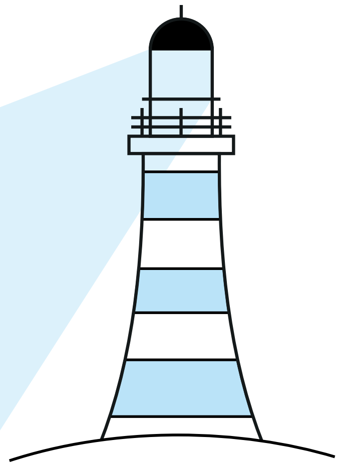
Legal & General

Legal & General Group Plc



2022 Scope 3 Carbon Emissions Basis of Reporting

Background

As a supporter of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD), Legal & General Group plc (L&G) commit to disclosing climate-related financial information through an annual climate report which aligns to TCFD recommendations and is supplementary to its annual report and accounts.

In line with the UK Government's Streamlined Energy and Carbon Reporting requirements (SECR), L&G's Greenhouse Gas Emission (GHG) information is set out in its annual report and accounts and its accompanying climate report, both published in March.

Introduction

This basis of reporting document sets out how L&G prepares its GHG emissions reporting for the following scope 3 categories:

- Category 3 Fuel and energy-related activities
- Category 5 Waste
- Category 6 Business Travel
- Category 7 Employee Commuting (Working from home only)
- Category 8 Upstream Leased Assets
- Category 13 Downstream leased assets
- Category 15 Investments

It is the responsibility of L&G management to ensure that appropriate internal procedures are in place to report GHG emissions performance data, in all material respects, as set out in this document.

These procedures ensure that:

- the reported information reflects L&G's performance;
- the data is meaningful and is consistent with the stated definitions and scope;
- any specific exclusions are stated clearly and explained;
- any assumptions made, as well as accounting and calculation methods are clearly described; and
- the level of transparency is sufficient to enable users to have confidence in the integrity of L&G's reporting.

Scope

L&G discloses its annual scope 3 carbon emissions (Categories 3, 5, 6, 7, 8, 13 and 15) for the whole of Legal & General Group, its subsidiaries and joint ventures[1,2]. L&G follows the Greenhouse Gas Protocol Corporate Value Chain (scope 3) Accounting and Reporting Standard.

The carbon emissions data reported is aligned with the group's financial reporting year, 1st January to 31st December for categories 5, 6[3], 7 and 8. Category 3 is based on annual scope 1 and 2 data[4], Category 13 & 15 is based on January to December of the previous year for leased assets and corporate investments and two years for sovereign investments, due to the availability of carbon data reporting. Category 15 emissions are based on the investment holdings as at 31st December (end of reporting year).

L&G include newly acquired businesses as soon as the appropriate processes and systems are implemented to enable consistent data collation and L&G group level consolidation. The results of disposed businesses are included up to the date of disposal.

Where available base year data is included e.g. from 2019, to help demonstrate L&G's emissions trajectory.

The table on the following page outlines L&G's assessment of materiality for all categories of scope 3 emissions.

1. Joint ventures are included in the footprint where L&G are the majority shareholder, or have operational control.
2. Category 15 emissions relate to our shareholder investments, which are defined as total investments to which shareholders are directly exposed, and do not cover our policyholder and external client investments.
3. Business travel data is based on business mileage expenses claimed from 1st January to 31st December, rather than actual miles travelled in calendar year. As the engine sizes from employee expenses claims are based on internal thresholds and not directly aligned with BEIS engine size thresholds, L&G take a prudent approach in applying the higher of BEIS conversion factors for the engine size per employee expenses claims.
4. Scope 1 and 2 data include LGIMRA data reported annually from 1 December to 30 November and IVG data reported from 1 October to 30 September.

