TCFD Report 2023

Evolving our sustainability agenda

We are pleased to present NCC Group's second annual report in accordance with the Task Force on Climate-related Financial Disclosures (TCFD).

TCFD reporting helps organisations like ours disclose climate-related financial risks and opportunities in a structured way.

In alignment with the financial Listing Rule 9.8.6R(8) – which mandates climate-related disclosure for all UK listed companies – we have produced a comprehensive TCFD Report. Our report covers the four pillars recommended by TCFD: governance, strategy, risk management, and metrics/targets and the 11 disclosures recommended by TCFD except as noted below.

To ensure consistency across our report, we adhered to section C of the TCFD Annex, titled "Guidance for All Sectors".

As a result the following are documented as partially compliant with further detail available within this report:

- Strategy B and C – we are in the process of considering financial implications of climate scenarios into our financial planning and in the next reporting period will look to develop a quantitative scenario analysis and integrate into financial planning.
- Metrics and Targets B – Scope 3 emissions are limited to business travel, electricity and distribution losses, heat and steam transmission and distribution losses. We continue to improve data collection from suppliers and understanding of colleague commuting impacts to enhance our reporting across other Scope 3 categories, through various planned engagement activities in the next period.

Each pillar of our report includes a table detailing our current disclosure and areas of focus for 2024.

Our assessment indicates a low risk of exposure to physical and transitional climate changes, thanks to our business model. However, we acknowledge the high importance of mitigating greenhouse gas emissions, which emerged as a priority from stakeholder feedback in our recent materiality assessment.

We continue to partner with Planet Mark, a leading sustainability certification organisation, to calculate, verify and target reductions in our carbon footprint and support our commitment towards net zero before 2050.

We recognise the considerable opportunities presented by the growing climate-focused market. Our collaborations with clients in industries such as electric vehicles, renewable energy, operational technology and other climate-friendly technologies underscore our readiness to seize these opportunities for sustainable growth.

Governance

TCFD recommended disclosure	Compliance	NCC Group disclosure	Focus areas for FY24
Governance			
A. Describe the Board's oversight of climate-related risks and opportunities	Compliant	• The Board has appointed the Head of the Audit Committee as the lead Non-Executive Director responsible for sustainability. Monthly updates are provided via the CFO report to the Board as well as directly from regular (at least twice per year) discussions with the Director of Investor Relations and Sustainability with the full Board, including an update on progress against the Group's goals and targets where appropriate. • The Board takes overall accountability for the management of climate-related risks and opportunities and considers them as part of its overall risk review processes. For example, the Board (and management team) applied a range of relevant ESG criteria to facilitate conscious decision making on the location of NCC Group's new global delivery centre to support execution of the strategy. • We are in the process of incorporating ESG criteria into the Group's budgetary planning process and financial planning for FY25.	• From the 2023 materiality assessment, set goals for FY24, with at least quarterly updates through the CFO report, to show progress against the plan and continue to mature the process by which the Board will oversee progress against the targets for addressing climate-related issues. • Meet at least quarterly with the nominated NED responsible for sustainability to reflect, discuss and ensure actions are being taken. • Continue to develop NCC Group's net zero journey and broader sustainability strategy with oversight and input from the Board.

Governance continued

TCFD recommended disclosure	Compliance	NCC Group disclosure	Focus areas for FY24
Governance continued			
B. Describe the management's role in assessing and managing climate-related risks and opportunities	Compliant	• A new role was created in January 2022 to bring sustainability and investor relations together. The newly appointed Director of Investor Relations and Sustainability (formerly Director of Corporate Affairs and Sustainability), reporting to the Chief Financial Officer, provides advice and updates to the Executive Committee on climate-related issues as and when relevant. • An Executive Risk Management (ERM) Committee, established in 2021, which meets quarterly addresses climate risk as part of that process.	• Continue to mature NCC Group's net zero journey, including improvement of collation of Scope 3 emissions. • Review and update the terms of reference for the Climate Change Working Group in line with the materiality assessment and integrate into the existing Board and executive governance processes. • Once all new executive members are appointed and upon completion of the sustainability strategy, identify executive ownership for each element including climate change and how this is supported through the Climate Change Working Group. • Integrate the output from the double materiality assessment conducted in FY23 into our newly launched business strategy, to incorporate key ESG considerations into decision making where relevant.

