

LOUNGERS

| Report

Task Force on Climate Related Financial Disclosure (TCFD)

Loungers plc

2023

1.0 Financial disclosure of climate related risk and opportunity

Potential investors in a company are more than ever seeking to understand in great detail the strategy and commitment of policies and operations that result in minimal negative impact and potentially positive impact on our global climate. The UK's Financial Conduct Authority (FCA) have adopted the Task Force on Climate Related Financial Disclosure (TCFD) which is now mandatory in the UK as a way of making companies integrate climate risk into business strategy. Starting with premium listed large UK companies the TCFD describes a structured approach to assessing climate risk which builds financial rigour and long-term business planning into Environmental Social Governance.

The TCFD is a framework, formed by the Financial Sustainability Board to encourage the uptake of climate risk and opportunity measurement and disclosure in the private sector. In 2017 it outlined guidance through 11 disclosure recommendations regarding governance, strategy, risk management and climate targets. It requires businesses to map risks and opportunities and assign a financial value to enable a carbon emissions strategy that will limit the global warming trajectory to as close to 1.5C as possible.

This is the first year that Loungers plc has reported under TCFD guidance and it has generated some exciting new ways to look at the performance and development of our business. We have identified both risks and opportunities that will enable us to find a way toward net zero operations and to engage with our stakeholders to jointly have a greater influence and if possible to gain ground that has been lost globally in addressing climate change.

The overall structure of TCFD has enabled Loungers to integrate climate related risk and opportunity into its risk structure and for the first time do a deep dive into a full scope 1-3 carbon reporting analysis of its operations and supply chain.

This report follows the structure of the TCFD guidance in describing our approach in terms of governance, strategy, risk management and metrics and targets.

There is still much uncertainty around the trajectory for global temperature rise, but the consensus is that we will miss our target of a maximum average temperature rise of 1.5C beyond which we start to lose the ability to predict the impact of changes to people, financial prosperity and our planet. This so-called triple bottom line indicates that there are three ways we can influence business success that leads to supply chain prosperity by engaging with people and minimising our impact on the planet. By reporting openly and transparently what our carbon emissions are now and how we see a path to net zero it is our hope that we demonstrate to other businesses that a solution is within grasp and particularly so if we attach financial value to the consequences and rewards of our changing climate landscape.



2.0 Governance

Governance

Organisations are recommended to establish and disclose appropriate internal governance processes for climate-related risks and opportunities.

Disclosure recommendations

- a) Describe the Board's oversight of climate-related risks and opportunities.
- b) Describe management's role in assessing and managing climate-related risks and opportunities

Key Risks and Mitigations in the Loungers business

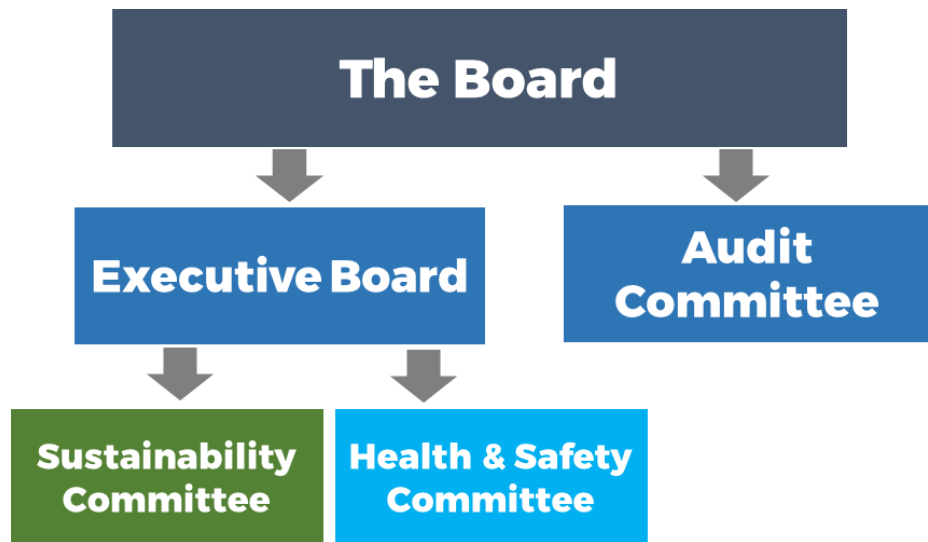
The Board regularly reviews risk and incorporates climate risk into the matrix.

Loungers continues to operate in a competitive environment, where our customers and employees face increasing challenges from the cost of living crisis. Therefore reductions in cost through opportunities created by leading ESG performance and operational efficiency can provide options for cost control and improved brand positioning.

Role of the Board in Identifying and Managing Risk

The Board is responsible for setting the strategic direction of the group and ensuring the long term success of the business. It ensures that risks are identified, considered and appropriate actions are taken to limit any negative impact to Loungers.

The Board delegates oversight of financial risks and opportunities to the Audit Committee and operational risks and opportunities to the Executive Board. The Executive Board is kept informed of key risk and actions through the operation of specific committees, including the Health and Safety Committee and the new Sustainability Committee.



During FY2023 a new Sustainability Committee has been established to help develop and deliver the Board's Environmental Social Governance objectives, including monitoring and responding to risks and opportunities arising from climate change. As such it includes representatives from key areas of the business (Commercial, Finance, Operations, People) as well as external experts, with the remit of setting Loungers' agenda and targets in this area.

We are confident that this structure enables sufficient oversight of key risks and facilitates action to mitigate risk on an ongoing basis.

Sustainability Committee Terms of Reference

Purpose

- To ensure that Loungers is a “Force for Good” by devising and implementing a Sustainability strategy
- To bring together different elements of the Loungers leadership team and ensure that ESG is an integral part of our decision making
- To galvanise action, obtain buy in from senior leadership and ensure that a high visibility group of people are held accountable for delivery
- To own Loungers’ climate strategy and risk mitigation plans
- To provide reporting and insight on Loungers’ Sustainability initiatives to the Board

Composition

Chief Operating Officer; Chief People Officer; Financial Director; Commercial Director; Lounge Managing Director; Property Director; Head of Compliance; Marketing Director; Head of Maintenance; Independent external experts

Meeting Frequency

- Formal monthly meeting
- Quarterly report to Executive Board and PLC

Scope

- TCFD reporting (governance, strategy, risk management, metrics and targets)
- Operational initiatives (energy usage, waste management, oil usage, fleet policies)
- Purchasing initiatives (energy sourcing, supplier selection, menu selection, food sourcing and distribution, consumables / non-food sourcing)
- Capex projects (sign off, build specifications, carbon reduction investment projects)
- People initiatives (diversity and equality, sustainability champions, site level training)

Short term Aims (0-3 months)

- Benchmark where we are on sustainability vs our peers
- TCFD review from FY23 to determine key actions for FY24
- What are the three key initiatives that we want to launch and how ?
- How do we engage the wider teams around this?