Scope continued

Category	Scope/Description	Key Business Relevance	Description of Materiality and our Current Approach	Associated Target/Commitment
Category 1	Purchased goods & services	Group-wide	Relevant to our organisation. We are working closely with our supply chain to obtain robust data during 2023 and will aim to disclose in future years.	By 2023 we will set a scope 3 category 1 (purchased good and services) SBT aligned with our net zero ambition.
Category 2	Capital goods	LGIM Real Assets and LGC	Relevant to our organisation. We are developing standardised processes to capture this data and will disclose in future years.	We are committed to reducing the embodied carbon to our homes and real estate investments.
Category 3	Fuel & energy-related activities	Group-wide	Relevant to our organisation. Data collated and disclosed for 2022.	100% of our energy to be purchased from a renewable source.
Category 4	Upstream transportation & distribution	Group-wide	Included in category 1.	–
Category 5	Waste generated in operations	LGC & Core Occupied Offices	Relevant to our organisation. Data collated and disclosed for 2022.	We will divert 100% of waste from landfill by 2025 in all offices and LGC development projects where we are responsible for waste management.
Category 6	Business travel	Group-wide	Relevant to our organisation. Data collated and disclosed for 2022.	From 2030, our group-wide business travel will generate net zero emissions.
Category 7	Employee commuting (working from home)	Group-wide	Relevant to our organisation. Data collated and disclosed for 2022.	–
Category 8	Upstream leased assets	Group-wide	Relevant to our organisation. Data collated and disclosed for 2022.	Out net zero ambition is shaping our future location strategy.
Category 9	Downstream transportation and distribution	L&G Modular Homes	Relevant to our organisation. Data will be collected as we deliver modular homes across the UK and will be disclosed in future years.	–
Category 10	Processing of sold products	n/a	Not relevant to our organisation.	n/a
Category 11	Use of sold products	LGIM Real Assets and LGC	Relevant to our organisation. We are developing standardised processes to capture this data and will disclose in future years.	All new homes we deliver, from 2030, will be enabled to operate at net zero carbon-emissions.
Category 12	End of life treatment of sold products	LGIM Real Assets and LGC	Relevant to our organisation. We are developing standardised processes to capture this data and will disclose in future years.	–
Category 13	Downstream leased assets	LGIM Real Assets and LGC	Materiality relevant to our organisation. Data collated and disclosed for 2022.	LGIM Real Assets is committed to achieving net zero carbon across our real estate equity platform by 2050.
Category 14	Franchises	n/a	Not relevant to our organisation.	–
Category 15	Investments	Group proprietary assets	Materiality relevant to our organisation. Data collated and disclosed for 2022.	By 2030, reduce portfolio GHG emission intensity by 50% and increase financing of low-carbon technology and infrastructure.

Reporting Standards for scope 3 Categories

L&G follow the Greenhouse Gas Protocol Corporate Value Chain (scope 3) Accounting and Reporting Standard for reporting scope 3 emissions:

Category 3 Fuel & Energy Related Activities:
Extraction, production, and transportation of fuels and energy purchased or acquired by the reporting company in the reporting year, not already accounted for in scope 1 or scope 2.

Category 5 Waste:
Disposal and treatment of waste generated in operations in the reporting year (in facilities not owned or controlled by Legal & General).

Category 6 Business Travel:
Transportation of employees for business related activities during the reporting year (in vehicles not owned or operated by the reporting company)

Category 7 Employee Commuting:
Department for Business, Energy & Industrial Strategy guidance and conversion factors to account for home working. Please note this methodology does not include a calculation for employee commuting.

Category 8 Upstream Leased Assets:
Operation of assets leased by L&G (lessee) in the reporting year and not included in scope 1 and scope 2 as reported by L&G.

Category 13 Downstream Leased Assets:
Operation of assets owned by the reporting company (lessor) and leased to other entities in the reporting year, not included in scope 1 and scope 2 – reported by lessor.

Category 15 Investments:
Operation of investments (including equity and debt investments and project finance) in the reporting year, not included in scope 1 or scope 2.

Please note that scope 3 categories 6, 7 and 8 data has been subject to independent limited assurance by Deloitte and their assurance opinion can be found on pages 41 and 42 of the Climate Report.

Data collection

In building L&G's scope 3 emissions data, internal procedures are implemented to capture and collate data. Data owners, data type and frequency are outlined in an internal data dictionary which is used to track data collection throughout the annual reporting period.

Data is collected across the business and aggregated to provide a groupwide carbon footprint. All underlying data is collated by each business or at a group level using recognised data collection methods e.g. supplier reports or expenses data.

