This review is focused on one dimension of issuer preparedness for the energy transition—the audited financial statements. Current and ongoing actions to reduce emissions, whether by governments, society, or corporations themselves, can impact assets, liabilities and profitability. This work analyses the extent to which companies and their auditors are addressing the financial impacts of these items in their financial statements today.

OVERVIEW OF ASSESSMENT: In 2021, Air Liquide (AL) set new climate targets, with the ambition to achieving “carbon neutrality” by 2050. It indicated that it considered climate when preparing its financial statements, including the potential impact on the useful lives of assets, impairment, its client portfolio and cashflows, but that the impact was not material. However, as in 2020, AL did not provide detail around how it made this determination, such as it the estimates and assumptions it used for short- and long-term carbon pricing or the useful lives on carbon-intensive assets. Similarly, there was no evidence that PwC and EY considered the impacts of relevant climate-related matters in their audit beyond an indication that AL had sustainable development objectives.

### Climate Action 100+ ASSESSMENT METRICS AND SCORES

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**Mapping to 2021 AGM topics**
- Judgements
- Visibility in accounts
- Consistency w/ other reporting
- Visibility in Key audit matters
- Paris alignment

#### FY2021: Overall score
The alignment assessment was not met
- Sub-indicators met?
  - N
  - N
  - N
- Metrics met?
  - No
  - No
  - No
  - No
  - No

**PRIOR YEAR SCORES (FY2020)**
- The alignment assessment was not met
- Overall score
- Sub-indicators?
  - N
  - N
  - N
- Metrics?
  - No
  - No
  - No

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1 See relationship to International Standards on Auditing (ISAs) at [https://www.ifac.org/about-ifac/membership/country/france](https://www.ifac.org/about-ifac/membership/country/france)

2 New provisional CA100+ Climate Accounting and Audit Alignment Assessment (CAAA). See also “Background to this Assessment” at the end of this summary.

3 We also referenced IIGCC Investor Expectations for Paris-aligned Accounts when developing the assessment methodology for this.

4 Or disclosed a sensitivity to these inputs (assumptions and estimates).

5 Or the auditor performed its own sensitivity analysis on the potential implications.
Overview:
AL supplies gases, technologies and services for industry and health sectors with three key activities/segments: Gas & Services (Large Industry and Industrial Merchant, Healthcare and Electronics), Engineering & Construction, and Global Markets & Technologies. Several sectors that AL supplies, including chemicals, metals, refining and energy, are particularly exposed to need to decarbonise. We noted that, depending on the sector, the continued demand for gas in the face of climate-related issues could vary.

AL has identified that its primary climate-related risks relate to carbon taxes/regulation (e.g., due to its production and its customer’s use of gas), while its opportunities are notably in expanding its hydrogen production (including electric-powered production of hydrogen) and developing carbon capture operations. AL’s 2021 emissions were as follows: Scope 1: 15.5Mt CO₂e; Scope 2: 20.8Mt CO₂e; and Scope 3: 22.2Mt CO₂e. The company’s direct emissions (Scope 1) relate predominately to its processes to produce hydrogen, while its Scope 2 emissions are tied to electricity use for air separation. Scope 3 emissions relate largely to use of its CO₂ and N₂O products and energy.

Significant YOY changes:
• AL announced new climate targets in 2021, as outlined below.
• The company further announced plans to accelerate its hydrogen development, by at least tripling turnover from this segment to over EUR 6bn by 2035. AL also indicated that it plans to invest around EUR 8bn in its hydrogen supply chain.

Targets: AL announced new climate-related targets in 2021:
• Start reducing its absolute emissions “around 2025”, to reduce its Scope 1 and 2 emissions by 33% by 2035 (versus 2020 levels).
• Achieve “carbon neutrality by 2050” (scope of this target is not clear).

These targets are in addition to the company’s pre-existing target of reducing its Scope 1 and 2 carbon intensity (kg CO₂/EUR EBITDA) by 30% in 2025 compared to 2015. We also looked at whether AL considered the impacts of these commitments (e.g., on assumptions used in impairments or on remaining asset lives) when preparing the financial statements.

Assessment of financial statements (Sub-Indicator 1, Score: No)
We noted that the most relevant financial statement items for AL that could be affected by climate-related issues were the following:

• Property, plant and equipment (PPE), net of EUR22.5bn and Goodwill at EUR14.0bn, of which EUR13.6bn was for Gas & Services. AL did not provide a breakdown of PPE by segment or similar, so we do not know the extent to which the balance of PPE is carbon-intensive.

• Provisions of EUR275m for dismantling property, plant and equipment.

