulting in a 3% annual reduction year-on-year relative to a 2019 base year. The full cost of carbon pricing is assumed to be paid by Rubix. Under these conditions, the annual costs for Rubix would peak in the long-term (c.2032), reducing thereafter, and from the short- to long-term horizon to 2050 never exceed the threshold of the Group's definition of substantive financial impact. The outcome of the analysis reaffirmed the importance of Rubix's current emissions reduction target as well as developing ambitious long-term emissions targets.

As part of the qualitative analyses, the Group evaluated its overall climate resilience, including the transition drivers that might be experienced from customers and suppliers under the IEA's Net Zero by 2050 scenario. Internal GHG-focused initiatives to date have successfully reduced emissions related to fleets, warehouses, resource, and material usage, with continued expansion in the breadth and depth of these initiatives in accordance with the Group's ESG Roadmap, which includes a renewable energy strategy and net zero roadmap.

Rubix's position in the value chain provides a degree of inherent resilience to transition risks, and the Group's established processes position it well to continue working end-to-end across the value chain to ensure it remains resilient to transition risks, and is able to harness emerging opportunities. Many of Rubix's key customers demonstrate mature climate strategies, and preparedness for transition risks under a net zero aligned future, and as part of these strategies, there are clear indicators that suppliers such as Rubix, will become increasingly engaged on climate-related issues. Rubix has already recognised these drivers as an emerging trend from a number of key customers, and as part of its established account management processes, proactively engages with these customers on ESG, including climate-related issues, to ensure the Group continues to monitor and meet customer needs.

The maturity of climate strategies across the Group's key customers highlighted the resilience of crucial components of the value chain to significant transition drivers and reaffirmed the importance of continuing to proactively engage with customers. The most important areas in this regard are Rubix's climate-related products, services, and commercial support, continued Group-wide climate awareness and disclosure, and demonstration of continued internal progress and overall climate resilience.



Physical scenario analysis and outcome



To evaluate the physical risks of climate change, the Group undertook an analysis of its 29 National Distribution Centres (NDCs) evaluating hazard exposures under the IPCC's SSP5-8.5 and SSP2-4.5 scenarios. The NDCs were selected as the subject of analysis as they represent key operational nodes within the Group's markets. Climate-related hazards were assessed across the short- to long-term horizons, including wildfires, inland floods, heatwaves, drought, and sea level rise.

Under the highest emissions scenario (SSP5-8.5), in the short- and medium-term horizons the Group's NDC portfolio faced, overall, low exposure to all hazards assessed - notably, only 2 of 29 NDCs faced high exposure to a single climate hazard in the medium-term. In the long-term to 2050, under the highest emissions scenario, 5 additional NDCs were expected to face high exposure to at least one climate hazard. Under the middle of the road emissions scenario (SSP2-4.5), in the long-term the NDC portfolio faced, overall, low exposure to all hazards assessed - only 2 of 29 NDCs faced high exposure to a single climate hazard in the long-term.

The results of the analysis have provided valuable insights on when physical hazards related to climate change would be most likely to significantly manifest across the geographies in which the Group operates, and the upper bounds of its exposure as delineated by the high emissions scenario. Based upon the analysis undertaken, under either physical scenario applied, exposure to physical climate hazards represents immaterial risks to the Group's operations. Certain climate hazards such as heatwaves and droughts, should they occur, were assessed as unlikely to impact significantly upon NDC operations. In the long-term high emissions scenario, rare instances of increased exposure of NDCs to sea level rise, wildfire, and inland flooding were noted. While the Group's operations are more vulnerable to such hazards, based upon the timeframes over which they would be likely to significantly materialise, the Group believes it has sufficient time to adapt if necessary.

In terms of overall operational resilience to the physical risks of climate change, several aspects of Rubix's business and operating model offer significant resilience. The decentralised nature of its operations and numerous distribution centres provide considerable built-in flexibility, generally enabling the Group to maintain the integrity of operations should physical climate events cause localised disruptions to any distribution centres. Should chronic or acute physical climate hazards impact one distribution centre, in many cases, there is capacity to rely on other local distribution centres if required. Backup power generators at many sites offer resiliency to power outages with the more operationally significant distribution centres equipped with backup generators to minimise possible downtime. While the Group's operations are not reliant on physical IT infrastructure, the branch and digital businesses rely on IT assets in the form of ERP systems. There are established recovery plans in place to mitigate against the risk of damage, disruptions, or losses to these systems from potential climate-related events. The Group's IT Business Continuity Plans have been recently tested and incident response teams are in place to investigate and support in the event of physical disruptions to IT infrastructure.

Physical climate hazards can impact other value chain areas, such as customers and suppliers, or logistics. As part of this TCFD reporting process, the Group undertook a screening exercise to evaluate the overall climate-related preparedness of its customers and suppliers. Rubix's highly distributed business model, with sales and procurement spread amongst customers and suppliers, provides high resiliency to indirect risks should a key trading partner be impacted significantly by physical climate hazards. In addition, the Group's logistics model is highly decentralised and operationally flexible, ensuring low vulnerability to physical climate hazards. The Group continues to review the potential for physical climate events to impact its operations, wider value chain, and logistics.

