

Siân Herbert-Jones
Audit Committee Chair
Air Liquide
75 quai d'Orsay
75007 Paris

Sarasin & Partners LLP,
Natasha Landell-Mills
On behalf of IIGCC

Paris, 30/03/22

Reference: your letter of 15 December 2021.

We acknowledge receipt of your letter "*Investor expectations: 1.5C-aligned accounting disclosures*". We appreciate your continued thoughtful approach to bring attention to investor disclosures as well as your highlighting the recent, 29 October 2021, announcement by the ESMA titled, "European Enforcers Target Covid-19 and Climate-Related Disclosures", a publication which we are keenly aware of. Furthermore, thank you for taking the time to review our 2020 Financial Statements and your acknowledgement of our updated notes on climate risks.

1) Business Model

You certainly more fully understand Air Liquide's current disclosures, our business model, our steadfast commitment to climate, and the important role we play in the energy transition. To recap and reinforce, in our business we secure long-term, **15 years contracts** signed with Large Industries customers. Production units carry **asset depreciation over contract duration**. Energy cost (electricity and natural gas), and **possible tax / certificates on CO2 emissions related to Group's assets / process**, are **contractually passed-through to customers**.

In addition, a **site assessment of global warming risks** is performed for any new project. For all its projects, for all geographies, even those without a current price for CO2, Air Liquide includes a carbon price in its investment decision process. A sensitivity study to this aspect is performed with various values including a reference price of 50 euros per tonne, the local current price and a high value of at least 100 euros per tonne, chosen in function of the geography and context.

The study allows to assess the economic cost of greenhouse gas emissions and consequences on the project, even in the case of a strong carbon price increase on the long term. The analysis ensures the robustness and sustainability of the customer project, the CO2 cost being contractually invoiced to the client. This analysis also makes it possible to validate the relevance and viability of the investment solution planned by Air Liquide and to propose low-carbon technological solutions, whenever possible. Moreover, the projects are evaluated and selected considering their contribution to the Group CO2 emissions evolution. This is in our investment decision process to assess the robustness and sustainability of the customer project and anticipate the risk of stranded assets (which reflects the notion of an asset's impairment loss). Higher carbon price would accelerate decarbonisation, and more broadly a global Energy Transition, positives for Air Liquide.

In total, we spend approximately **1/3 of our total innovation expenses**, ~100m€, each year to reduce the Group carbon footprint and that of our customers. Our strong commitments over the years paved the way for our ambitious climate objectives. These **climate objectives**, summarized and presented March 23, 2021, state our overall goal of reducing the Group's carbon intensity by -30% by 2025, a decrease of scope 1 & 2 CO2eq emissions in absolute value by -33% by 2035, and to **reach Carbon Neutrality by 2050**.

2) Accounting approach

Specific to your concern regarding "... how long-lived asset lives and values might be impacted by accelerating decarbonisation and requirements, e.g. costs of new technology / requirements like Carbon Capture and Storage": as you now know, we have existing industrial scale **carbon capture technologies** and continue to announce additional investments in this more temporary solution for our existing internal production facilities which contributes to increase the life of our hydrogen plants. Furthermore, for new hydrogen production plants, we are **accelerating our investments in electrolyzers** for green hydrogen production. As for air gas production, the **process is already electrified** and we are progressively **switching to renewable electricity** as noted by the several signings of renewable energy PPAs announced over the last few months.

Therefore, climate risks are fully integrated in business development criteria and asset depreciation rules limit obsolescence risks, avoiding the need for specific provisions.

Regarding Air Liquide accounts, as you are well aware, consolidated financial statements of the Group are prepared in accordance with **IFRS as endorsed by the European Union**. The overarching principle IFRS standards and interpretations relate to materiality and do not include statements and disclosures requested in your letter if not material impact in the financial statement.

The Group takes into account climate risks in its closing assumptions and include their potential impact in the financial statements. The main climate risk identified by the Group relates to greenhouse gas emissions.

The costs incurred for measures related to gas emissions are already taken into account as part of the investment decision and in the running costs of the Group's plants. These costs are passed on to most of the Large Industries customers in accordance with the terms of the contract.

