

Task Force on Climate-Related Financial Disclosures

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (“TCFD”) to improve and increase reporting of climate-related financial information.

Responding to the TCFD requirements, we aim to continually enhance our disclosures in line with its recommendations and market practice. We also disclose climate-related governance, strategy, risk management and metrics as part of the Carbon Disclosure Project (“CDP”).

The Company is consistent with paragraph 8(a) of Listing Rule 9.8.6R, which requires that listed companies must include in their annual financial report a statement setting out whether the listed company has included climate-related financial disclosures consistent with the TCFD Recommendations and Recommended Disclosures in that financial report.

Governance

The organisation’s governance around climate-related risks and opportunities.

Board

The Board has ultimate responsibility for climate-related risks and opportunities, with day-to-day control in responding to climate-related risks and wider sustainability targets being managed by the Executive Directors. Any amendments to the business strategy or significant changes to day-to-day operations of the business require approval from the Board. In addition, long-term targets and external commitments require Board approval before announcement and becoming part of the ordinary course of business.

The Board receives information on a regular basis covering business performance, health and safety, customer satisfaction and sustainability. Updates also include any technical specification changes, including changes to house designs to comply with building regulations and improve environmental performance.

The Executive Directors, and the Board above certain set limits, has responsibility for the approval of all land purchases. As part of the investment appraisal process, climate-related considerations are presented as part of the approval process and included in the cost plan for the development. These include factors such as land remediation, flood mitigation, biodiversity requirements, landscaping and environmental impact.

Audit Committee

The Audit Committee is responsible for reviewing and approving the content of the annual report including the TCFD, SASB and GHG disclosures. In addition, the Audit Committee reviews and approves the Group’s CDP climate submission, which outlines what we are doing as a Company to address climate-related risks and opportunities.

The Audit Committee are regularly updated with amendments to disclosure requirements on financial reporting and disclosure considerations in respect of climate change.

The Group’s sustainability disclosures, including TCFD and SASB, are reviewed as part of the external audit, the results of which are reported to the Audit Committee.

Sustainability Committee

The Sustainability Committee is responsible for assessing the sustainability aspects of the business strategy and ensuring that the Group’s sustainability targets align. The Sustainability Committee also makes recommendations to the main Board on strategic developments that address sustainability risks and opportunities in particular those relating to climate change.

The Sustainability Committee meets regularly throughout the year to ensure that risks and opportunities are reviewed regularly, emerging risks and opportunities are identified and mitigation plans are being developed.

The Group Sustainability Manager is responsible for maintaining the environmental risk register and reports any updates to the Sustainability Committee as part of the Group’s risk management framework.

The Sustainability Committee monitors performance against sustainability targets and actions and approves the targets and actions used for measuring performance on an annual basis.

Governance

The organisation's governance around climate-related risks and opportunities.

Remuneration Committee

The Remuneration Committee is responsible for determining remuneration policy and targets including how sustainability metrics are taken into consideration when determining incentive pay decisions.

The Committee are involved with setting the targets of the Executive and operational directors throughout the business and, where appropriate, these are linked to performance against sustainability targets and ambitions.

ESG performance indicators are used to measure performance against these targets and subsequently remuneration is awarded in relation to performance against these targets. For more information on how sustainability factors are considered in Executive remuneration, refer to the Annual Report on Remuneration on pages 134 to 147.

Nomination Committee

The Nomination Committee are responsible for ensuring that the Board structure, size and composition (including the skills, knowledge and experience of Board members) is adequate to support the Group in its growth and sustainability ambitions. The Committee consider the risks and opportunities facing the Group, and what skills and expertise are therefore needed on the Board.

During the year, the Nomination Committee appointed James Thomson (former CEO) as Chairman of the Board. James has an in-depth understanding of the sustainability ambitions of the Group as well as the risks and opportunities.

In addition, the Nomination Committee appointed Nicola Bruce as a Non-Executive Director to the Board and Chair of the Remuneration Committee. Nicola has significant experience in the building materials industry and ESG experience across a range of sectors. For more information on the Board of Directors, refer to pages 104 to 105.

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

Climate change has the potential to significantly impact our business strategy through changes in regulation, government policy, stakeholder expectations and the direct effects of climate change such as more frequent adverse weather events, loss of developable land and the impact on biodiversity and the wider natural environment.