Risk management

Processes for identifying, assessing and managing climate-related risks and integration into overall risk management

The Group applies an integrated approach to business risk management so that risk identification, evaluation and response are carried out by persons within the business with the relevant operational responsibility and experience. This includes the treatment of climate-related risks, which by their varied nature, are potentially relevant to one or many specific aspects of the business.

For example, Rubix's finance function plays a role in evaluating climate-related risks and opportunities: in implementing the Group ESG strategy, Rubix has undertaken a cost-benefit analysis with a risk overlay to assess how, over a period of time, ESG risks and opportunities and costs work their way through Rubix's 5-year strategic plan.

The operational management of risks across Rubix is facilitated through several means, such as Group policies and procedures, training, internal controls, reporting reviews and approval processes, all of which are coordinated and overseen by the related Group functions.

The Board reviews these activities on a regular basis. Operational risks are assessed by country management teams and are reviewed, together with appropriate mitigation, by the Board on a regular basis. The Board performs a formal Group-wide review of strategic risks annually, and appropriate processes and controls are put in place to monitor and mitigate these risks.

The principal risks affecting the Group are:

- › Strategic
- › Operational
- › Financial
- › Emerging risks

The Group has classified climate-related risks, both physical and transition, as Emerging Risks in its Group Risk Register. Risk registers are maintained at the Regional/country and Group level by the respective senior leadership teams using a standard Rubix risk register template. An aggregated risk register is maintained at Group level consisting of all the key risks that could impact Rubix at Group level.

The Group Risk Management Framework stipulates the principles that all risks, including emerging risks such as climate-related risks, are identified at the earliest opportunity, assessed by considering the impacts and likelihoods of their occurrence, and managed by implementing proportionate and cost-effective controls.

Regional/country and Group level senior management are responsible for identifying, assessing, and recording the gross (untreated) risk score on their risk register using a likelihood and financial impact scoring methodology. Regional/country and Group level senior management are responsible for establishing their likelihood and impact criteria and record this on the risk register template to allow for site specific financial impacts to be taken into account.

Regional/country and Group level senior leadership teams are responsible for mitigating risks using a Treat, Transfer, Terminate, or Tolerate framework. Residual (current) risk scores are then calculated, considering the current effectiveness of each of the four T's and by using the same likelihood and impact risk scoring methodology for gross risk.

Regional/country and Group level senior leadership teams are responsible for managing the residual risk depending on the residual risk score. Current and emerging risks, which include climate-related risks, are planned for discussion as a standing agenda item at Regional/country, and Group senior leadership team meetings and decisions are documented and retained.

The aggregated Group risk register is reviewed by the Executive Board annually and submitted to the Audit and Risk Committee as a standing agenda item.

Metrics and targets

Metrics to assess climate-related risks and opportunities aligned with strategy

Greenhouse gas emissions (GHG)

Targets used to manage climate-related risks and opportunities

Rubix currently uses a selection of metrics to support its assessment of climate-related risks and opportunities, described below and disclosed in Table 1. Overall emissions intensity is tracked using tonnes of CO₂e (tCO₂e per unit of revenue). This metric is an indicator of the Group's ability to grow whilst reducing GHG emissions in relative terms.

The Group's multi-specialist value proposition covers a wide range of value-added services that play a critical role in helping its customers' climate and sustainability efforts by reducing waste and maximising the efficiency of energy usage. These services include condition monitoring and maintenance services that support customers to reduce the energy consumption of their manufacturing and processing plants, such as air leakage, monitoring and repair services. Services revenue is therefore a key metric in assessing how the Group's ESG strategy drives commercial opportunities. The Group is exploring the implementation of an internal carbon price in the form of a shadow price on GHG emissions for fleet and warehousing related GHG emissions, as a means of mitigating against transition risks and securing funding to harness climate-related opportunities.

Table 1: Key climate-related strategic metrics

	2019	2020	2021
Services revenue (€m)	491	515	627
tCO ₂ e GHG emissions (Scope 1 and 2) per unit of revenue (tCO ₂ e / €m)	10.2	8.5	7.8

The Group currently accounts for Scope 1 and 2 GHG emissions as shown in Table 2 below.

As per its ESG roadmap, the Group aims to complete a Scope 3 GHG inventory for all relevant sources of emissions by 2023. With a comprehensive greenhouse gas inventory, the Group will be better able to identify emissions hotspots outside its direct control, but which it can influence and subsequently target for emissions reduction efforts, mitigating associated transition risks. A comprehensive Scope 3 inventory will also enable the Group to develop and set a science-based target and net zero strategy.

Table 2: GHG emissions tCO₂e

	2019	2020	2021
Scope 1	21,324	15,739	16,357
Scope 2	5,381	4,815	4,805

The Group has set a target to reduce Scope 1 and 2 greenhouse gas emissions by 15% by 2024, relative to a 2019 base year, which it views as an ambitious interim target. Ongoing reductions towards this target will be achieved through the Group's structured efficiency programmes and elements of the multi-specialist proposition. GHG reduction targets will be reviewed and updated based upon progress with the Group's science-based target roadmap.

2024 Target: Reduce Scope 1 and 2 greenhouse gas emissions by 15% (2019 base year)

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