L&G's approach is to use actual data where it is practical and feasible to do so. In some instances, it may be necessary to use estimated data or extrapolated data that is based on data from other parts of the business or industry benchmarks. For example, L&G use the Department for Business, Energy & Industrial Strategy guidance and metrics to account for carbon emissions from employees working from home.

Scope 3 data is subject to review and approval by each business before being submitted for aggregation at the L&G group level. Following submission, it is further reviewed by the group environment team to confirm the accuracy and reliability of the data submitted and conversion factors applied. Queries are raised with data owners to address anomalies.

Scope 3 categories 6, 7 and 8 data is subject to independent limited assurance by Deloitte. All scope 3 data is subject to internal legal review prior to publication. Checks are also undertaken at the half and full year period at a group level and data is shared with the Group Environment Committee prior to inclusion in annual disclosures.

L&G utilise a range of data sources in the measurement of scope 3 emissions, which are outlined below.

Category 3 Fuel & Energy Related Activities:
- Department for Business, Energy & Industrial Strategy guidance and conversion factors are applied to the data collected for the annual scope 1 and 2 footprint.

Category 5 Waste:
- Calculated based on data collected by business areas broken down, as a minimum, to the following disposal routes:
  - Recycling
  - Energy from waste
  - Composting
  - Landfill
- Data is subject to review and approval by each business before being submitted for aggregation at the L&G group level. Following submission, it is further reviewed by the group environment team and conversion factors applied by waste type. Queries are raised with data owners to address anomalies.

Category 6 Business Travel:
- Data is collected on the following modes of business travel:
  - Road based mileage
  - Air travel distance
  - Rail travel distance
- Where possible distance (miles or km's) are used. A distance-based method involves determining the distance and mode of business travel, then applying the appropriate emission factor for the mode used. The following data is collected:
  - Type of travel (e.g. emissions factors vary by distance & class of travel).
  - Specific types of vehicles used for travel (since transportation emission factors vary by vehicle types) from transport providers.
  - The specific passenger vehicle type and fuel used (since transportation emission factors vary by fuel types).
- Where distance data is not available a spend-based method is used. This involves determining the amount of money spent on each mode of business travel transport and applying a primary conversion factor[1] to convert to distance and then a standard conversion factor to determine emissions.
- 3rd party travel booking providers, as part of contractual agreements, provide travel data on journeys undertaken e.g. Flights and trains.
- Information is collated from central and businesses expenses systems.
- Data is collated at group level following a review by the group environment team and conversion factors applied. Queries are raised with data owners to address anomalies.

Category 7 Employee Commuting (Home working):
- The Department for Business, Energy & Industrial Strategy guidance and conversion factors are used to calculate homeworking emissions for employees[2]. Energy use from office equipment and home heating, which would not have occurred in an office-working scenario is accounted for.
- Assessment of homeworking is based on UK regions, as the majority of employees are located in the UK and there are currently no emissions factors for homeworking in other countries. Therefore, all employee home working emissions are calculated using the UK emissions factors.

1. Department for Business, Energy & Industrial Strategy guidance and conversion factors are applied.
2. Employees = Full Time Employee equivalent.

Data collection (Continued)

Please note L&G do not currently collate information on employee commuting, although we do collate the carbon from shuttle buses provided by L&G. This is captured within the scope 1 and 2 data.

Category 8 Upstream Leased Assets:

- An average data method is used to estimate emissions from leased buildings. This means estimating emissions for each leased asset, based on average data, such as average emissions per asset type or floor space.
- This method has been selected because purchase records, electricity bills, or meter readings of fuel or energy use are not available or applicable.
- The following information is used:
  - Floor space of each leased building (where not available average head counts are used and the following calculation applied to determine floor space headcount x $7m^2$ = total m^2 [1]).
  - The Better Building Partnership Real Estate (REEB) Environmental Benchmarks are used to calculate gas (kwh) and electricity (kwh). Appropriate BEIS emissions factors are then applied.