Output: Summarise strategy, targets and current and proposed initiatives to board

Medium term aims (3-12 months)

- Develop the roadmap for a risk based approach to climate change, appoint external partners
- Set up employee framework for collaboration with wider teams
- Establish reporting format (KPIs) and frequency for Board oversight
- Prepare and review the ESG / TCFD reporting for 2024
- Keep Board advised of any changes to legal / regulatory environment
- Engage with wider Hospitality bodies to drive wider systemic change

Output:

- TCFD compliant for FY24
- Loungers ESG Policy
- Monitoring and reporting framework for initiatives and targets

Long term aims (>12 months)

- Development and implementation of Sustainability Policy
 - Values
 - People
 - Healthy Hospitality
 - Responsible Supply Chain
 - Communities

3.0 Strategy

Strategy

It is recommended that organisations disclose the nature and impact of their material climate-related risks and opportunities, as well the resilience of their strategy under each climate scenario chosen.

Disclosure recommendations

- a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.
- b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.
- c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Loungers' strategy is to support long term business growth whilst minimising its impact on the environment and operating in a verifiably ethical and responsible way.

Our strategic position on climate protection in line with our net zero target recognises a number of short, medium and long-term climate-related risks and opportunities to embed the global climate issue in our business and providing support and direction for our suppliers and customers as we all grapple with the complexities of getting to net zero.

The TCFD structured approach to climate risk enable a seamless integration of climate related financial implications to be introduced to existing operations and board risk management.

Net Zero or Carbon Neutral? Net zero is the gold standard chosen by Loungers

Carbon Neutral: a company purchases carbon credits from activities in which external operators have removed CO₂ from the atmosphere and have had these verified as credits usually offered in tonnes CO₂e for others to buy. This does not in fact reduce any carbon emissions and is simply a mathematical way to balance out emissions and removals.

Net Zero: this is a status where CO₂ emissions have definitely been reduced and not just balanced out. A net zero strategy can involve becoming lean in terms of efficiency, green in terms of selection of low or zero emission fuels and mean if any activities can be stopped. The latter 'mean' category is exceptionally difficult to find for most businesses. It is also likely that technology does not yet exist for companies to become entirely net zero.

There are many business leaders who have announced net zero targets believing that they can buy carbon credits to get to that position. That would be a carbon neutral target not a net zero target and frankly not relevant in the context of the entire global population and businesses needing to make real reductions in carbon at source not rely on the mitigating actions of others.

There is an international benchmark adopted by around 5000 businesses globally called a science based target. This is a voluntary scheme whereby businesses commit to becoming low or zero emitting within a 15 year window starting with a baseline no more than 5 years previous. The guidelines here on carbon removals have become accepted by the world's leading companies and establish a standard for net zero that requires at least 90% abatement (reduction in emissions) and only up to 10% carbon credits. The gold standard is still to only buy carbon

credits once companies have reached net zero through their own endeavours such that purchase of carbon credits then becomes climate positive or carbon negative.

Loungers have set a carbon net zero target for 2040 and have developed options to reach that target using real emissions reductions, not offsetting.

Loungers net zero programme is aligned with the aims of the UK government to switch to electric from natural gas as soon as possible. The electricity network is on track to become net zero by 2035 so this part of the carbon roadmap is perfectly aligned with technological development and the availability of net zero power.

Cost of carbon emissions and route to Net Zero

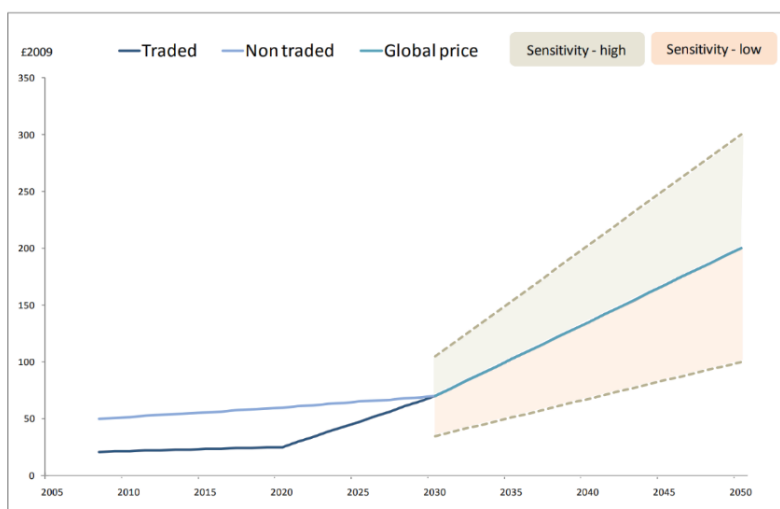
There are carbon markets where carbon credits can be bought. They fall into two categories: legal and voluntary. The voluntary carbon markets are not always that well-regulated and currently would not be accepted as mitigation for emissions within a legal taxation framework in the UK or Europe. Voluntary credits could come from tree planting or agricultural regenerative farming practices.

Loungers plc references the carbon price on the UK Emissions Trading Scheme (UKETS).

Loungers plc has a strategy of not being reliant on offsetting.

This protects its strategic aims by removing the potential increased cost of carbon credits predicted by UK government which could see the price of credits soar from the current £80 per tonne to £300 per tonne (see graphic, right).

Whilst Loungers target is not to be carbon neutral an awareness of the price of carbon is a way to quantify the impact of emissions and be ready for any taxation scheme should it be introduced. This cost is referred to then as an **Internal Price of Carbon (IPC)** which is used in assessing capital and operational savings as an additional financial metric.



Carbon price prediction for the UK emissions trading scheme [CARBON VALUES BEYOND 2050 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

Loungers are committed to aligning with the science based target approach to offsetting. This is financially evaluated by reference to the IPC. If the carbon roadmap can be delivered earlier than 2040 then an offsetting policy that makes the group's activities climate positive or carbon negative would become an attractive opportunity.