Consideration of climate-related matters (Metric 1a: No): As in the prior year, in its “Accounting principles”, AL noted that it “considers that climate risks are material, even though their quantified impact on the Consolidated Financial Statements of the Group is not material,” and that it accounted for climate risks “in its closing assumptions and incorporates their potential impact into the Financial Statements”. It identified the areas of its business and financial statements likely to be impacted by climate issues as: useful lives of PPE, the inputs used for impairment tests for assets (e.g., carbon dioxide producing hydrogen production assets), sourcing renewable electricity, improving energy efficiency of production and developing carbon capture technologies.
provisions for contingencies/losses, and its changing client portfolio and cash flows (e.g., hydrocarbon clients). It also identified greenhouse gas emissions as its main risk in a climate-specific note to the financial statements. The costs relating to emissions are reported as being considered in investment decisions and running costs and are "passed on to most of the Large Industry customers in accordance with the terms of the contract". AL must also meet certain greenhouse gas emissions quotas requirements but has indicated that these liabilities are not material at year end.

We noted that although AL’s provision for dismantling is potentially sensitive to climate-related impacts, such as the estimated timing of the liability, it was unclear if AL considered the effects of climate issues when estimating this provision. Finally, in 2021 AL added that it has studied its new climate targets and plans and determined that they would not significantly impact the useful lives or values of assets, its client portfolio and cash flows, or its provisions for risks and charges.

However, as in the prior year, AL did provide detail as to how it considered the effects of these matters when preparing its financial statements. For example, it was not clear if AL considered the effects of climate on certain inputs to impairment tests such as growth rates, or how AL considered climate-related issues such as costs of emissions or when assessing remaining asset lives. It did not indicate if it considered whether it would be able to continue to pass increasing costs of carbon on to its customers in the face of the energy transition. Additionally, although its climate strategy seems highly reliant on the use of carbon capture and storage (CCS), it is unclear if it has considered the effects of the availability or use of CCS on projected revenues or costs and continued use of existing assets. In sum, AL’s financial statement disclosures do not allow for a comprehensive understanding of AL’s conclusion that the energy transition and its decarbonisation plans have no material impact on its financial statements. Accordingly, AL has not met this metric.

Disclosure of quantitative assumptions and estimates used (Metric 1b: No): In 2021, AL discussed the expansion of the EU emissions trading scheme but, like the prior year, did not disclose the quantitative climate-related assumptions and estimates that it used in its financial reporting. For example, while AL identified greenhouse gas emissions as its key climate risk and provided information on the use of an internal carbon price in the Integrated Report section of the URD, it did not disclose the carbon price assumptions used in its investment decisions or in calculating the running costs of plants. Additionally, while it provided ranges for the estimated useful lives of its different assets and indicated that such lives are reviewed regularly and changes in the estimates are recorded prospectively from the date of change, it did not provide specific information relating to the estimated remaining lives of its carbon-intensive assets, such as its current greenhouse gas (GHG)-producing hydrogen plants, which may require early decommissioning to meet its climate targets. In the goodwill note AL provided a range of the growth rates used for cash generating unit impairment tests. While this may imply that it also uses these growth rates for PPE impairment testing, this was not explicitly noted. Further, it did not provide the gross estimated cash flows, estimated average timing, or discount rates used for calculating dismantling obligations. Accordingly, it did not provide the information that investors need to assess how AL has determined that climate-related matters are not material or to make their own adjustments and so did not meet this metric.

Consistency with the company’s other reporting (Metric 1c: No): This metric score is contingent on Metric 1a, which was scored as “No”. Accordingly, this metric was scored as “No”. Additionally:

- The 2021 URD contains AL’s integrated report and risk management and extra-financial performance disclosures, each of which provides information on the company’s climate-related targets and performance, risks and opportunities, strategy, and investment.
- While the company stated that it had considered and incorporated the impacts of decarbonisation (e.g., climate regulation and emissions targets) and the company’s climate strategy into its financial statements and concluded that the impacts were not material, AL’s lack of detailed disclosure as to how it determined this meant that we were not able conclude whether it was consistent across its reporting.
- As noted for Metric 1b, the company did not provide the quantitative climate-related estimates and assumptions that it used in its financial statements. Importantly, the company provided in its integrated report the range of carbon prices that it used for investment decision process (EUR 50-100), but it is

15 URD 2021, p.235.
16 Estimated useful lives in years: buildings: 20 to 30; cylinders: 10 to 40; production units: 15 to 20; pipelines: 15 to 35; other equipment: 5 to 30. Ibid, p. 239.
17 Ibid, p.256.
not clear whether these prices were also used in preparation of the financial statements. This is particularly notable given the company’s identification of GHG emissions as its most significant climate-related risk.

- Additionally, it is not entirely clear how, without more information about the remaining useful lives, AL meeting its 33% absolute reduction in Scope 1 + 2 by 2035 will affect its carbon-intensive production facilities (that AL notes have a range of 15-20 year lives).

**Assessment of audit report (Sub-Indicator 2, Score: No)**

**Identification of how the auditor assessed the material impacts of climate-related matters (metric 2a: No):**

Like the prior year, at least two of the KAMs identified by the auditors could be affected by climate issues: “Large Industries activity: the useful lives of production units relating to large industries activity” and the “Impairment test of goodwill”. In its financial (and wider) reporting AL had noted that production unit lives and cash flows from activities could be impacted by climate matters such as the company’s emissions targets and wider market developments towards decarbonisation. AL indicated that it had assessed such climate impacts as not material.

