ACCOUNTING FOR SUSTAINABILITY

ALIGNING TRANSITION PLANNING AND FINANCIAL PLANNING

A GUIDE FOR FINANCE TEAMS

BY THE A4S NET ZERO TASKFORCE

EXECUTIVE SUMMARY

ALIGNING FINANCIAL PLANNING AND TRANSITION PLANNING

Transition planning is essential for organizations to understand the consequences of both action and inaction in the transition to a net zero and climate-resilient economy. Financial planning turns that ambition into action. CFOs must lead the shift from siloed, growth-focused financial planning to an integrated approach that embeds decarbonization, risk management, and value chain and cross-sector collaboration into core processes. This means bringing net zero and climate resilience into the financial planning cycle, using practical steps, tools and cross-functional engagement to close the gap between ambition and delivery. This guide is directed at CFOs to summarize practical actions that finance teams should take to move towards an integrated approach. It is informed by the A4S Aligning financial planning and transition planning guide.

WHY DOES IT MATTER?

- Unprecedented risks and opportunities will arise
- Strategies need to look beyond short-term profitability to ensure resilience
- Fundamental changes to business models may be required to ensure long-term viability

WHAT DO CFOs NEED TO DO?

- Assess the costs and benefits of climate transition plans
- Identify funding needs early
- Prioritize action and integrate transition planning across teams, business units and regions

IMPACT OF INACTION

- Inability to keep pace with evolving regulation and investor and customer expectations
- Under-estimation of transition costs and delayed action
- Misallocation of resources

CONSIDER THE DIFFERENCE BETWEEN THE FINANCIAL PLAN AND THE TRANSITION PLAN

A business plan and a transition plan serve different aims. One is designed to drive financial growth, the other to drive decarbonization and climate resilience. When business plans and transition plans evolve separately from each other, financial assumptions can reinforce high-carbon pathways and under-estimate the costs or benefits of the transition. Transition plans may not consider planned expansions into new regions or acquisitions that will likely increase emissions. This misalignment results in two separate strategies that do not have the same objectives. In your role as CFO you can ensure that financial planning reflects the true costs, savings, risks and opportunities of the transition, embedding climate considerations into the heart of strategy and decision making.

Top tips for your team

- Prioritize areas of greatest financial and climate significance as your focus
- Use emissions forecasting to model the carbon trajectory of your current business plan, which may not fully integrate the transition plan (Figure 1)
- Assess the costs and savings of the transition plan over the short, medium and long term, including the cost of inaction and the potential savings from decarbonization and resilience investments, to build a picture of funding needs
- Incorporate both transition and physical climate-related risks into business plans, considering exposure and required mitigations
- Use scenario analysis and sensitivity analysis to explore financial impacts under different transition pathways (eg orderly versus disorderly)
- Include value chain and cross-sector considerations, eg suppliers’ readiness and their potential need for financial or non-financial support