Scenario analysis

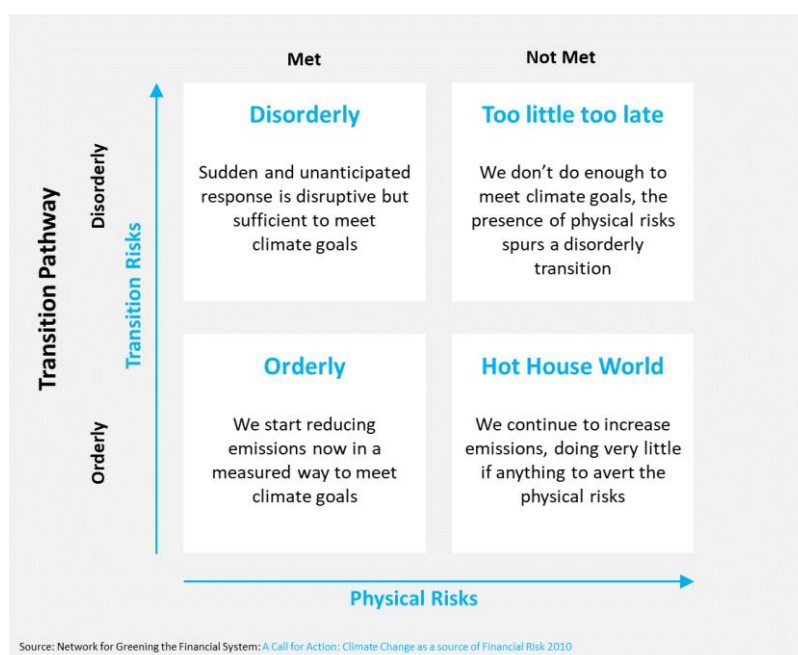
As this is Loungers first formal TCFD report we have taken as guidance the London Stock Exchange guide¹ to climate reporting which gives practical advice for reporting under TCFD that complements the TCFD's own guidance.

The pragmatic advice for those reporting on TCFD for the first time is to ask three pertinent questions:

1. **Would the business be profitable** if countries were successful in achieving goals of the Paris Agreement and there is an orderly transition to a low-carbon economy?
2. **Would the business be profitable** if there is an abrupt and disorderly transition as countries belatedly catch up on climate crisis?
3. **Would the business be profitable** if there is a failure to transition?

Using a model proposed initially for the financial sector those scenarios are mapped descriptively.

The recent covid-19 pandemic gave an indication of what could happen to the business if consumers suddenly were unable to eat in restaurants outside the home. The overriding conclusion is that even though it became a financial challenge the business was structured well enough to survive financially and flourish again as life returned to normal.



The restaurant sector is of course at times restricted as financial pressures are felt by consumers but in the climate models above it illustrates how we only expect to come under severe climatic pressure if climate targets are not met and there is no orderly plan to transition. The TCFD legislation is currently a legal requirement in the UK and New Zealand and around 4000 companies reported under its guidance in 2022. Many countries are strengthening climate legal restrictions and although slower than required there is an undoubted upturn in plans to stave off the worst of the polluting activities.

Our assessment is that in general across the globe there is a mix of orderly and disorderly transition but that ultimately carbon emissions reduction will happen even if as expected the 2050 target is not met and there is an overshoot for a few years before falling to the desired level in the following decade. Loungers' assessment is that our business model is robust and in a sector that is not as exposed to the impact of climate change as much as some. Adaptation will be needed as outlined in the risk analysis, but ultimately if targets for global emissions are met and are on a reducing track we do not anticipate a major impact on our business. A full description of risk in key categories is provided in the risk management section.

¹ [LSE_guide_to_climate_reporting_final_0.pdf \(londonstockexchange.com\)](https://www.londonstockexchange.com/~/media/Investor-Relations/2018/04/LSE_guide_to_climate_reporting_final_0.pdf)

UK Climate Risk

Climate risks as identified in the UK Climate Risk Assessment (CCRA3)² and the input to that review in the Climate Change Committees Independent Assessment of UK Climate Risk³ have been used to determine potential areas of strategic risk in operations. Sector Briefings⁴ specific to key categories were considered: Agriculture and Food Sector; Business Sector; Energy Sector; Flooding and Coastal Change; Health and Social Care; High Temperatures; Land Use, Land-Use Change and Forestry; Marine and Coastal Environment

The scenario we considered is the basis of the CCRA3 risk assessment which describes specific risks that we address in our detailed risk tables below:

With current commitments and ambition on emissions, global warming could reach between approximately 2°C and 4°C by the end of this century, or potentially even higher. Even if the international community meets the goals of the Paris Agreement, further climate change will occur and hence will require adaptation.

Loungers will face challenges similar to other UK businesses:

- the risk of flooding
- the risk of coastal change due to erosion, flooding and extreme weather events
- risks from disruption of supply chains and distribution networks
- Climate change outside the UK that affects UK businesses through investment, supply chains, distribution networks and other business relationships
- The risk to productivity from extreme heat

From the CCRA3 Briefing Documents a number of key scenarios were reviewed as presented in Appendix 1

Energy Strategy

Whilst direct energy use of electricity and gas is only 9.5% of scope 1-3 carbon emissions it is the primary component of operational scope 1 and 2 emissions at 90.4%. Strategically it is most likely the gas component that will be the most significant. The electricity grid will have decarbonised by 2035 leaving gas as 80% of remaining emissions. It is possible by then that there will be options to procure hydrogen but our assessment is that the speed of implementation of this across the UK will not make it the best option to remove those emissions. Our strategy will be to investigate the most efficient and cost effective way to electrify as much of the heating and cooking activities through a switch to electric options which by default will become net zero.

The group will most likely be unable to install any renewable options such as wind turbines to provide significant energy to our sites and will be restricted to solar installation. In terms of emissions this is a sensible option to remove both scope 1 and scope 2 and leave a small residual amount to neutralise with high quality carbon offsets.

Emissions reduction does not necessarily parallel energy efficiency so we will continue to work with our energy partners to continually improve remote data streaming to monitor energy use and optimise operational usage by analysing positive and negative variance in energy consumption.

² Betts, R.A. and Brown, K. (2021) Introduction. In: The Third UK Climate Change Risk Assessment Technical Report [Betts, R.A., Haward, A.B. and Pearson, K.V. (eds.)]. Prepared for the Climate Change Committee, London. [Technical-Report-The-Third-Climate-Change-Risk-Assessment.pdf \(ukclimaterisk.org\)](#)

³ [Independent-Assessment-of-UK-Climate-Risk-Advice-to-Govt-for-CCRA3-CCC.pdf \(theccc.org.uk\)](#)

⁴ [Sector Briefings - UK Climate Risk](#)

4.0 Risk Management

Risk Management

It is recommended that organisations disclose their processes for identifying, measuring and managing climate-related risks, as well as describing how these processes are integrated into the organisation's overall risk management.