The auditors did not reference consideration of the effects of such climate-related issues in their discussion of their testing of these KAMs, despite noting that the return on investments and recoverable amounts of the production units could be “adversely impacted” by various events, including the company’s “sustainable development objectives and commitments”. It was therefore not clear if and how the auditors assessed the company’s assertion that climate-related risks, as well as its targets and decarbonisation activities (including the effects of carbon prices), were not material to the continued use of these assets and so expected remaining asset lives or estimated long-term growth rates applied. Accordingly, the auditors did not meet this metric.

**Identification of inconsistencies between financial statements and ‘other information’ (metric 2b: No):**

This metric is partially contingent on Metric 1c, which was assessed as ”No”. In assessing this metric, we noted that AL discussed climate risks, targets, and its climate strategy in the other sections of the URD that form part of the “management report” which the auditors noted that they considered as part of their consistency check. However, while AL had interim (2035) Scope 1 and 2 emissions reduction targets, it was not clear how the asset lives that it reported, and which appear to range from 20-40 years are aligned with achieving these targets. Accordingly, the information that appeared inconsistent was subject to the auditor’s consistency check. While PwC and EY identified the information that it was required to read for consistency, it did not draw attention to the potential discrepancy, reporting that no matters of inconsistency were noted. Accordingly, the auditors did not meet this metric.

**Audit Committee:** While AL’s Audit and Accounts Committee report for FY2021 noted that the committee held a joint session with the Environment and Society Committee, it did not include discussion of climate-related matters or any climate-related work of the two auditors.

**Assessment of alignment with net zero by 2050 (or sooner) (Sub-Indicator 3, Score: No)**

**Financial statements use (or provide a sensitivity to) inputs aligned with this (metric 3a: No):** AL has set a target to achieve “carbon neutrality” by 2050, but it did not provide the relevant quantitative assumptions and estimates, such as carbon prices or relevant costs, that it used, and which would enable us to assess alignment to a net zero outcome as requested by investors. Similarly, the company did not include any sensitivity analysis around achieving net zero by 2050. AL discussed relevant strategies in the other sections of the URD (e.g., including the use of renewable energy agreements, investment in electric-powered hydrogen production and carbon capture and storage, and overall emissions targets) and the use of an internal carbon price (EUR 50-100) for investment decisions. This carbon price is above the range of that provided in the IEA NZE2050 in the short-term (i.e., 2025) but lower than medium- and long-term projections (i.e., 2030

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18 URD 2021, p.40.
19 Ibid, p.287.
22 Ibid, p.296.
23 Ibid, pp.147-8.
24 URD 2021, p.40
onwards).\textsuperscript{25} However, AL did not clearly indicate whether it also used these prices in the financial statements. Accordingly, AL did not meet this metric.

The audit report identifies that company’s inputs were aligned with net zero by 2050 (or sooner) or provides a sensitivity analysis (metric 3b: No): PwC and EY made no mention of consideration of climate or the company’s net zero ambitions when assessing the relevant assumptions and estimates that AL used in its financial statements. Additionally, although requested by investors, the auditors did not provide quantitative information about the sensitivities it reproduced, nor did it indicate what aligned assumptions would look like for AL. Accordingly, they did not meet this metric.

**BACKGROUND TO THE ASSESSMENT:** In 2022, the Climate Action100+ added a provisional Climate Accounting and Audit Alignment Assessment (CAAA) to its Net Zero Benchmark\textsuperscript{26}. AL’s FY2020 and FY2021 financial statements and auditor’s report were assessed under the CAAA. The 2020 assessment results were translated from a prior analysis to assessment results under the new CA100+ methodology\textsuperscript{27}.

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\textsuperscript{25} IEA World Energy Outlook 2021, October 2021, \url{https://www.iea.org/reports/world-energy-outlook-2021}

\textsuperscript{26} Further information can be found in the CAAA methodology. The financial statement and audit report assessments are grounded in the existing requirements of the relevant accounting and audit standard setters, with Paris-alignment being requested by investor groups. The CAAA uses a binary Yes/No scoring system at the metric level assessment. Metric scores are combined at the Sub-indicator and overall level, with a ‘Partial’ score indicated where there is at least one ‘Yes’ assessment.

\textsuperscript{27} Scores are based on the new March 2022 CA100+ CAAA. The company’s prior year reporting was initially assessed based on a four-level rating system (significant concerns, some concerns, few concerns and good practice), which in part used the IIGCC Investor Expectations for Paris-aligned Accounting as a framework. The results were published as part of the “Flying Blind” report. We did not attempt to aggregate the seven scores for those assessments. For the 2021 AGM four level scores, please reference prior company summary.