However, as stated in our Group Accounting Principles, the preparation of the financial statements requires Air Liquide to make certain estimates and assumptions, which confirms that the climate-related risks are considered in drawing up the accounts. To be more specific about climate-related risks in our financial statements, we:

- **Updated in 2020 our disclosure on the main climate-related risk identified by the Group to cover climate-related risks in general rather than GHG emissions only.** Note 31 to the consolidated financial statements discloses the fact that the Group recognizes a provision when the year-end quotas covering greenhouse gas emissions are insufficient, based on the best estimate of the outflow of resources required to settle the obligation. As of December 31, 2020, the amounts recognized in assets and liabilities were immaterial. This Note 31 has been renamed "Climate risks Consideration" in our Universal Registration Document. We also explained in this Note the fact that the costs connected to emissions-related schemes are already considered when the investment is decided, and in the running costs of the Group facilities. Such costs are passed to Large Industry customers in most cases, as per contract terms.
- Further updated 2021 URD disclosure, in order to address the potential impacts on the Financial Statements of the Group's objectives in terms of sustainable development, published in March 2021. Note 32 to the consolidated financial statements clearly disclose that "the potential impacts on the financial statements of the Group's sustainable development objectives, published in March 2021 and in the process of being deployed, has been studied. No significant impact has been identified, either on the useful life or on the value of the assets, on the client portfolio or on the cash flows generated by existing activities or on provisions for risks and charges. The decarbonization objectives can be achieved in particular by adapting existing assets or by meeting new capacity needs for the use of innovative technologies that are already controlled by the Group".

Regarding our auditors, **the content of their audit report is strictly regulated** and so far, cannot contain specific statements raised in your letter to confirm that:

- Critical accounting estimates or judgments reflect material climate risks
- Critical accounting estimates or judgments are aligned with a 2050 net zero pathway
- There is consistency between the narrative disclosures around climate risks and the financial statements

- Pertinent capital maintenance/solvency tests have considered climate risks, and dividends are appropriately funded and legal

Climate-related risks and alignment with the Paris objectives is not a Key Audit Matter for Air Liquide auditors. However:

- The audit opinion contains a confirmation that **significant estimates and assumptions have been reviewed and that the financial statements reflect a true and fair view of the assets and liabilities and of the financial position of the Group, and of the results of its operations**
- **Two of the Key Audit Matters** (measurement of the recoverable amount of Large Industry production units, and impairment test of goodwill) **cover the review of estimates and assumptions that include climate-related risks, among other risks**
- **Audit opinion contains a specific verification related to Information given in the Management Report and in other documents** with respect to the financial position and the financial statements provided to the Shareholders: Management Report includes all non-financial information (cf Cross Reference table for Management Report on pages 458 to 460 of the 2021 Universal Registration Document)

3) Governance

In terms of governance, Air Liquide's commitment to Climate and company disclosures starts at the **Board level**. We created an **Environment & Society Committee in 2017**. Since 2019, we have put in place annual **joint sessions with Audit & Accounts Committee** notably to review environmental and societal risks. The **Audit and Accounts Committee** also reviews the appropriateness of disclosures made in the financial statements and notes thereto related to the **financial impacts of environment and climate risks**. In addition, importantly, **climate objectives** are included as **performance criteria in our long-term Performance share plan**, covering Air Liquide's top management and around 2000 managers throughout the organization.

Therefore, the Air Liquide Audit committee is strongly involved in the climate risks reviews and mitigation plans and our current and proposed disclosures demonstrate this commitment.

Finally, a strong characteristic of the Group is its **track-record of regular and sustained performance**. Indeed, **over 30 years**, we delivered compound average growth rates of **+5.4% for revenue, +5.9% for cash flow and +8.3% for dividend**, based on a **very regular annual performance**. Such sustained performance would not be possible without the proper risk assessments as highlighted above.

Air Liquide offers regular long-term performance to our shareholders and innovation is key to support both top line growth and ongoing efficiencies, allowing increased performance over the long-term.

Our company has been in existence for over 100 years and our leadership is positioning the company for the next 100 years. We constantly adapt to and in fact lead, changes across our industries to ensure responsible corporate citizenship across the globe.