Our commitment to align our carbon reduction targets with the SBTi and a 1.5°C climate scenario is reflected in our review of the resilience of the Company's strategy towards climate-related risks. Included within our carbon reduction modelling, we have considered the reliance on the transitional opportunities of emerging technologies, engagement with supply chain and market expectations whilst balancing the risks of emerging regulations and failure to adapt to a low carbon economy. The intention being that despite the transitional challenges that are associated with committing to a carbon reduction target aligned to a 1.5°C scenario, they are likely to be lesser than the potential impact of physical effects of climate change in a 4°C scenario.

During the year, we have used the process of scenario planning to aid our assessment of climate-related risks and opportunities and the potential impact on the Group, its strategy and any financial impacts. Details of the scenarios analysed can be found on pages 80 to 83.

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Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

Risk definitions

When assessing climate-related risks and opportunities we use the following criteria to ensure that the assessment is reflective of the operating activities of the Group.

| Risk term | Impact |
|-------------------------|---|
| Short term: 0-3 years | Low impact: £0.5m |
| Medium term: 4-10 years | Moderate impact: £1.5m |
| Long term: 10+ years | High impact: £10m Catastrophic: £30m |

The risk term is aligned to the majority of climate-related frameworks, in particular the Science Based Targets initiative ("SBTi").

The impact is aligned to the risk assessment methodology used by the Group for all principal and emerging risks as set out in Risk Management on pages 36 to 41.

The Board adopts a low appetite to climate-related risks. This means that it is a priority for the Group to maintain a low level of impact on the environment as a result of its operations balanced with the cost of doing so. The Group invests to ensure there is a robust control framework to maintain a high level of compliance with environmental regulations.

Impact on financial statements

Costs associated with the transition to the latest building regulations including Part L (Conservation of heat and power) have been recorded in the valuation of inventory and subsequently reported within cost of sales. Where a site margin forecast is affected by a change in estimated costs to complete, the impact is recognised across all plots remaining. See note 1 - accounting policies for inventories on page 171 for further details.

A flood risk assessment is performed on all potential sites that are considered for development. The associated costs to mitigate flood risk, where relevant, are included within the site valuation and costs to complete. This is recognised in the forecast site margin and reported within cost of sales as completions are recorded over the life of the site. As the owned land bank within Gleeson Homes covers a period of four years, we have assessed that it is unlikely that the flood risk of these sites will change in this timeframe and therefore no impairment of owned land has been identified.

Within the Gleeson Land division, the land portfolio is more strategic and therefore flood risk can change over a longer period of time as regional flood models are updated including from the effects of climate change. Each site is individually reviewed at a period end based on its planning prospects and viability. Where these have been adversely impacted by a change in flood risk or any other impact, then a provision is recorded to write down the value of inventory in line with the Group's accounting policy.

Going Concern and Viability Statements

In preparing the Annual Report, the Group is required to assess whether there are any material uncertainties over its ability to operate as a going concern (see note 1 - accounting policies for going concern on page 169 for further details). In addition to this, the Group is required to assess the potential impact of the principal risks on the operations of Group over the longer term for disclosure in its viability statement on page 111. To meet these requirements, the Group has sensitised its forecasts to incorporate the potential impacts of its principal risks to a severe but plausible level over the three years to June 2026.

The costs of transition to meet government policy for the Future Homes Standards, biodiversity net gain and the cost of known lower carbon technologies are already incorporated into the Group's budget and plan that is used in the viability assessment. The impact of the climate-related risks identified above, have been considered but would not have a material impact over the viability period on the Group's ability to continue in operation.

Risk Management

How the organisation identifies, assesses, and manages climate-related risks.

The Board has overall responsibility for the Group's management and assessment of risks, supported by the Sustainability and Audit Committees.

The Group risk register is formally reviewed by the Audit Committee at the majority of its meetings, including consideration of emerging risk areas or changes to existing risks. Climate change and sustainability have been identified as principal risks for the Group. Find out more on page 41.

The Group's risk management framework includes a separate environmental risk register, which includes key climate-related and other environmental risks for the business.

The environmental risk register identifies both principal and emerging risks and informs a formal risk assessment process that considers the likelihood and impact of the identified risks together with any mitigating controls that are already in place or planned. This position is reviewed by the Sustainability Committee as part of its bi-annual review of the environmental risk register.

