Air Liquide

Jérôme Pelletan
Group CFO
Air Liquide SA
75, quai d'Orsay
75007 Paris

C/o Pauline Lecoursonnois, EOS at Federated Hermes, Claire Berthier, Trusteam Finance, Elin Noring, Nordea Asset Management

Paris, January 31, 2024

Dear Pauline Lecoursonnois, Claire Berthier and Elin Noring,

Re: Your letter received January 16, 2024 titled Climate Accounting and Audit Assessment

Thank you for your email and letter received January 16, 2024. **It has been circulated to the board chair, the audit committee chair and the lead audit partners.** We appreciate your acknowledgement of Air Liquide's "positive direction of travel regarding the disclosures provided in the financial statements and in the audit report" and commend you on your efforts to engage companies on improving climate change governance, reducing emissions and strengthening climate-related financial disclosures.

Pertinent to your understanding following our meeting on the 12th of December, we continue to work hard for **comprehensive disclosures in line with CSRD** (to be disclosed in our 2024 URD, to be **issued in March 2025**).

Since 2021 we have published our **decarbonization plan around 3 levers, each representing one third of the contribution, 1) Asset management, 2) Carbon Capture and Storage, and 3) Low carbon electricity sourcing**. Every year, we **disclose an update of the main achievements on each of these levers.**

As a reminder, Air Liquide's 2035 climate objectives were validated **in May 2022 by the Science Based Targets initiative (SBTi) as qualified and aligned with climate science**. We were the first in our industry to obtain validation from the Science Based Targets Initiative. This approval represents an important milestone towards the Group's ambition to **reach carbon neutrality by 2050.**

However, in the **absence of a Sectoral Decarbonization Approach (SDA) for the chemical sector** in general and for industrial gas companies in particular, our target was assessed using the **Absolute Contraction approach**, which takes into account neither specificities of a hard-to-abate sector such as Chemicals, nor the geographical footprint. When factoring in these specificities, we consider that **our objectives should be in line with a 1.5°C trajectory**.

In order to remedy the lack of an adequate approach for the chemical sector enabling a more precise assessment of trajectories, Air Liquide is **participating in the SBTi-led attempt to develop a SDA for the chemical sector, including a focus on critical Scope 3 categories**. We continue to work towards more comprehensive disclosures with references to a 1.5°C-aligned scenario.

In your letter you state, "investors want to better understand... financial impacts of the energy transition... how company climate-related targets are appropriately deliberated when preparing financial accounts... how robust the company's business model is to different climate scenarios." As you may recall, Air Liquide discloses Assets and Climate Risks (**page 40** of our 2022 URD) which **details our main assets that impact CO_2 footprint, their life spans and solutions which have already been implemented to decarbonize these existing production units**. In addition, we have robust disclosures on Climate risk considerations (**Note 31** of financial statements, which can be found on page 309 of our 2022 URD), which further discusses these concerns.

On another topic, **our auditors do assess the impacts of climate related matters on financial statements when providing their opinion on the financial statements**. Please refer to the **2022 URD page 318** in the statutory auditors' report. Notably for example, regarding the "Large Industries activity: **useful lives of production units and measurement of their recoverable amount**", which is qualified as a key audit matter by the auditors, the report states "Our procedures consisted notably in: [...]

- assessing, with the assistance of our experts in climate change and energy transition, **the impact of climate change and energy transition on the financial statements**, in order to **corroborate the Group's assessment that its climate strategy has not resulted in any material impact**, neither on the useful life nor on the recoverable value of Large Industries production assets;
- assessing the **absence of obvious inconsistencies** between the consolidated financial statements and the Group's other publications **addressing the issues related to climate change** (Management report, the Universal Registration Document);
- verifying the **appropriateness of the disclosure** included in note "5.e. Property, plant and equipment" and note "5.f. Impairment of assets" of the accounting principles section of the consolidated financial statements and **note 31 "Climate risk consideration"** to the consolidated financial statements."

Regarding the work done on **impairment test of goodwill**, which is qualified as a key audit matter by the auditors, the auditors mention in their report that "our procedures consisted notably in: [...]

- Corroborate on the basis of external data the **consideration of both climate risk** and **challenges and opportunities relating to the energy transition**"

Regarding the **board commitment, audit committee and Environment and Society committee chairwomen are very closely involved** offering keen oversight towards the evolution of disclosures including climate risk considerations.

During the **joint session of November 2022**, members of the Audit and Accounts Committee and the Environment and Society Committee examined the summary of the **risks reviewed by the Environment and Society Committee** during the year, the mapping of environmental and societal risks (and changes to the referential) and procedures to control these risks. The members of the two Committees also **reviewed the procedures relating to the preparation and processing of extrafinancial information**, including a focus on the taxonomy, as well as a detailed examination of certain specific environmental and societal risks and substantive issues concerning in particular hydrogen production decarbonization processes.

As part of their work carried out during this joint session, the members also proposed **clarifications to the internal regulations of the Board of Directors regarding the respective duties of the Audit and Accounts Committee, the Environment and Society Committee and the joint session between these two Committees.** The Board of Directors, on the recommendation of the two Committees, adopted this new version of the internal regulations (which already contained the main principles for the distribution of work between the Audit and Accounts Committee and the Environment and Society Committee), in which it is specified that:

- the Audit and Accounts Committee reviews the Group's risks based on the work of the Environment and Society Committee on environmental and societal risks (which examines these risks in detail);
- the Audit and Accounts Committee is in charge of monitoring the procedures relating to the preparation and processing of extra-financial information. This item is examined in a joint session with the Environment and Society Committee;
- the Environment and Society Committee makes a reasonable judgment regarding the extra-financial information, including the Extra-financial Performance Declaration.