Thank you for taking the time to better understand our commitment to climate and our approach to proper disclosure.

Sincerely,



Siân HERBERT-JONES

Audit Committee Chair

Air Liquide

Ms Siân Herbert-Jones
Audit Committee Chair
Air Liquide
75 Quai d'Orsay
Paris 75321
France

15th December 2021

Dear Ms Siân Herbert-Jones,

Investor expectations: 1.5C-aligned accounting disclosures

We wrote to you last November as a group of long-term investors and members of the Institutional Investor Group on Climate Change (IIGCC) to draw your attention to investor expectations for Paris-aligned accounts¹. We appreciated your detailed response dated 26th November 2020. We are writing again now to share with you feedback on the climate-related financial disclosures included in your annual accounts for 2020 and encourage you to address our outstanding concerns in the forthcoming audited accounts.

In our last letter, we set out the five disclosures we expected to see as part of your 2020 audited financial statements. We specifically asked for an affirmation that the Board was reflecting both Air Liquide's promised action to reduce greenhouse gas emissions and global decarbonisation aimed at limiting temperature increases to 1.5C in critical accounting assumptions and judgements. Where the Board chose not to adjust its accounting assumptions, we asked for an explanation and sensitivity analysis in the Notes to provide visibility into what a Paris-aligned pathway would mean for Air Liquide's financial position.

When we wrote, we also drew your attention to guidance published by the International Accounting Standards Board and the International Audit and Assurance Standards Board, as well as the Financial Reporting Council, for including material climate risks into financial statements and associated audits². Where investors representing over \$100 trillion in assets under management call for disclosures for how a net zero pathway will impact companies' financial position, they become material under the standards^{3 4}.

¹These expectations were published in this report: [Investor Expectations for Paris-aligned Accounts – IIGCC](#)

² See: [IFRS - Educational material: the effects of climate-related matters on financial statements prepared applying IFRS Standards](#), [IAASB Issues Staff Audit Practice Alert on Climate-Related Risks | IFAC](#), [Summary-FINAL.pdf \(frc.org.uk\)](#)

³ A statement calling for Paris-aligned accounts was released by the Principles for Responsible Investment (PRI), the UN Environment Programme Finance Initiative (UNEP FI), the Net-Zero Asset Owner Alliance initiative, IIGCC, Investor Group on Climate Change (IGCC), the Asia Investor Group on Climate Change (AIGCC), and the UK's Pensions and Lifetime Savings Association on 24th September 2020: <https://www.unpri.org/accounting-for-climate-change/public-letter-investment-groupings/6432.article>

⁴ The latest IASB guidance noted above reiterates that materiality depends on investor expectations: *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (hereafter, investors) make on the basis of those financial statements, which provide financial information about a specific company. For example, information about how management has considered climate-related matters in preparing a company's financial statements may be material with respect to the most significant judgements and estimates that management has made."*

We would also like to draw your attention to a recent announcement by the European Securities and Markets Authority that they would be examining company accounts for inclusion of material climate risks in 2022⁵.

Having now reviewed your 2020 Financial Statements in some detail, we welcome the inclusion of a note confirming that you consider climate risks (Note 31) in drawing up your accounts, but we are keen to receive fuller disclosures as set out in the IIGCC Investor Expectations document we sent last year. In particular, while the financial statements state that the “*quantified impact of [climate risks] on the consolidated financial statement of the Group is not material*”, there is no explanation for how this decision was reached. We note, for example, that there is:

- no disclosure of how climate change and the global drive towards 1.5C has been considered in drawing up critical assumptions used in impairment testing, or what these assumptions are;
- no indication of how long-lived asset lives and values might be impacted by accelerating decarbonisation and requirements, e.g. costs of new technology / requirements like Carbon Capture and Storage; and
- no suggestion that Air Liquide stress-tested its financials for a Paris-aligned carbon price, which is likely to be higher than the assumed EUR50/tCO₂ used by management (the IEA’s NZE2050 advanced economy carbon price rises from \$75 in 2025 to \$250/tCO₂ in 2050).

The above is particularly important in light of the company’s own commitment to achieve carbon neutrality by 2050. We need to understand how this commitment is being reflected in the accounts.