Disclosure recommendations

- a) Describe the organisation's processes for identifying and assessing climate-related risks.
- b) Describe the organisation's processes for managing climate-related risks.

The principal risks are regularly reviewed by the Board such that our business longevity, brand reputation and environmental footprint are managed in a way which protects the interests of our business and its stakeholders.

Critical risks are identified and are those which would prevent the business operating or have a significant impact on profitability or reputation. These risks are disclosed in the Annual Report and Accounts.

Key risks are those which the business needs to consider and mitigate in the normal course of business.

For the first time in 2023 Sustainability and the impact of climate change were included in the Board's review. As part of that review, the business determined what it can mitigate, transfer, accept, or control.

ESG risks and opportunities

Environmental Social Governance (ESG) has become an increasing area of focus for companies in recent years and Loungers has developed an appreciation and action plan of these factors through review by the Board in March 2022 and inclusion of more detail around our ESG approach in our 2022 Report and Accounts.

An analysis has been made of key risks that Loungers considered as a result of climate change. These have been classified as:

Physical: risks due to longer term shifts in climate patterns as acute or chronic

Transitional: risks in transitioning to a lower carbon economy, in line with the TCFD framework which suggests 4 areas: Policy, Market, Reputation and Technology

Risk categorization and detailed analysis of mitigating actions

Risk sector	Climate risk	Key impact and mitigation actions	Timeframe for impact
TRANSITION			
Policy, Regulatory & Compliance	Regulation: Climate change	<p>We have responded to legislation and potential legislation by significantly upscaling our carbon measurement and will introduce ESG and TCFD reports in 2023 to enable engagement of stakeholders and supply chain partners.</p> <p>Legislation horizon scanning is important and continues;</p> <p>We have increased budget for professional fees to help meet compliance</p> <p>The Sustainability Committee (which includes an external sustainability expert) will monitor new legislation and report back to the Board on any impacts to allow Loungers to respond in a measured and timely fashion.</p>	Medium
	Regulation: Products and services	<p>Plastic tax and recycled content have moved us to look in detail at what we can procure with greater recycled content and generally reduce plastic use and waste. Costs of potential compliance could be to require commercial properties to meet EPC band B by 2030; Our design and build process is currently compliant with existing legislation and we are ahead of the curve in many areas, such as our use of LED lighting in new sites. If regulations become more stringent we will evaluate the viability of compliance for existing sites and ensure that new sites are fitted out to meet required standards.</p> <p>OPPORTUNITY to save costs through focus on efficiency and reducing waste</p>	Medium
	Carbon price (Offsets)	<p>Detailed mapping of scopes 1-3 has given an internal price of carbon to drive a net zero strategy and an incentive to reach that by abatement or fuel choice to minimise the carbon offset requirement;</p> <p>Future suggestion of a net zero or carbon neutralisation tax will continue to make this an important risk area</p>	Medium
Market: supply and demand	Cost of energy and purchased goods	<p>Energy efficiency continuous monitoring via data streaming will be introduced; Building Insulation and energy management programme strengthened;</p> <p>OPPORTUNITY to reduce reliance on overseas supply of products currently requiring hotter climates (e.g. wine)</p>	Medium
	Consumer preference	<p>OPPORTUNITY to differentiate ourselves through the quality of our sustainable offerings both to customers (e.g. variety of vegan menu) and staff (e.g. electric car salary sacrifice scheme)</p> <p>A link will be investigated between carbon footprint and vegetarian/vegan and lower carbon and red meat to white meat to plant-based options as combined nutritional and emissions reduction options</p>	Medium

Risk sector	Climate risk	Key impact and mitigation actions	Timeframe for impact
TRANSITION			
Reputation	Stakeholder concern	<p>We have strengthened our credibility for leading ESG by appointing experts to our committees and as our advisers from those who have already achieved leading sustainability performance;</p> <p>We thus seek to avoid the potential of fines and reputation damage for non-compliance on climate reduction;</p> <p>In recent years, there has been a shift to more sustainable choices in consumer behaviour, whether that be lower food miles, less plastic packaging or alternatives to meat. This is often most evident in younger demographics, who also comprise many of our staff. Being able to demonstrate credible sustainable offerings and behaviours will therefore become increasingly important to retain both customers and employees.</p> <p>To mitigate this risk, we are already pursuing a number of initiatives including:</p> <p>Only sourcing eggs from free range chickens; Using a zero waste to landfill waste collection service</p> <p>Only serving Fairtrade tea and coffee; Offering an extensive vegetarian and vegan menu. We also collect detailed feedback from our guests which can be analysed by our Insight team to identify trends in behaviour and consumer responses. The Sustainability Committee will use this and data from employee surveys to find ways to engage with employees and customers to communicate the message of Loungers as a Force for Good.</p>	Medium
Technology	Lower emission offerings for services	Embedded carbon could become a competitive procurement option as supply chains decarbonise	Medium
	Lower emission technology	New technology could see a step change in emissions e.g. switch to electricity from fossil fuel and hydrogen availability. Our action is to parallel grid decarbonisation and install widescale electrification where cost effective	Medium

Risk sector	Climate risk	Key impact and mitigation actions	Timeframe for impact
PHYSICAL			
Acute	Flooding and Rainfall	<p>A minimal number of our sites are in coastal or riverside locations are at risk of flooding. Risk of flooding is considered as part of the risk planning at board meetings and when selecting new sites; It is monitored also through the annual insurance reviews process; We have seen increasingly wetter winters in recent years, with December 2022 being the wettest on record. There have been a number of serious flooding events across the UK over the past 15 years and if this trend accelerates due to global warming, we could see potential risk of flooding in our riverside and coastal sites.</p> <p>A review of our sites by locations deemed to be at risk of flooding has identified 28 sites potentially at risk of river flooding; 13 sites potentially at risk of coastal flooding. It is important to note that this assessment has been based on the proximity of sites to water sources; it therefore indicates that a site could flood, not necessarily that it will. There may be other factors that would prevent or mitigate flooding (e.g. despite its proximity to a river, a site might be sufficiently high above the water level to make flooding unlikely). We will refine the list to identify sites where we deem the risk to be significant. If climate change accelerates this risk we will take a more conservative approach.</p>	Medium