This will again be **updated for the 2023 URD,** to be published in March 2024.

We strive to retain our position as a leader in decarbonization of industry beyond the decarbonization of our own assets, as well as important disclosures for increased transparency.

Again, thank you for your ongoing efforts and continued support of Air Liquide.

Yours faithfully,

Jérôme Pelletan
Group CFO

Air Liquide
75 Quai d'Orsay
Paris
France

C/o Board Chair Benoît Potier, and Audit Committee Chair Catherine Guillouard
Cc: Lead Audit Partners Valérie Besson and Laurent Genin at KPMG, and Olivier Lotz and Cédric Le Gal at PwC

Dear Mr. Potier and Ms. Guillouard,

Re: Climate Accounting and Audit Assessment

We are signatories of Climate Action 100+, an investor-led initiative with over 700 investors and their representatives responsible for $68 trillion in assets under management/advice. Through the work of the initiative we are engaging companies on improving climate change governance, reducing emissions and strengthening climate-related financial disclosures in order to create long term shareholder value for our clients.

Air Liquide is included on the Climate Action 100+ list[1] to help ensure the world's largest corporate greenhouse gas (GHG) emitters take necessary action on climate change to ensure a sustainable world. Over the past few years, we have been engaging with companies to encourage a focus on supporting the aim of achieving a 1.5°C Paris Agreement aligned pathway. Whilst we have seen progress with companies making management commitments around carbon emission reductions, and setting net zero targets, there is growing concern that it is not sufficiently clear how material climate risks have been dealt with in preparing the accounts, as required by IASB and FASB guidance. Nor is it clear that the climate commitments and strategies made by companies are reflected in financial statements. **At Air Liquide, there is a positive direction of travel regarding the disclosures provided in the financial statements and in the audit report too. We would like to encourage continued improvements notably regarding the disclosure of estimates and assumptions used, with an explicit reference to a 1.5°C-aligned scenario.**

Investors want to better understand:

- How the board considers the financial impacts of the energy transition, including demand side fluctuations and their impact on future cashflows, the estimated remaining lives of carbon-intensive assets and (where applicable) associated retirement/decommissioning obligations.
- How the achievement of any company climate-related targets is appropriately deliberated when preparing financial accounts, both in overseeing internal controls over financial reporting and directing the external auditor.
- How robust the company's business model is to different climate scenarios.

As climate related regulation increases globally, improved financial accounting and audit consideration and disclosure is critical. We are therefore writing to make clear to Air Liquide the key asks relating to this issue. We would note that point 1 reflects the guidance given by the IASB[2] and the FASB[3]

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[1] Climate Action 100+
[2] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf
3 FASB guidance is similar but less explicit than the IASB. It states that "When applying financial accounting standards, an entity may consider certain material ESG matters similar to how an entity considers other changes in its business environment… that have material direct or indirect effects on the financial statements and the notes"

1) The audited financial statements provided by the company should:
    i) Demonstrate how material climate-related matters are incorporated.
    ii) Disclose the quantitative climate-related assumptions and estimates.
    iii) Be consistent with the company's other reporting and disclosures.

2) The audit report should identify:
    i) How the auditor has assessed the material impacts of climate-related matters on financial statements amounts and disclose in notes.
    ii) Inconsistencies between the financial statements and 'other information' published in the annual report by the company.

3) In addition, relevant to achieving the Paris Agreement goal of limiting global warming to no more than 1.5°C:
    i) The financial statements should use, or disclose a sensitivity to assumptions and estimates that are aligned with this goal and achieving net zero GHG emissions by 2050 (or sooner).
    ii) The audit report should identify that the assumptions and estimates that the company used, or based its sensitivity analysis on, were aligned with this goal and achieving net zero GHG emissions by 2050 (or sooner), or it provides a sensitivity analysis on the potential implications of not being aligned.

These topics map to criteria for the Climate Accounting and Audit Assessment, which forms part of the Climate Action 100+ Net-Zero Company Benchmark. Your latest company benchmark can be found here https://www.climateaction100.org/whos-involved/companies/. Please ensure you review the Disclosure Framework AND the Alignment Assessment tab for your company. For more information on the methodology see https://www.climateaction100.org/net-zero-company-benchmark/methodology/ .

Further information on this topic, along with references and expectations from financial standards authorities can be found in the EOS 2023 Q1 Engagement Report on pages 10 – 14 EOS Public Engagement Report (hermes-investment.com). In the past months, ESMA, the European accounts regulator, has also provided some recent examples[4] of what regulators expect, as have the IFRS[5].

We would like to engage with your Audit Committee Chair to understand your approach and clarify how Air Liquide will continue to improve its disclosures in line with the above in order to demonstrate how the assumptions and estimates made by the company in the accounts support its climate change commitments.

Where it is not possible to assure ourselves that the accounts adequately reflect the company's climate commitments, this may independently inform future voting recommendations of our respective institutions.

Yours sincerely.

Pauline Lecoursonnois	**Claire Berthier**	**Elin Noring**
EOS at Federated Hermes	**Trusteam Finance**	**Nordea Asset Management**

Cc Aude Rodriguez, Head of Investor Relations

[4] ESMA32-1283113657-1041 Report - Disclosures of Climate Related Matters in the Financial Statements (europa.eu)
[5] effects-of-climate-related-matters-on-financial-statements.pdf (ifrs.org)