Any changes to risk scores on the environmental risk register are considered in the context of the Group risk register in respect of the principal risks of climate change and sustainability. Proposed changes are reported to the Audit Committee and Board as part of its monitoring of principal and emerging Group level risks.

We determine climate-related risks using our risk management framework outlined on page 36.

Sustainability Committee

The Sustainability Committee met three times in the year and the review of the environmental risk register is a standing agenda item for each meeting.

The Committee members are responsible for reviewing the risks and opportunities identified, along with their inherent risk scores, any mitigating actions and the mitigated risk scores. From this the Committee can direct focus to the mitigating actions against any risks that exceed the risk appetite of the Committee.

The Group Sustainability Manager is responsible for the environmental risk register, which identifies risks covering key climate-related and other environment risks for the business.

During the year, we have supported the Group Sustainability Manager in their IEMA qualification, which includes focus on the identification of emerging climate-related risks and opportunities.

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Key climate-related risks

| Risk | Scenario analysis | Mitigating actions | |
|--|---|--|---|
| <p>Carbon pricing</p> <p>Government legislation designed to encourage industries to take climate action and reduce their carbon footprint by imposing increases on material costs and significantly increasing our cost base.</p> | <p>Potential impact: £10-15m</p> <p>The scenario modelled has used a carbon price between £50-100 per tonne and applied this to projected scope 1 & 2 emissions and embodied scope 3 emissions.</p> | <p>We are developing a carbon reduction strategy that will significantly reduce the embodied carbon of our homes. By committing to a target validated by the SBTi and aligned to the 1.5°C scenario we are able to demonstrate our carbon reduction commitments and mitigate the impacts of carbon pricing.</p> | <p>Risk rating: Medium</p> <p>Transition risk Medium-Long term</p> <p>1.5-2 degrees scenario</p> |
| <p>Changes to building regulations</p> <p>Changes to the specifications of our homes as a result of new government policies can result in high research, design and build costs.</p> | <p>Potential impact: £15-20m</p> <p>The scenario modelled has taken the increase in cost of recent changes in building regulations (including Part F, L, O and S) and extrapolated over forecast unit sales.</p> | <p>Our Group Technical Director sits on the Home Builders Federation (“HBF”) Technical Committee and the Future Homes Hub, and attends all NHBC Building for Tomorrow events to ensure that we are informed about potential amendments to building regulations as well as providing feedback on the challenges these may pose to the industry.</p> | <p>Risk rating: High</p> <p>Transition risk Short-Long term</p> <p>1.5-2 degrees scenario</p> |
| <p>Emerging technologies</p> <p>Our long-term carbon reduction strategy will rely on the development of new technologies and modern methods of construction. In order for these to be viable for our business model, they must be readily available, affordable and have appropriate skilled resources available within the industry.</p> | <p>Potential impact: £15-30m</p> <p>The scenario modelled has taken the increase in cost of identified low carbon alternatives to traditional building materials and applied this to forecast unit sales.</p> | <p>We continuously review the materials used within the design of our homes by engaging with our supply chain and attending conferences specific to the housebuilding industry to identify low carbon alternatives.</p> <p>We review our on-site operations to identify high emitting activities and develop action plans that target emission reductions in these areas. We often trial carbon-saving initiatives on our sites to analyse results before rolling these out as “best practice” across the Group.</p> | <p>Risk rating: Medium</p> <p>Transition risk Medium-Long term</p> <p>1.5-2 degrees scenario</p> |