Risk sector	Climate risk	Key impact and mitigation actions	Timeframe for impact
PHYSICAL			
Chronic	Average temperature rise	Scenario modelling has just started and will improve; We anticipate increased energy costs for refrigeration and air conditioning on sites; Potential impacts are alarm systems not working at higher temperatures; employee productivity may decrease in non-cooled environments; human health could be impacted positively (less winter sickness) and negatively (heat intolerance)	Medium
	Water availability	Drier summers lead to droughts and water shortage which would impact water stress on our sites. Water availability is expected to become a greater issue over the next 30 years; If summers do become hotter, we may need to incur costs for additional air conditioning, both front of house and back of house. From a consumer perspective sites without outside space may become less attractive and therefore we may lose sales or need to offer more incentives for customers to visit these sites. Conversely, our sites with outside spaces or in coastal locations may benefit from additional footfall. Clearly additional usage of air conditioning is not desirable from either a cost or a climate perspective. When considering the locations of sites in the future, ensuring that we retain a balanced portfolio of sites will be important, as will trying to incorporate designs, materials and layouts that maximise energy efficiency.	Medium-Long
	Supply chain disruption due to extreme weather	Global drought could impact our suppliers particularly for coffee growers; Agriculture is one of the sectors most at risk from climate change, in terms of its dependence on soil characteristics, weather patterns and biodiversity. The increase in extreme weather events will impact crop growth and yields as well as the distribution and abundance of pest species. It is possible that in the longer term certain foods will become more expensive and more difficult to source; however it is also possible that there will be opportunity to increase production in the UK in certain areas such as wine. As these risks increase, it will become more important to ensure that we understand and have visibility over the whole of our supply chain. We are currently dependent on large national wholesalers and ensuring that they have a diversified portfolio of supply and can be agile in the face of supply chain challenges will be key. We should also ensure that we have contingency plans in place for alternative supply.	Long
	Temperature fluctuations: Energy sector	Electricity delivery could be at greatest risk from high and low temperatures which will be exacerbated as there is a large scale move to electrification from natural gas or fossil fuels	Medium
	Temperature fluctuations: Digital network	Heat and humidity can affect data centres as can lightning and high winds. Consideration may need to be given to different storage options other than cloud for example	Medium

5.0 Metrics and Targets

Metrics and targets

It is recommended that organisations disclose the metrics and targets they use to assess and monitor climate-related risks and opportunities.

Disclosure recommendations

- a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
- b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Loungers engaged a specialist consultancy to calculate the carbon footprint of the whole supply chain from procurement of purchased goods and services through operations and included the impact of sold goods and services. Data analysis followed the GHG protocol for all three scopes: Scopes 1 and 2, operational carbon footprint and scope 3, supply chain carbon footprint.

Data gathered was a hybrid set based on the GHG protocol hierarchy which specifies four levels of data to capture: 1) Supplier specific, 2) Hybrid, 3) Industry average and 4) Spend-based.

For scopes 1 and 2 detailed invoiced electricity and gas consumption and owned transportation data was available together with the relevant carbon conversion factors and will therefore be highly accurate.

Scope 3 data is notoriously difficult to measure in the supply chain so as a first pass estimation the spend-based analysis method has been used. The method is approved by the Department of Energy Security and Net Zero (DESNZ) within its Streamlined Energy and Carbon Reporting emissions and is based on a model developed by the University of Leeds available as open source on the DESNZ website.

The key metric at board level for carbon emissions is tonnes CO₂e/£m turnover. Loungers are using a baseline year of 2022 as a springboard to enable them to track progress to net zero by 2040.

A series of carbon and wider Environmental Social Governance activities provide an engaging set of activities to drive business emissions downwards to net zero and to engage its supply chain to follow a similar path. The net zero target is for operational emissions over which Loungers has direct influence. Scope 3 emissions do not currently have a target set other than awareness and education within the business and the wider supply chain.

The in-depth analysis carried out this year will be maintained until we hit our net zero target and will enable our investors and other stakeholders to understand our desire to be as open and comprehensive in our analysis of carbon with a view to establishing a robust financial impact of the required technological changes to get to net zero and the benefits of a clear set of metrics to map progress.

Spend-based accounting model

The model was developed for the UK government by the University of Leeds and in use for almost 20 years. It was last updated in November 2022. The model provides spend-based carbon emissions for 110 standard industry classification categories

The limitation of scope 3 spend-based analysis is that it gives an estimated average figure for each category. Therefore it is useful for an initial mapping of scope 3 but will not easily show an improvement in those emissions over time.

Where a spend-based estimation indicates a contributing factor has a high percentage it is Loungers aim to engage with those supply chain partners and request more detailed carbon footprint data if they can provide it and that value once ratified will be substituted for spend based assessment in future calculations.

Carbon footprint analysis

A detailed analysis of the carbon footprint has been made for FY23 (April 2022 to April 2023.)

Operational (scope 1 and 2) carbon emissions are a small proportion of the overall carbon footprint at 9.5%. The electricity conversion uses a location-based carbon factor that comes directly from the suppliers invoice.

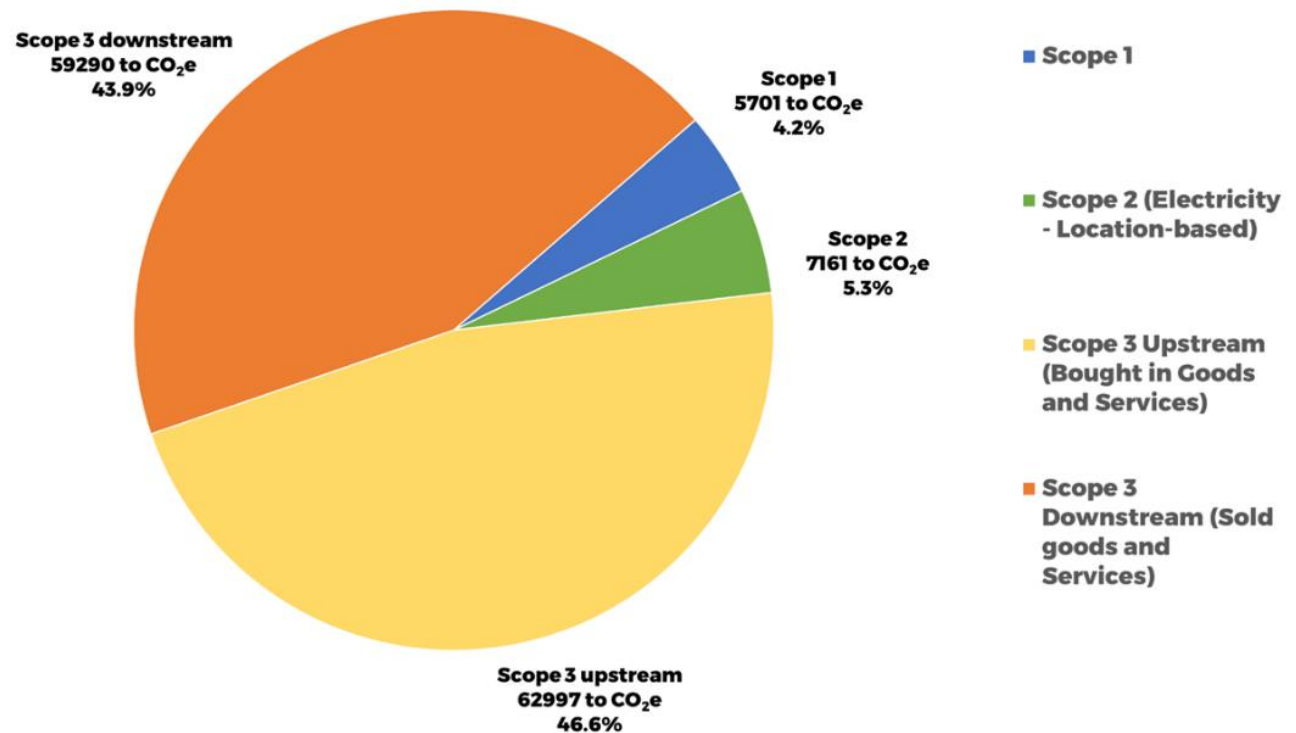
The majority of carbon emissions as expected are found in scope 3 (90.5%) with a slightly greater upstream (46.6%) than downstream (43.9%) proportion reflecting the type of business operations that are usual for restaurant style organisations.

