

Climate related scenario analysis




To further understand and explore how potential climate risks and opportunities could evolve and impact our business over the medium to longer term, the TCFD recommends undertaking climate scenario analysis, which includes a '2°C or lower scenario' in line with the 2015 Paris Agreement.

We examined three climate scenarios against two timeframes for the purposes of our analysis. The three scenarios we considered were as follows:

Scenario	Description
Disorderly transition	Rapid change in policy and legislation to encourage businesses to rapidly achieve reductions and avoid climate change - UK takes immediate and substantial action - governments make dramatic policy interventions to make up for a late start.
Orderly transition	Additional policy and legislation introduced to limit climate change - UK does not take immediate and substantial action - gradual and deliberate shift towards a low carbon economy.
Hot house world	Business as usual - no change in climate policy and legislation - UK takes limited or no action - continuation of current projection of carbon emissions without any significant abatement or mitigation.

Impact	Mitigation/response	Financial impact	Inherent likelihood
Physical risk: Increased frequency/severity of extreme weather and climate related natural disasters			
<ul style="list-style-type: none"> Offices closed. Data centre disruption. Customers cannot open their showrooms. 	All technology infrastructure is cloud based. Disaster recovery/business continuity planning in place, including tools and guidance to support our people in emergency situations. COVID-19 proved the sales process can be completed without physical showrooms, plus development of digital retailing will enable all retailers to compete on our digital marketplace.		Low
<ul style="list-style-type: none"> Weather has the potential to disrupt the supply chain and limit vehicles entering the UK car parc. 	We have experienced the impact of disrupted supply chains as a result of recent external catastrophic and geo-political events. These significant supply side challenges have constrained new and used car transactions for much of the past three years. However, our business has remained healthy as market dynamics have adjusted and OEMs and retailers learnt to adapt their business models. We would anticipate weather related disruption to be more intermittent and comparatively less severe than the disruption caused by recent events.		Low
<ul style="list-style-type: none"> Costs - increased operational costs such as heating/aircon, insurance, cloud costs. 	In order to have a significant impact on our business, costs would need to increase significantly. We are continually reviewing our cost base such that any increases can be managed and profit margins retained.		Medium
Transition risk: Increased regulation relating to climate change			
<ul style="list-style-type: none"> Regulation banning the sale of new internal combustion engine ('ICE') vehicles from 2030 is existing UK regulation that the industry is already working towards. 	We already closely monitor the implementation of policies relating to our core business. We will continue to monitor policies with a view to identifying potential risks and opportunities and related financial impacts. We are already evolving our product offering and provision of information to support the effectiveness of EVs on our marketplace and will continue to meet changing preferences of car buyers.		High
<ul style="list-style-type: none"> Increased regulatory scrutiny and introduction of new legislation could result in increased reputational risk but also increased compliance costs. Failure to deliver against our environmental commitments would undermine our reputation as a responsible business and may result in loss of revenue, legal exposure or regulatory sanctions. 	We have formed a Corporate Responsibility Committee to oversee our environmental commitments. We will report in line with the TCFD recommendations and report progress towards our net zero ambitions against our science based targets.		Low

Impact	Mitigation/response	Financial impact	Inherent likelihood
Transition risk: Regulation ramping up of internal combustion engine ('ICE') vehicle taxation			
<ul style="list-style-type: none"> Cost of ownership increases, making ICE vehicles less appealing. Consumers stop buying petrol or diesel vehicles, demand switches over to electric. If EVs remain expensive some consumers could be priced out of the market presenting a risk to demand. 	We will continue with our strategy to adapt our marketplace to meet changing preferences of all car buyers. It is likely that used car prices will continue to move in line with supply and demand dynamics such that lower demand will make vehicles more affordable.		Low/Medium
Transition risk: Demand for sustainable products & services			
<ul style="list-style-type: none"> Risk: Consumers' preferences shift away from ICE vehicles; steep decline in purchase of petrol or diesel vehicles in favour of EVs. Opportunity: Help our audience to find the sustainable options they are seeking. 	We will continue with our strategy to adapt our marketplace to meet changing preferences of all car buyers and continue to be the largest marketplace for EVs.		Low/Medium
Transition risk: Increased reputational risk associated with the automotive industry and misrepresenting environmental claims			
<ul style="list-style-type: none"> As consumer consciousness around climate change rises, there is increased scrutiny on our industry's role on the environment. Failure to appropriately demonstrate that as a business we are committed and moving towards net zero carbon emissions could negatively impact our brand and also impact our ability to operate and/or remain relevant to our customers and consumers. 	As part of our goal to be net zero by 2040 we will focus not only on our own operational footprint but also on how we can positively support our industry. We have set clear reduction targets for our own operations and report progress to stakeholders. We work with customers, suppliers and the industry on education and policy.		Low
Transition risk: Achieving resource efficiency through cutting our carbon footprint and improving energy efficiency			
<ul style="list-style-type: none"> Reduced costs associated with energy use and avoid increased costs associated with carbon taxation. 	Reduction initiatives to reduce our absolute carbon usage, including moving our technology infrastructure to the cloud.		Medium
Transition risk: Increase in towns and cities introducing pedestrian zones/Ultra Low Emission Zones ('ULEZs') supported by government scrappage schemes and/or improvements in public transport			
<ul style="list-style-type: none"> Risk: Consumers stop buying ICE vehicles as they no longer require a vehicle. Opportunity: Consumers' desire/need to switch to EV. 	Likely the risk and opportunity would be taken together, and stock/demand would be maintained as the desire for personal transportation/vehicle ownership remains strong. We will continue with our strategy to adapt our marketplace to meet changing preferences for all car buyers and continue to be the largest marketplace for EVs.		Low/Medium

 Minor  Moderate  Major

We intend to periodically review the scenarios and timeframes we choose to apply in our analysis and refine them as needed. The risk management recommendations arising from our climate change scenario analysis were:

- Policy/regulation:** it is likely that increased policy and regulation will have the most significant financial impact on Auto Trader over the longer term. The most significant action we can take is to reduce our exposure to this risk and continue with our strategy to adapt our marketplace to meet the changing preferences of all car buyers. We also need to make sure we continue to remain abreast of regulatory requirements to ensure we are compliant with all relevant reporting obligations.
- Market:** climate change is expected to impact the supply and demand for ICE vehicles and EVs. Auto Trader can mitigate this risk by continuing to develop its strategy to be the destination of choice for consumers searching for a more environmentally friendly vehicle.