We appreciate that Air Liquide is protected to a large degree by its ability to pass on additional costs, but we would welcome confirmation that there is no limit or cap on this facility. Also, we would welcome more clarity on how the shifting economic position of key clients due to energy transition policies could impact contract fulfilment or renewal.

We attach a more detailed review of your 2020 financial statements and auditor report by Carbon Tracker, setting out gaps against our expectations.

Overall, we lack the required visibility to give us confidence that the economic impacts from climate change and associated policy action are being properly accounted for. Moreover, we have little understanding of how Air Liquide’s financial position might be impacted by accelerating decarbonisation associated with a 1.5C pathway.

We understand that Air Liquide faces challenges in navigating a transition to a net zero business model. However, the longer the Board delays making the net zero accounting adjustments, the longer it will delay the needed shift in capital towards a low carbon business model. Any misallocation of capital today increases the risk of larger impairments – and associated destruction of shareholder capital – in the future.

Air Liquide is not alone in omitting detailed disclosures of how climate factors are considered in its financial statements. Carbon Tracker recently published a report “Flying Blind” that details the widespread failure of companies and their auditors to cover material climate risks⁶. In response to this market-wide problem, our request for accounting disclosures is being added to the

⁵ [European enforcers target COVID-19 and climate-related disclosures \(europa.eu\)](https://ec.europa.eu/economy_finance/european-enforcers-target-covid-19-and-climate-related-disclosures_en)

⁶ Their report is based on an analysis of the financial statements published by 107 global listed high-carbon companies, including Air Liquide: [Flying blind: The glaring absence of climate risks in financial reporting - Carbon Tracker Initiative](https://www.carbontracker.com/reports/flying-blind)

CA100+ benchmark as an 'alignment assessment' indicator, so will also form part of that engagement process.

As we did with our last letter, we are copying in Air Liquide's auditors to emphasise our expectation that they alert shareholders where the accounts are not consistent with a 1.5C outcome⁷. We were disappointed not to see any reference to climate in the latest auditor report. Where they believe there to be material mis-statements according to the accounting standards, or a failure to meet the statutory auditor requirement, this should be highlighted in their Opinion on the accounts. We hope the Audit Committee will reinforce these messages.

Against the above backdrop, from next voting season you should increasingly expect to see investors vote against Audit Committee directors' reappointment where high-risk companies fail to meet the expectations set out in the IIGCC November 2020 paper and underlined again here. We also expect to see these expectations increasingly reflected in investor voting policies on the reappointment of auditors. We would, therefore, be grateful if you could share this letter with the other members of the Audit Committee, as well as the Chair and CEO.

We have welcomed your engagement with us on this matter, and would welcome further dialogue with you and/or the Chair as is most appropriate. If you would find this helpful, please contact Natasha Landell-Mills at Sarasin & Partners LLP at natasha.landell-mills@sarasin.co.uk.

Yours sincerely,

Natasha Landell-Mills, Partner and Head of Stewardship
Sarasin & Partners LLP

Anders Schelde, CIO
AkademikerPension

Faith Ward, Chief Responsible Investment Officer
Brunel Pension Partnership

Robert Gould, Chair
Environment Agency Pensions Committee

Cllr Doug McMurdo, Chair
Local Authority Pension Fund Forum (LAPFF)

Gordon Ross, CIO
LGPS Central

David Russell, Head of Responsible Investment
USS Investment Management

Laurent Galzy, CEO
Établissement de Retraite additionnelle de la Fonction publique (ERAFP)

Pauline Lecoursonnois
EOS at Federated Hermes (on behalf of its stewardship clients)

⁷ See auditor expectations in [Investor Expectations for Paris-aligned Accounts – IIGCC](#)

Dewi Dylander, Head of ESG
PKA

Andrew Harper, Head of Ethics
The Central Finance Board of the Methodist Church and Epworth Investment Management

Claire Berthier, Deputy CEO
Trusteam Finance

Cc

Audit committee directors: Sin Leng Low, Brian Gilvary and Anette Bronder

Chair and CEO: Benoît Potier

Lead audit partners, PricewaterhouseCooper and EY