Location and Market based electricity

The Greenhouse Gas Protocol requires organisations to publish emissions according to the electricity supplied as is through the grid, called **location based**. The grid supply is a mix of renewable and non-renewable electricity energy. On average at present it is dropping in intensity by around 9-10% a year towards the stated target of being net zero emission by 2035.

If any specific contract has been made for renewable energy it can in addition be shown in a carbon emissions report as a market-based conversion factor.

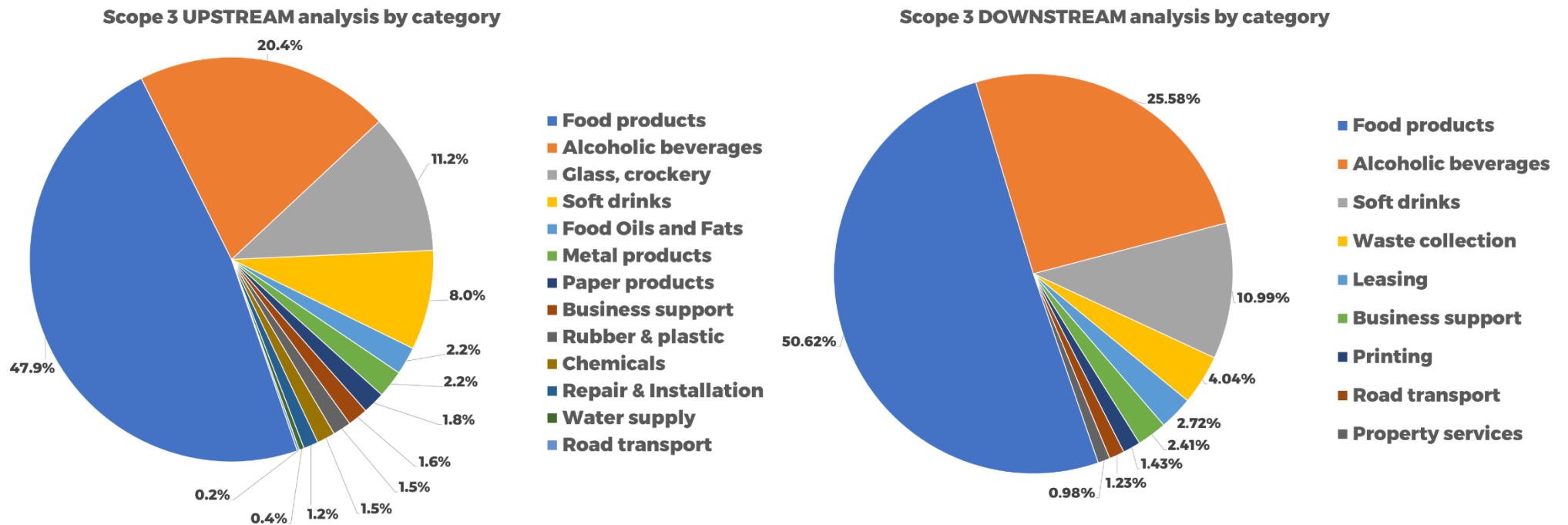
Scope 1-3 carbon footprint: Location based



The graphs below analyse scope 3 emissions for Upstream sources: goods and services coming into the business and Downstream: goods and services sold by the business.

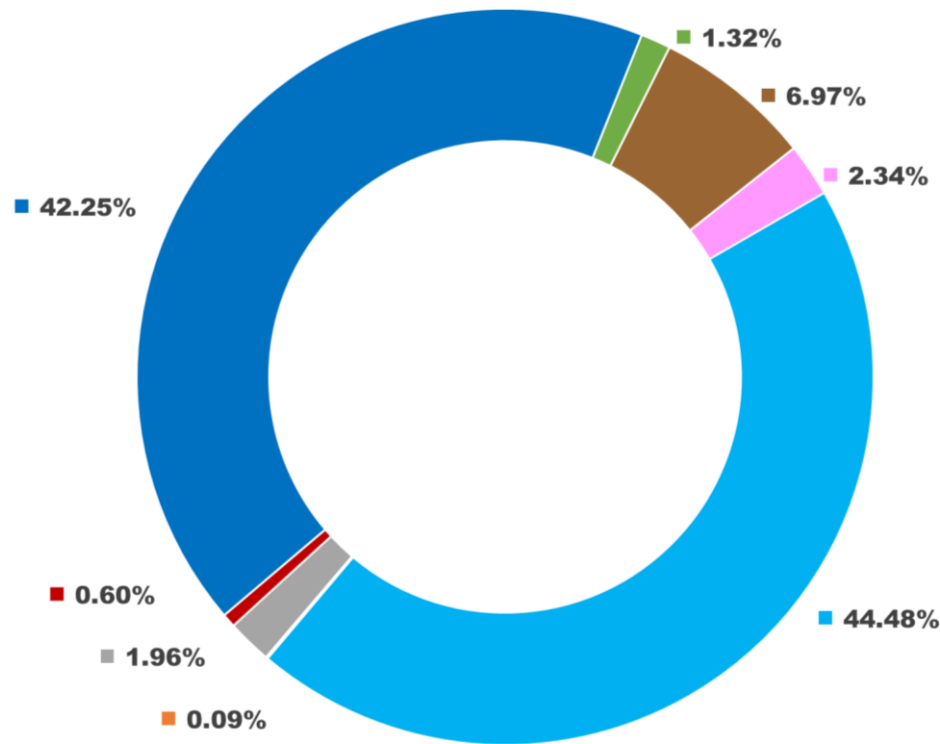
Upstream not surprisingly is dominated by food, drink and utensils as the major contributors at 87.5% but a number of other factors contribute 12.5% of the total.