Lynn Fordham, the lead Non-Executive Director for Sustainability, was appointed by the NCC Group Board Chair. In addition to her position as the Head of the Audit Committee, Lynn's role is to oversee the Company's sustainability strategy, ensure its integration with the overall business strategy, and provide regular sustainability updates to the Board.

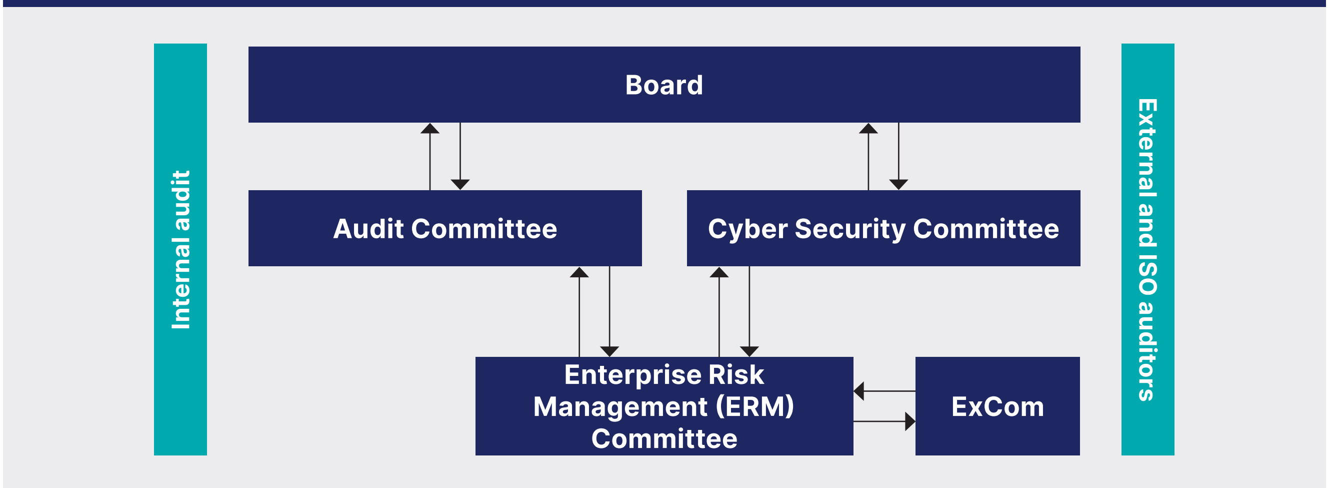
While there is no specific Board committee for environmental issues, an Executive Risk Management (ERM) Committee chaired by the Director of Global Governance addresses these issues. The ERM meets bi-monthly and is attended by our CEO and CFO. It discusses, among other risks, sustainability and environmental challenges, which are then reported to the Board.

From March to May 2023, we conducted our first materiality assessment considering both inward and outward impacts (see page 47 of the Annual Report for details). This exercise involved various stakeholders, including shareholders, colleagues and clients. The results formed the foundation of our newly launched sustainability framework, which outlines our priority areas for the next one to three years.

As NCC Group's business strategy evolves, the sustainability framework will be integrated into our strategic planning. An engagement programme is being developed to ensure that our internal stakeholders, including the Board, are informed, and engaged on not just climate change but all priority sustainability topics. This programme will feature training sessions, workshops and continued awareness-building initiatives.

The Board and the Executive Committee are committed to communicating their dedication to addressing climate change. This will be demonstrated through our annual Sustainability Report and reinforced through other appropriate internal and external communication channels throughout the financial year.

How ERM fits into the Group Committee structure



The above diagram shows how the Enterprise Risk Management Committee feeds into the Audit and Cyber Security Committees, which in turn reports to the Board. Actions are also driven back down from the Board as reflected in the above diagram.