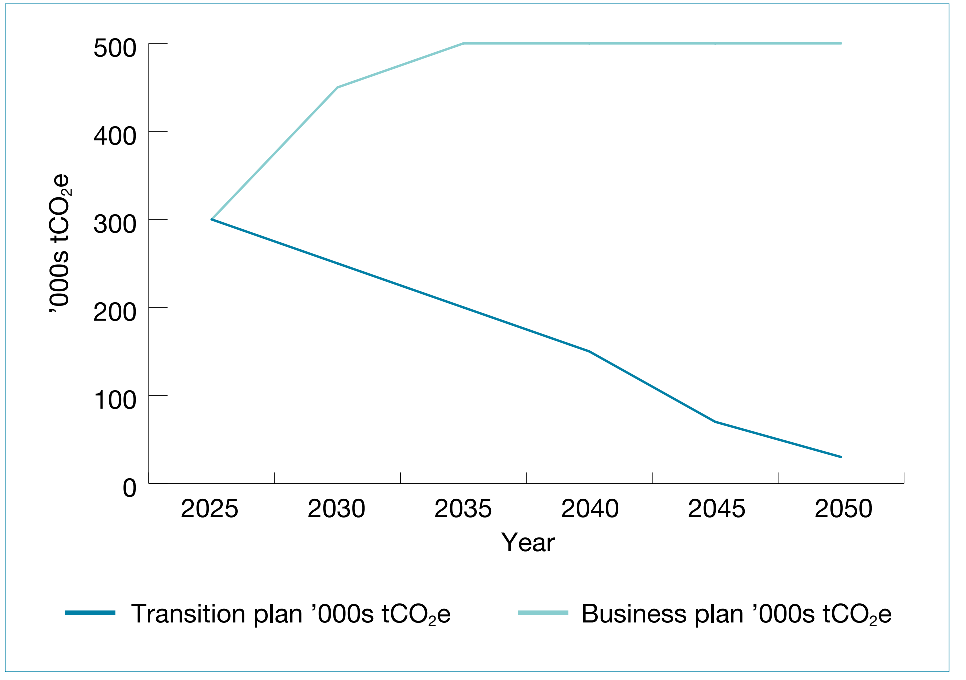

Figure 1: Compare forecasted emissions from your current business plan with your net zero targets. This helps to understand the difference between the two and highlights where better integration is required.

CONSIDER TRANSITION PLAN SEQUENCING USING A FINANCIAL LENS

Once you understand transition actions and their financial implications, they need to be sequenced across medium- to longer-term horizons to guide delivery and investment planning. The sustainability team may have drafted this sequencing, but it may not yet reflect financial feasibility, dependencies or funding constraints. The finance team should review and collaborate to refine this sequencing through a financial lens to ensure prioritization of actions that are achievable, impactful and aligned with wider strategic goals. Prioritization criteria can be used to support this step, such as:

- Financial returns
- Availability of finance
- Resource requirements (eg financial/personnel)
- Alignment with strategic objectives
- Impacts, risks and opportunities mitigated or realized
- Emissions reductions and abatement potential
- Feasibility constraints

Categorizing transition activities in line with the criteria set out below can provide clarity on the rationale for prioritization.

Categorization of transition actions and initiatives			
Quick wins	**Must haves**	**Extra enablement required**	**Co-benefit bringers**
Actions that are easy to make the case for and that align with traditional methods for determining value creation, such as short-term financial return	Actions essential for protecting business operations or meeting regulatory and transition planning requirements, which may not have short-term financial return but which must be prioritized in the next planning cycle	Levers for change identified in the transition plan which are not currently feasible due to regulation, lack of appropriate finance, value chain limitations or dependencies on cross-sector developments	Actions supported by a robust business case when considering the range of prioritized criteria (such as positive environmental and social outcomes) or medium- to longer-term financial return

CFOs will also need to determine how transition actions will be financed, for example through internal capital reallocation, sustainable finance instruments (eg green bonds or sustainability-linked loans), or collaborative investment with suppliers or customers. With many organizations seeking to address similar challenges, CFOs should consider how shared investment and associated financial returns could accelerate cross-sector decarbonization and climate resilience.

Top tips for your team

- Stage actions to balance cost, return and delivery capacity over time
- Use tools such as marginal abatement cost curves (MACCs) to compare cost-effectiveness and emissions impact
- Highlight dependencies that affect timing or resource needs and consider how these will be financed over the medium to long term
- Broaden your approach to financing (eg consider collaboration, shared investment, government grants etc.)

EMBED NEAR-TERM ACTIONS INTO THE THREE-TO-FIVE-YEAR FINANCIAL PLANNING PROCESS

Near-term transition actions should be fully integrated into financial planning to align the transition plan with the business plan. This often requires close coordination between the central finance team and business units,[1] building on existing sustainability or operational work. By embedding these actions, you ensure that resources are allocated where they drive both financial performance and transition progress. Integration creates a single, coherent plan that strengthens accountability for transition success across teams. Figure 2 sets out a financial planning process amended to incorporate transition planning.