Category 13 Downstream leased assets:

Where we do not manage our properties, our occupiers provide utility data, or we use benchmark data based upon property type and floor area. We use the following benchmark data sources:

- Global Real Estate Sustainability Benchmarking (GRESB) occupier data collection. As part of our occupier liaison processes, we currently receive operational data from approximately 31% of our occupiers. This data is an indication of the emissions within our property portfolio.
- Industry standard benchmarks: Chartered Institute of Building Services Engineers (CIBSE) and Better Buildings Partnership's Real Estate Environmental Benchmarks (REEB). Energy (and carbon) benchmarks for various types of property have been published in the UK for over 20 years, originating from the government-funded Energy Efficiency Best Practice Programme (EEBPP). The most recent update to these benchmarks was undertaken by CIBSE in 2008.
- In addition, the Better Buildings Partnership has established more recent benchmarks for particular types of commercial buildings, predominantly offices and shopping centres. REEB 2020 office benchmark was used for this analysis.

By using a combination of these benchmarks, we establish an estimate of the carbon emissions associated with our direct property investments and also identify which property sectors are, on average, most intensive in terms of carbon emissions.

Category 15 Investments:

L&G's category 15 data is made up of L&G ownership share of the emissions related to the assets L&G invest in within the group proprietary asset portfolio. It includes equities and bonds, but excludes cash, derivatives, or any assets already covered in our operational footprint.

L&G's primary metric is the GHG economic emissions intensity of the portfolio of group proprietary assets. This is the total of all the GHG produced by our share of the companies and corporations that we invest in, per unit of investment, and is reported using carbon dioxide equivalent (CO_2e) emission data. There are three components to this metric:

- the GHG emissions, CO_2e, in tonnes for each entity in which we are invested arising from the underlying scope 1 and scope 2 emissions directly connected with its operations
- a unit of value to normalise the emissions by the underlying size of the entity we are investing in measured in £m. For our primary metric we use:
  - EVIC for corporate issuers
  - sovereign capital stock for sovereigns
  - market valuation for each real asset investment
- the size of our holding in the entity.

The investment portfolio emissions intensity is then calculated by weighting the normalised emissions (tonnes of CO_2e emissions per £m normaliser entity value as defined above) by the size of our investment and aggregating all holdings in our investment portfolio.

Where third-party data is not available, we have adopted several proxy approaches with the aim of filling the coverage gap. For some key asset classes, asset class-specific approaches are employed, while for others that are not covered in our datasets, we use sector-based proxies. Proxy approaches are used for the following other asset classes: real assets, lifetime mortgages, private debt and private equity.

Our calculation methodology for our primary economic carbon intensity metric aligns with:

- The Partnership of Carbon Accounting Financials (PCAF) stock emission intensity methodologies (that is to say using 'Enterprise Value Including Cash' ('EVIC') as the stock emission intensity normaliser), where available
- TCFD's carbon footprint portfolio weighting methodology (that is to say stock intensities are weighted by portfolio value).

Note, for each years' calculations the emissions and revenues data refers to the most recently available reported carbon footprint scores and revenue information (which generally contains a 1-year lag for listed equity and debt, and 2-year lag for sovereigns). For example, the emissions (tCO_2e) and revenue data would generally refer to 2021 for the 2022 metric.

Conversion Factors

L&G's carbon emissions are calculated using publicly available emission conversion factors. Consumption data, such as kWh or litres of fuel, is converted into tonnes of CO_2e. The primary source of L&G's emission conversion factors is the Department for Business, Energy and Industrial Strategy[2] (BEIS). The BEIS conversion factors are also applied to travel and serviced offices within international countries.

Exclusions

L&G apply exclusions in accordance with the GHG Protocol and the UK Government's guidance on SECR requirements.

L&G's primary exclusions are joint ventures where L&G are not the majority shareholder or do not have operational control.

In some instances where it has not been possible to obtain relevant data or L&G are not able to apply an appropriate and valid estimation, L&G have excluded that from our reporting until it can be appropriately measured.

Restatement of reported data

L&G's expectation is that all data is reported accurately and completely. However, given the complexities associated with some of the data, including the use of estimates, there can be instances where it may be necessary to amend data reported in prior years, due to the availability of higher quality data or a change in the data collating processes.

Where L&G believe there is a material impact[3] on previously reported data, the data will be restated along with an explanatory note.

1. $7m^2$ is sourced from the UK Government Employment Densities Guide 2010, which L&G use for space planning purposes.
2. The BEIS conversion factors are updated halfway through the year and L&G apply the conversion factor for the year end period to the full years data.
3. Either a change of 5% or more from the original stated data or where there is a material impact from the operational business.