Strategy

TCFD recommended disclosure	Compliance	NCC Group disclosure	Focus areas for FY24
Strategy			
A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Compliant	• See tables on page 56 describing risks and opportunities, which were selected based on location of our existing business and known climate change risks affecting the broader region we operate in.	• Monitor actions arising from the risk register.
B. Describe the impact of climate-related risks and opportunities in the organisation's business strategy and financial planning	Partially compliant	• An impact in our ability to meet climate-related disclosures that are required by clients in their capture of Scope 3 emissions. Each sector we operate in has its own requirements, because of legislation and their own commitments. Not understanding or assessing this could have an impact on NCC Group's ability to meet the requirements in a contract. • Climate-related taxes, or fines for non-compliance could impact the business if we fail to take action. • Our ability to raise capital to invest in growth, may be restricted if we fail to make progress on climate related action, which forms part of sustainable lending requirements. • As part of the verticalisation element of our strategy, we are undertaking research to ensure we meet the broader ESG criteria that applies to our clients. We are creating a knowledge bank for sales teams and will conduct regular briefings/updates through internal channels.	• Develop a knowledge management repository that supports sales/bid teams in accurately representing how NCC Group supports clients in meeting their specific climate-related disclosures. • Working in collaboration with strategy, marketing and public affairs, ensure that environment and broader sustainability considerations are built into the understanding of client needs by sector and by region.
C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Partially compliant	• We have conducted an initial quantitative analysis against two scenarios of 1.5°C and 4°C.	• Develop the initial scenario analysis and integrate, aligned to NCC Group's strategy development, into future financial and strategic planning activities as our net zero journey matures.

In our ongoing commitment to the TCFD's Strategy pillar, we are not only advancing our approach to managing climate-related risks but also actively pursuing growth opportunities within the climate change sphere. We've formed strategic partnerships, such as our collaboration with Planet Mark, to help us lower our carbon footprint and develop more sustainable business practices. As a proud member of techUK's Responsible Business Community, we're also exchanging insights and best practices with industry peers to collectively address climate change.

In early 2023, we appointed our first Director of Strategy, who will play a crucial role in our internal Climate Change Working Group. This group is currently tasked with evaluating the potential impact of climate change on our business operations, identifying both risks and opportunities. To date, the group has been focused on improving the collation of climate-related data to assess our current state and instrumental in helping to progress our ambitions to set achievable targets for reducing our carbon emissions over the next five years. New terms of reference for this working group are to be defined along with clearly identifying how it is embedded into our existing governance process from the Board down.

Our focus is not limited to risk mitigation but extends to exploring opportunities where we can make a positive impact. This includes improving the energy efficiency of our operations, collaborating with our landlords and requesting renewable energy sources, and identifying ways our technology solutions can contribute to our clients' sustainability efforts. As we continue our climate change journey, we are committed to regularly reporting our progress against these objectives, showing transparency in our endeavours, and constantly seeking ways to better our efforts.

Climate-related risks

Our comprehensive risk management framework (summarised in the Risk Management section of the Annual Report on pages 70 to 80) has been instrumental in identifying and assessing climate-related risks. We categorise these risks into:

- Short term (less than one year) – based on short-term regulatory or policy changes impacting climate-related risks and opportunities as well as existing forecasting processes considered by management which are reviewed and evaluated on an annual basis.
- Medium term (one to five years) – based on regulatory changes that may affect climate-related risks and opportunities.
- Long term (more than five years) – based on the likely timeline of international agreements and commitments, technological trends and changes to policy or carbon pricing and their impact on our operations, client services and supply chain.

For instance, short-term risks might include immediate regulatory changes or extreme weather events, while long-term risks could be major shifts in our industry driven by the transition to a low carbon economy. Each identified risk is paired with corresponding mitigation measures, such as implementing energy-efficient technologies or diversifying our supply chain, aimed to reduce our vulnerability.

While these risks apply to the Group as a whole, we do recognise that certain locations face unique challenges. For example, our operations in coastal areas are more susceptible to rising sea levels and increased frequency of extreme weather events.

For a more detailed understanding of the climate-related risks and opportunities we face, please refer to the table below. It provides a snapshot of the specific challenges we're addressing and the strategic responses we have undertaken.