Downstream emissions profile is typical for a restaurant type business with food and drink representing 87% of the emissions and the remaining 13% coming from support and service sectors



The analysis provides Loungers with a good indication of who to engage with in the supply chain to effect the greatest understanding and reduction of carbon emissions from suppliers and to continue to focus on ways to reduce the embedded carbon in products that are sold to consumers. The key area is food bought in and sold and reductions in supply carbon naturally will lead to reductions in the embedded carbon passed on in products sold to consumers.

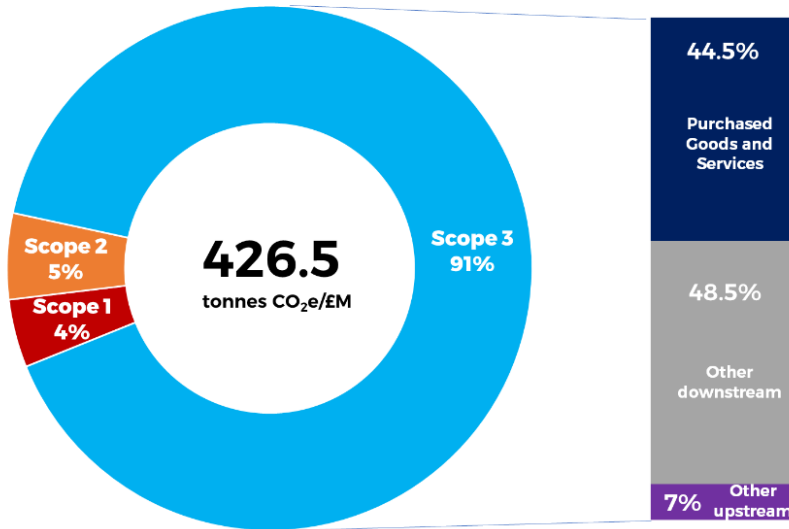
The GHG protocol also recommends that scope 3 is analysed in 15 categories or as many as it is possible to identify. The data in the mapping exercise for FY23 has been allocated to 8 of those categories and purchased goods and services and use of sold products are the major emissions areas.



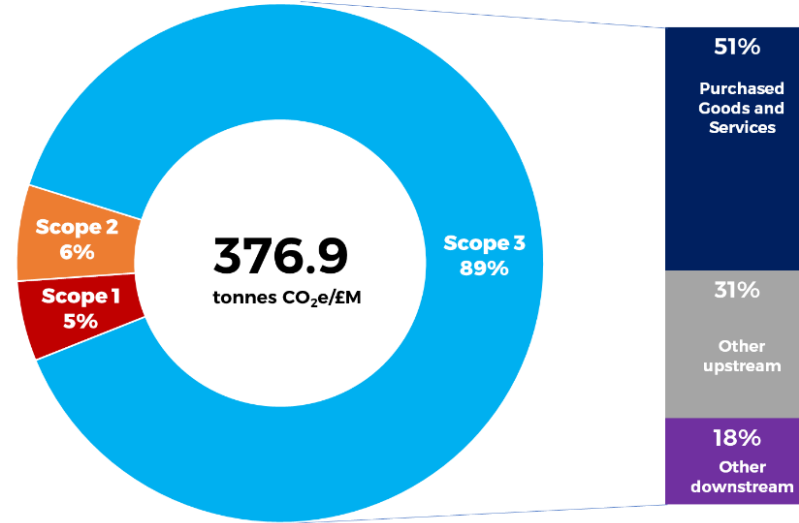
- Purchased goods and services
- Use of sold products
- Upstream transport
- Downstream leased
- Waste
- Other upstream
- Downstream transport
- Other downstream

Upstream or Downstream	Scope 3 category
Upstream scope 3	<ol style="list-style-type: none"> 1. Purchased goods & Services 2. Capital goods 3. Fuel and energy related activities (not included in scope 1 and 2) 4. Upstream transportation and distribution 5. Waste generated in operations 6. Business travel 7. Employee commuting 8. Upstream leased assets
Downstream scope 3	<ol style="list-style-type: none"> 9. Downstream transportation and distribution 10. Processing of sold products 11. Use of sold products 12. End-of-life treatment of sold products 13. Downstream leased assets 14. Franchises 15. Investments

It is beneficial to benchmark against others in the same sector and Loungers has a metric similar to that published in the Zero Carbon Forum combined industry data for the restaurant sector. Using a benchmark of tonnes CO₂e/£M turnover for all three scopes Loungers intensity ratio is 426.5 tonnes CO₂e/£M which is slightly above other data published in the same sector of 376.9 tonnes CO₂e/£M.



Loungers scope 1-3 analysis and intensity ratio FY23



Restaurant sector analysis by Zero Carbon Forum

This is the first year that Loungers has made such a comprehensive study into the full scope 1-3 emissions and it will provide the impetus now to act more specifically in key areas of carbon intensity within the wider supply chain and have a better influence over scope 3 emissions. It will require interaction with suppliers to gain real data on carbon emissions that we can use to track improvement and it is anticipated that there will need to be a programme of education and carbon literacy support to gain the best result. Loungers is committed to working with its suppliers to enable them to better understand their carbon emissions intensity and wider ESG performance in a spirit of cooperation and support.

Identifying Loungers maturity level in TCFD reporting

There is an index called the Transition Pathway Initiative (TPI)⁵ that is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy to provide investors with an indication of how mature a company is with TCFD assessment.

Having made a candid assessment internally within Loungers of where we are, we believe that our maturity is somewhere between level 3 and 4 which is very encouraging since this is our first year of reporting.

Loungers will continue to monitor performance against the TPI to progress towards a full level 4 rating.