| Risk | Scenario analysis | Mitigating actions | |
|--|---|--|---|
| <p>Supply chain</p> <p>As we develop our carbon reduction strategy there is a reliance on our supply chain to reduce the embodied carbon of materials and emissions generated from build activities. Failure of our supply chain to decarbonise could potentially result in us not achieving our scope 3 carbon reduction targets.</p> | <p>Potential impact: £15-25m</p> <p>The scenario modelled has taken our current supplier spend split between materials and subcontractors and uplifted this to incorporate the increase in costs for lower carbon materials, fuels and more efficient plant and machinery.</p> | <p>We communicate our carbon reduction plans with our supply chain to identify lower carbon alternatives to our existing build materials, fuel conservation methodologies and waste reduction strategies to reduce our impact on the environment.</p> <p>As part of the supplier onboarding, we request sustainability reports and carbon reduction strategies to be presented so that we can collaborate on identifying more sustainable solutions.</p> <p>Our partnership with the Supply Chain Sustainability School provides us with additional tools to engage with our supply chain and raise awareness of sustainable practices within the construction industry.</p> | <p>Risk rating:</p> <p>Medium</p> <p>Transition risk</p> <p>Medium-Long term</p> <p>1.5-2 degrees scenario</p> |
| <p>Stricter planning requirements</p> <p>Government and local authorities are becoming more stringent in their planning and site infrastructure requirements. This includes requirements around biodiversity net gain on sites, which could result in land opportunities, in particular brownfield sites, which have rewilded, becoming financially unviable.</p> | <p>Potential impact: £10-15m</p> <p>The scenario modelling was performed by reviewing our current pipeline of sites for their estimated biodiversity credit requirements, combined with an average cost per biodiversity credit for forecast site acquisitions.</p> | <p>The process of acquiring land for development includes thorough due diligence to ensure that sites comply with relevant regulations and government policies as well as meeting our internal rates of return.</p> <p>Financial forecasts include the costs associated with complying with planning requirements such as biodiversity net gain, mitigating flood risk and planning specific requirements such as electric vehicle charging points and lower water usage technologies in areas of high water stress.</p> | <p>Risk rating:</p> <p>High</p> <p>Transition risk</p> <p>Medium-Long term</p> <p>1.5-2 degrees scenario</p> |

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Key climate-related risks

| Risk | Scenario analysis | Mitigating actions | |
|---|---|--|---|
| <p>More frequent adverse weather events</p> <p>Disruption to build activities on our sites as a result of more frequent adverse weather events including heat, cold, rain and storm damage has the potential to become unsafe, cause damage to construction sites and slow our growth plans.</p> | <p>Potential impact: £15-25m</p> <p>The scenario modelled assumes adverse weather events to become more frequent, the cost of build disruption to increase as a result of more storm damage and considers the delay in house sales and other associated costs.</p> | <p>During periods of severe weather, communications are sent to site warning of potential risks and to follow company procedures for adverse weather events.</p> <p>Equipment and temporary structures are checked to ensure they are secure and stored effectively to prevent any damage.</p> <p>Where weather is extreme, sites may be closed until the site returns to suitable working conditions.</p> <p>In instances of extreme rainfall, mitigation procedures are followed to ensure compliance with environmental regulation such as water run-off and its impact on the local environment.</p> | <p>Risk rating:</p> <p>Medium</p> <p>Physical risk</p> <p>Medium-Long term</p> <p>4 degrees scenario</p> |

Key climate-related opportunities

| Opportunity | Opportunity category | Timeframe | Actions |
|--|--------------------------------------|--------------------------|---|
| <p>Energy-efficient homes</p> <p>Due to the high thermal efficiency of our homes we are able to ensure that the running costs of our homes remain affordable for our customers.</p> <p>The energy performance of our homes also enables our customers to qualify for green mortgages, which may offer lower interest rates.</p> | <p>Transition opportunity</p> | <p>Short term</p> | <p>We communicate with our customers the benefits of buying an energy-efficient new build home.</p> <p>We are able to compare the typical energy usage of our homes based on actual energy consumption data and compare this against the typical usage for existing housing stock to show potential energy savings.</p> <p>We communicate with our customers to explain how their new home can support them living a sustainable lifestyle.</p> |

| Opportunity | Opportunity category | Timeframe | Actions |
|--|-------------------------------|-------------------------------|---|
| <p>New technologies</p> <p>We regularly review the specification of our homes to ensure that our product offering meets the needs of our customers.</p> <p>This enables us to ensure that the latest technologies are built into our homes so that our customers benefit from living in a stylish, modern home.</p> | Transition opportunity | Short-Medium-Long term | <p>We continuously review the materials used within the design of our homes by engaging with our supply chain and attending conferences specific to the housebuilding industry to identify new technologies that can support our customers in living a sustainable lifestyle.</p> <p>We review the specification of our homes and optional extras on a regular basis so that our customers can tailor their home to their needs.</p> |
| <p>Supply chain</p> <p>By engaging with our supply chain to align sustainability strategies there is the opportunity to unlock benefits for both us and our supply chain in reducing operational costs as well as carbon emissions.</p> | Transition opportunity | Short-Medium-Long term | <p>We communicate our carbon reduction plans with our supply chain to identify lower carbon alternatives to our existing build materials, fuel conservation methodologies and waste reduction strategies to reduce our impact on the environment.</p> <p>As part of supplier onboarding, we request sustainability reports and carbon reduction strategies to be presented so we can collaborate on identifying more sustainable solutions.</p> <p>Our partnership with the Supply Chain Sustainability School provides us with additional tools to engage with our supply chain and raise awareness of sustainable practices within the construction industry.</p> |
| <p>Sustainability linked loans</p> <p>As sustainability linked finance is becoming more readily available, there may be an opportunity for us to benefit from lower finance costs based on our sustainability performance.</p> | Transition Opportunity | Short-Medium term | <p>As we develop our long-term carbon reduction targets and have these validated by the Science Based Target initiative it will provide opportunity to obtain loans linked to sustainability covenants.</p> |