Strategy continued

Climate-related risks continued

Risk	Risk impact	Short/medium/long term	Regions impacted	Mitigating activities
Physical risks				
Extreme weather (acute)	Causing business disruption and loss of service delivery and therefore revenue	Short to medium term	All but particularly North America (San Francisco) and Europe (Delft and Amsterdam)	• Business interruption cover • Business Continuity Plans • Remote working in place • Dutch flood defences in place
Sea level rises (chronic)	Increased likelihood of flooding in Delft and Amsterdam offices causing increased insurance premiums	Long term	Europe – Delft and Amsterdam offices	
Transition risks				
Increase in taxes and levies for greenhouse gas emissions	Disruption and increased costs to ensure compliance with new legislation	Medium term	Depends on local legislation	• Working with Planet Mark to calculate our carbon footprint, ways to reduce it, and colleague and Board engagement, and helping progress our net zero journey
Move to net zero	Increased costs required to lower emissions	Long term	Global	• Remote delivery of client services where possible • Company car scheme only for electric and hybrid vehicles (UK) • Annual calculation of Scope 1 and 2 emissions with Scope 3 emissions collation started • Rigorous and transparent budget setting will identify increasing costs associated with carbon emissions reduction
Margin risk	Impact on results due to extra costs incurred to lower emissions	Medium term	Global	• Accounting policies regularly reviewed • Rigorous and transparent budget setting will identify increasing costs associated with carbon emissions reduction
Reputation risk	Increased stakeholder concern and changing customer behaviours	Medium term	Global	• Ongoing dialogue with investors • Benchmarking and independent reviews undertaken through a double materiality assessment • ESG information publicly available
Supply chain risk	Substitution of existing products and services with lower emission options	Medium to long term	Global	• Scope 3 questionnaires sent to supply chain partners equating to 80% of our spend • Business Continuity Plans • Reviewing office strategy

Opportunities to further reduce NCC Group's impact on the environment:

Resource efficiency: By embracing more efficient modes of transport, promoting recycling, encouraging hybrid working models and operating within efficient buildings, we can lessen our environmental footprint, improve colleague satisfaction and reduce operational costs. For instance, removing unnecessary travel not only reduces our carbon emissions but also empowers colleagues with more control over their work-life balance, contributing to improved morale and productivity (anticipated medium to long-term benefits).

Energy source: Our transition to lower emission energy sources, underpinned by the introduction of an electric/hybrid car scheme for all UK colleagues, demonstrates our commitment to sustainable practices. By giving colleagues access to green car options, we are mitigating our exposure to future fossil fuel price fluctuations and regulations. It also addresses our colleagues' material concerns, fostering a culture of environmental responsibility and enhancing overall job satisfaction (medium to long-term impact).

Market: As industries evolve in response to climate change, we're strategically positioned to leverage these transformations. For example, by partnering with companies transitioning into alternative energy sources or working on projects involving smart meters, electric vehicles, IoT technology for waste reduction and cloud data centres, we anticipate strengthening our market position and enhancing our reputation as a sustainable and innovative enterprise (short to medium-term outlook).

Resilience: Our sustainable business model increases our resilience to climate-related risks, demonstrating our commitment to being a responsible and ethical supply chain partner. This commitment to sustainability not only aligns us with an increasingly eco-aware market but also empowers us to lead in the space, fostering a culture of innovation and responsible business practices (short to long-term perspective).

Scenario analysis

To understand the risks and opportunities our business faces considering climate change, we have conducted a quantitative scenario analysis using two distinct scenarios: a "<2°C" scenario (Scenario 1), where global warming is limited to less than 2°C with net zero achieved by 2050, and a "4°C" scenario (Scenario 2), where the goal of net zero by 2050 is not reached. A summary of the scenarios selected is provided below.

These scenarios are chosen to reflect the diverse spectrum of possibilities that could unfold due to different levels of global effort to curb climate change. In the context of these scenarios, "transition risks" refer to the challenges associated with the shift towards a lower carbon economy, while "physical risks" denote the potential damage caused by climate change itself.

In terms of the risks selected, these were based on physical locations and the nature of our business in key locations of North America, the UK, Europe and Asia Pacific. We are in the process of flowing this into our financial planning and will continue to do so as we mature our climate action planning and reporting.

Under Scenario 1, we anticipate higher transition risks due to rapid shifts in regulatory and market conditions, but the physical risks would be significantly reduced due to the effective global action on climate change. Conversely, Scenario 2 predicts lower transition risks but considerably higher physical risks due to the lack of substantial progress towards climate goals.