LEVEL 0 Unaware	LEVEL 1 Awareness	LEVEL 2 Building capacity	LEVEL 3 Integrated into operational decision-making	LEVEL 4 Strategic assessment
Company does not recognise climate change as a significant issue for the business	<p>Company explicitly recognises climate change as a relevant risk/opportunity for the business</p> <p>Company has a policy (or equivalent) commitment to action on climate change</p>	<p>Company has set GHG emission reduction targets</p> <p>Company has published information on its operational GHG emissions</p>	<p>Company has nominated a board member / committee with explicit responsibility for oversight of the climate change possibility</p> <p>Company has set quantitative targets for reducing its GHG emissions</p> <p>Company reports on its Scope 3 GHG emissions</p> <p>Company has had its operational GHG emissions data verified</p> <p>Company supports domestic and international efforts to mitigate climate change</p> <p>Company discloses membership and involvement in trade associations engaged on climate</p> <p>Company has a process to manage climate-related risks</p> <p>Company discloses Scope 3 GHG emissions from use of sold products (selected sectors only)</p>	<p>Company has set long-term quantitative targets (more than five years) for reducing its GHG emissions</p> <p>Company has incorporated climate change performance into executive remuneration</p> <p>Company has incorporated climate change risks and opportunities in its strategy</p> <p>Company undertakes climate scenario planning</p> <p>Company discloses on an internal carbon price</p> <p>Company ensures consistency between its climate change policy and position of trade associations of which it is a member</p>

⁵ [Home - Transition Pathway Initiative](#)

APPENDIX 1: CCRA3 risk statements considered during assessment of risk

From the Business Sector Briefing

Risks to businesses from flooding (B1)

Damages to buildings could increase in a 2°C warming scenario by around 27% by 2050 and 40% by 2080, and in a 4°C scenario by around 44% by 2050 and 75% by 2080. These projections assume no changes in the asset base or size of the economy.

Costs to businesses arise from damage to sites as well as from business interruption and indirect losses, such as lost production time and associated costs. Flood risk management actions being taken forward, including flood protection and planning and preparedness through business continuity management, is encouraging but given the scale and the wider implications for the economy and society at large, more action would be beneficial.

The availability of insurance and costs of capital could increase the magnitude even further unless risk levels are reduced through corporate as well as community-level adaptation action. Flooding and coastal change is expected to become a high risk from the 2050s for all UK countries. Without further adaptation, damages could increase by around 30% by 2050 and 73% by 2080 under a 2°C scenario. In a 4°C scenario the damages could rise by around 82% by 2050 and 181% by 2080.

Risks to business from water scarcity (B3)

Present-day risks from water scarcity are low, but these could rise significantly over the next 30 years and beyond, in both public water supply and direct abstractions from rivers and other sources. The future magnitude of risk is considered medium across the UK. Many parts of the UK may be affected, not just southern regions.

Access to capital for businesses (B4)

In a 4°C warming scenario, the assessment has highlighted that climate change impacts could be largely uninsurable due to the sheer scale and extent of damages.

As a global financial hub, the UK needs more consideration of the implications for companies of physical risks across countries and regions. Internalising climate risk and pricing it into insurance, lending or investment decisions will have implications for those relying on access to capital and insurance.

Currently there is limited evidence of physical climate risks affecting price changes, but this could change suddenly in the wake of more extreme events.

The magnitude of risk is currently considered medium, potentially increasing to high in a 4°C warming scenario.

Risks due to infrastructure disruption and higher temperatures in working environments (B5)

The risk is currently considered low magnitude, but could rise to medium or even high in the future, particularly in England.

REM: fire alarms not working in 40C temperatures during 2022 summer

High temperatures can have negative impacts on employees' health and wellbeing and ability to commute to work.

The risk is low to medium across the UK by the 2050s, but could become high by the 2080s.

Risks to business from disruption to supply chains and distribution networks (B6)

Actions to mitigate recommended for mitigation

- Product and geographical diversification.
- Scenario planning for extreme weather events.
- Incorporating risks into risk registers and management programmes.
- Including supply chain partners in risk assessment, planning, and communication.
- Improving insurance coverage.

From the Flooding and Coastal Change Briefing

Risks to infrastructure services from river, surface water flooding (I2)

Data show that 178 power stations and 575 substations are currently at significant risk from surface water flooding and 67 power stations and 234 substations are at risk from river flooding across the UK.

The risk increases significantly from surface water flooding in the future, potentially doubling the risk in a 4°C warming scenario.

Conversely, the risks from river flooding to energy infrastructure generally decrease in the future.

Currently transport infrastructure faces greater exposure to surface water flooding than river flooding. For example, 596 railway stations and 3,544km of rail network are at risk from surface water flooding across the UK compared to 81 railway stations and 1,144km of rail network at risk from river flooding

Risks to the energy sector from high and low temperatures, high winds, lightning (I10)

Communications infrastructure supporting telemetry components in the national gas grid have been found to have a maximum operating temperature of 40°C (where external temperature and the load on the asset are contributing factors), a threshold that is becoming increasingly likely to occur across the UK.

Failures to the electricity system are likely to have much larger impacts in the future if both transport and home energy supply are fully electrified as the UK moves towards net zero emissions of greenhouse gasses

Risks to digital infrastructure from high and low temperatures, high winds, lightning (I13)

Heat and humidity pose a challenge for data centres, which need to be kept cool to operate. Risks to digital systems from climate change are currently considered to be of medium magnitude under different climate change scenarios, although the quality of the evidence supporting this conclusion is low. While there is a general understanding of the interactions between ICT infrastructure and weather, quantitative assessment of how climate change will affect the frequency and magnitude of interruptions is lacking.

A further challenge to assessing risk nationally is that the location or specification of assets is often kept out of the public domain in the interests of security and commercial sensitivity. ICT is critical to the operation of wider infrastructure networks and underpins access to key services and wider communication, and therefore interruption can have wide ranging and cascading impacts. The risk is low now, rising to medium from the 2050s across the UK.

From the High Temperatures Briefing

Risks to transport from high and low temperatures, high winds, lightning (I12)

Extreme heat can cause multiple problems to transport. Although there are examples of good practice in adaptation within different transport modes, particularly in rail, the understanding and management of risks across the sector is inconsistent.

Actions being taken to reduce risk by the rail industry are likely to be reducing vulnerability in some areas, but evidence is lacking on how far vulnerability or exposure are being reduced. There is also a lack of quantified data on the impact of high temperatures on road infrastructure, thus confidence in the evidence is low. A full understanding of the future risks will also require an assessment of the energy and digital infrastructure supporting electrified transport systems required to meet the UK' net zero carbon targets.

The risk is medium magnitude now, rising to high in the future.



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