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Key climate-related opportunities

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Carbon emissions

The Group's main climate-related performance metric is measured by reference to a short-term carbon intensity target. In 2020, we set a target of reducing our scope 1 and 2 emissions by 20% per home sold within three years. This would have resulted in a carbon intensity of less than 2.0 tonnes of CO₂e per home sold. Due to the significant progress made during 2021, we increased our carbon reduction target from 20% (2.0 tonnes of CO₂e) to 30% (1.75 tonnes of CO₂e) by the end of 2023.

This year we failed to meet this intensity measure as a result of homes sales volume being significantly below the level originally anticipated when the target was set. As a business, we have maintained the build rates on our sites to ensure that the business is best placed to deliver high-quality, affordable homes when the market returns. As a result, our carbon emissions have been higher relative to the number of homes sold this year. Had we sold the number of homes originally forecast this year, then we would have met the intensity target of 1.75 tonnes of CO₂e per home sold.

Despite not achieving this short-term target, our commitment towards reducing carbon emissions continues to be a priority for the business. We have submitted our letter of commitment to the Science Based Targets initiative, pledging our commitment to set carbon reduction targets aligned to the 1.5°C scenario within two years. The targets will cover both near-term and longer-term targets, setting a clearly defined route to a net zero carbon ambition.

During this time we will continue to develop our carbon reduction strategy, identifying further opportunities to reduce carbon emissions within our operations and engaging with our supply chain to reduce the embodied emissions in our homes and from our homes in use.

For more information on our carbon emissions, targets and strategy refer to pages 60 to 65.

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Other climate-related metrics and targets

Of revenues generated by our Homes' division, 95% are related to climate-related opportunities, through the completion of high-quality, energy-efficient housing achieving EPC ratings of A or B. As we transition to the Future Homes Standards, in particular the installation of air source heat pumps, our homes will be fully electrified and therefore Net Zero ready.

Of our owned sites, 45% are considered to be brownfield (redevelopment sites) which transforms derelict/abandoned space into much needed affordable housing. By having a preference towards brownfield land, we are able to repurpose land often contaminated by its previous use, into a space that creates economic and social value for local communities.

Of our homes, 37% are in areas of severe water stress. Our homes are designed to achieve an internal water use of less than 110 litres per person per day, 12% lower than the maximum allowance currently specified by building regulations, reducing the impact our developments have on local natural resources. We are working to incorporate further efficiencies into our homes to reduce this to less than 100 litres per person per day.

Of our homes, 14% are in flood zone 3 areas and are considered to be "vulnerable" to flooding. As part of our planning process, we incorporate flood resilience measures and sustainable drainage systems ("SuDS") into our site design as needed to mitigate flood risk. The costs of implementing these solutions are included in the forecast site margin and reported within cost of sales as completions are recorded over the life of the site.

Of construction waste, 99% is diverted away from landfill. During the year, we engaged with our waste providers with the aim to improve segregation of waste materials on sites and improve our diversion from landfill and recycle rate whilst limiting the conversion to energy. In addition to this, we rolled out a training programme through the Supply Chain Sustainability School to educate site managers and subcontractors on the importance of following waste management procedures.

In our homes and on our developments, 99.9% of timber is sourced from PEFC or FSC accredited sources.

Of our site fuel usage for plant and machinery, 7% used Hydrotreated Vegetable Oil ("HVO") as a low carbon alternative to regular diesel, this enabled us to reduce our carbon emissions by 169 tonnes of CO₂e. We continue to procure HVO fuel as an alternative to diesel where it is commercially viable for our sites.