We've further broken down these risks by timeline, classifying them as short term (less than one year), medium term (one to five years), and long term (more than five years). The table below offers a comprehensive overview of NCC Group's potential exposure to both transition and physical risks under each scenario.

While our current analysis is qualitative, we are working towards quantifying these risks and opportunities as we progress towards our net zero targets and improve our data collection across Scope 1, 2 and 3 emissions. At this point, we don't foresee a significant impact on our Financial Statement disclosures based on our materiality assessment results see page 47 of the Annual Report and known near to mid-term regulatory developments. However, we will continuously monitor both transition and physical risks, adjusting our mitigation strategy as necessary.

Risk type	Risk	Risk impact	Scenario	Short term (<1 year 2023)	Medium term (1–5 years 2024–2029)	Long term (>5 years >2029)
Physical risk	Rising sea levels	Risk to NCC Group offices located in high risk areas, e.g. Delft, as well as colleague and customer homes resulting in business disruption	1	Low	Low	High
			2	Low	High	High
	Flooding	Impact to service quality and disruption to systems, increased costs to relocate colleagues	1	Low	Low	Low
			2	Low	High	High
Transition risk	Increase in taxes and levies	Disruption and increased costs to ensure compliance with new legislation	1	Low	Medium	High
			2	Low	Low	Low
	Margin risk	Impact on results due to extra costs incurred to lower emissions	1	Low	Medium	High
			2	Low	Low	Low
	Reputation risk	Increased stakeholder concern and changing customer behaviours	1	Low	Medium	High
			2	Low	High	High
	Supply chain risk	Substitution of existing products and services with lower emission options	1	Low	Medium	High
			2	Low	Low	High

Strategy continued

Financial planning

We recognise the significant implications of climate-related risks and opportunities on our financial planning. We anticipate shifts in our future business model and strategy in response to evolving market conditions due to climate change. We foresee potential changes in customer preferences towards more sustainable products and services, along with possible disruptions in our supply chain due to extreme weather events. These factors are thoroughly considered in our business strategy development.

Our business strategy has been designed to be resilient to future economic and climate-related scenarios. And by running regular scenarios we can test that resilience, and ensure it's considered in future business strategy development, enabling us to adapt accordingly, without disrupting or negatively impacting current operations.

The scenarios are based on industry insights, which were used in the expert input into our materiality assessment. We will look to assess the potential financial implications of various climate scenarios and factor these into our revenue forecasts, expenditure plans and asset valuations from FY25 onwards. This will include a detailed analysis of potential climate-related liabilities and their impact on our financial stability.

Our future aspiration is to incorporate climate considerations to influence future investment decisions by the Group, always reducing our carbon footprint, and gradually divesting areas that carry high climate-related risks. For now though, we are actively working to improve our operational efficiency and addressing things we can directly influence to reduce our impact on the environment and realise cost savings.

In summary, our organisation is committed to integrating climate considerations into our financial planning process. We will continue to refine our approach as we gain more data and insights into the evolving climate scenarios.

Risk management

TCFD recommended disclosure	Compliance	NCC Group disclosure	Focus areas for FY24
Risk management			
A. Describe the organisation's processes for identifying and assessing climate-related risks	Compliant	• Climate-related risks are managed through our enterprise risk management framework.	• Monitor actions arising from the risk register.
B. Describe the organisation's processes for managing climate-related risks	Compliant	• Climate-related risks are documented, mitigating actions are considered, a risk rating is assigned and associated actions are documented and followed up.	• Monitor actions arising from the risk register.
C. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Compliant	• Climate-related risks are managed through our enterprise risk management framework.	• Monitor actions arising from the risk register.

As part of our robust materiality assessment, we conducted in-depth, topic-based and industry research to identify our most material sustainability issues.

Through a detailed materiality matrix, we also identified opportunities to enhance our sustainability performance by focusing on reducing GHG emissions, monitoring product design and lifecycle management, and mitigating biodiversity loss. Our approach is to address these opportunities through targeted initiatives in cleantech, increasing sustainability awareness and capability, and climate adaptation.

Addressing these issues will involve closer collaboration with our supply chain, particularly our global landlords and our top suppliers. A key initiative in this regard is our Data Centre Management Strategy, aimed at reducing our energy consumption. In collaboration with our web development partner, Nexer, we have successfully reduced the energy consumption of our websites by 50%, applying eco-design principles.

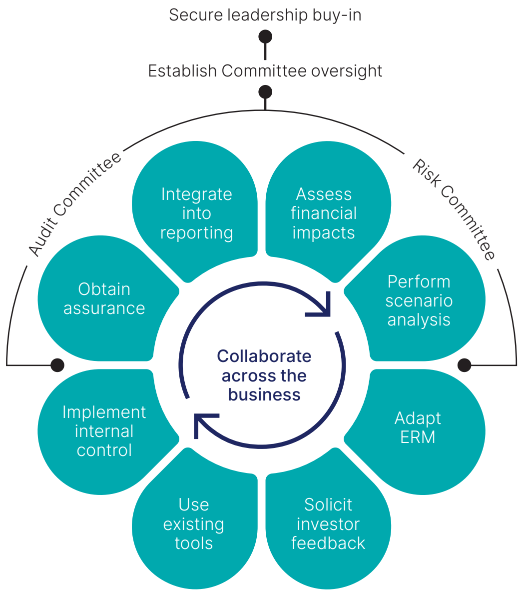
Climate-related risks are managed through our NCC Group Enterprise Risk Management (ERM) framework. This framework, which is detailed in the Risk Management section of the Annual Report on page 70, uses a sophisticated risk model to assess and score each risk based on likelihood and impact. Risks are re-evaluated consistently to ensure we're responsive to evolving circumstances.

Our risk management approach combines "top-down strategic" and "bottom-up operational" perspectives, fostering collaboration and promoting efficient risk identification. With respect to climate-related risks, we have outlined our strategies and targets for GHG emissions reduction and biodiversity preservation.

These climate-related risks are integrated into our Principal Risks section (page 70). The Executive Risk Management Committee plays an active role in the ongoing review of these risks, their mitigations, controls and associated actions. This Committee meets on a regular basis and follows a stringent process for identifying, assessing, responding to and escalating serious concerns related to these risks.

We firmly believe that this integrated and transparent approach will ensure effective risk management aligned with the principles of TCFD, while driving our strategic objectives for sustainability.

How we manage risks



Metrics and targets

TCFD recommended disclosure	Compliance	NCC Group disclosure	Focus areas for FY24
Metrics and targets			
A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Compliant	• Reporting of greenhouse gas emissions for FY23 compared to prior years. • Commitment to net zero before 2050 in line with the Paris Agreement with regular reviews to improve as and when broader Scope 3 data is available. • Climate-related performance metrics incorporated into Remuneration Committee Report (see page 115). This is in line with our Planet Mark certification commitment to reduce greenhouse gas emissions year on year. In our first two years, we are aiming to reduce our total greenhouse gas emissions by 5% recognising that as our data collection matures and improves, we may need to re-evaluate. In FY23 we achieved a -4.6% reduction in colleague intensity, but an overall increase of 10% as we saw a return to travel and office use following the pandemic.	• Improve Scope 3 data collection and management to accelerate NCC Group's net zero journey.
B. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions and the related risks	Partially compliant – Scope 3 emissions still in their infancy	• Scope 1 and 2 greenhouse gas emissions for FY23 vs FY22. • Scope 3 emissions limited to business travel, electricity transmission and distribution losses, heat and steam transmission and distribution losses. • Supplier engagement to provide data was limited in response. • Colleague commuting data collated as part of the materiality assessment but not enough responses to enable calculation.	• Improve supplier and colleague engagement to gather required Scope 3 data from supply chain activities and colleagues in relation to commuting and working from home impact.
C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Compliant	• Set year two reduction in line with Planet Mark recommendations of 5%. This includes reducing colleague intensity by 2.5% (4.6% achieved in FY23), and market intensity by 2.5%. We will also continue to seek location intensity through better understanding of our data and the steps we can take to reduce our impact.	• Seek opportunities, as NCC Group's management of climate change matures, to accelerate achieving net zero before 2050.

Further details on our action to tackle climate change are provided in our Sustainability strategy launch report