Top tips for your team

- Engage business units early, to align assumptions and data and to provide support
- Use existing communication structures from sustainability teams as a foundation for engagement
- Explore the A4S Aligning financial planning and transition planning guide for tools and resources to support this step, found on pages 45–48

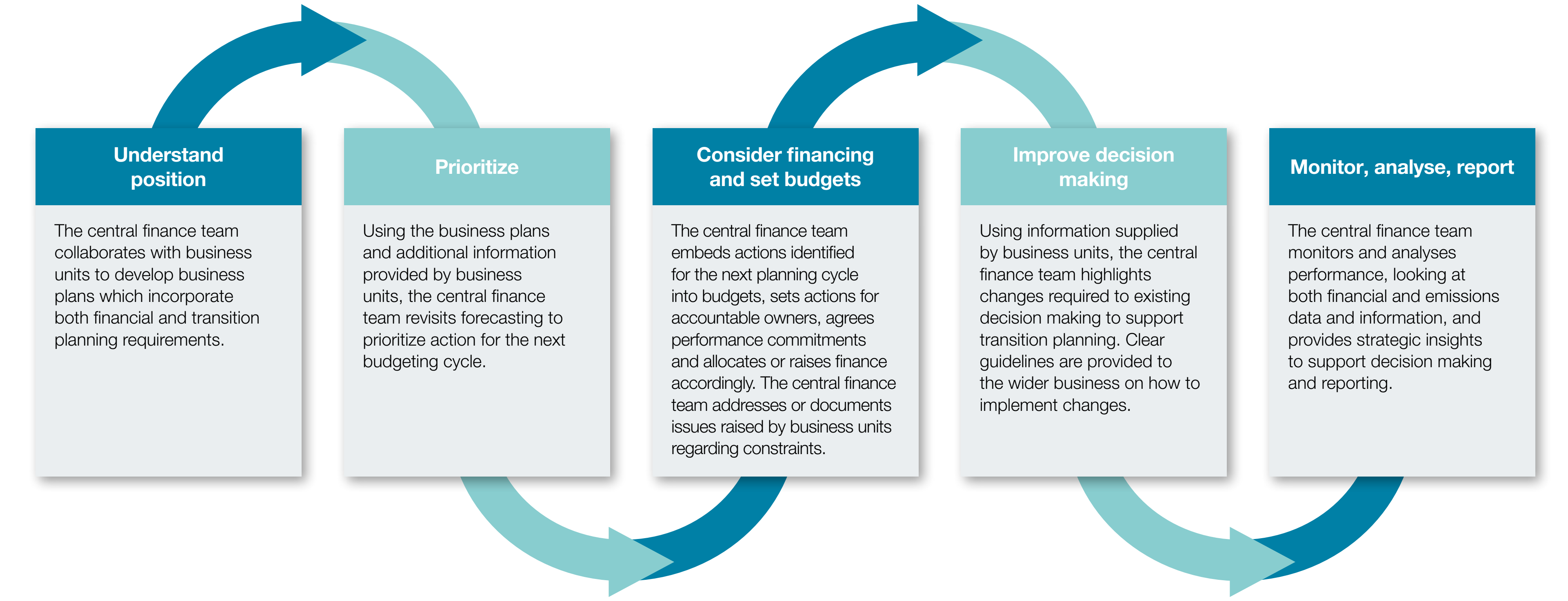

Figure 2: Embedding transition planning in the three-to-five-year financial planning process

1. A central finance team may not hold responsibility for financial planning in all organizations, and you will need to modify the guidance to suit your own approach.

IMPROVE DECISION MAKING

Decision making often prioritizes short-term financial gain over long-term value creation, net zero progress or climate resilience. If they do not integrate transition factors, investment and operational choices can undermine strategic goals and expose the business to future risks. CFOs should ensure that the governance structure enables transition considerations to be embedded in board- and executive-level decision making, especially within capital allocation and investment committees. Finance teams should identify where misalignment exists and establish systems and processes to ensure that all major decisions consider transition impacts, costs, savings, risks and opportunities. This could involve integrating shadow carbon pricing, lifetime cost assessment and stranded asset[2] analysis into decision-making frameworks. Embedding transition considerations into governance and financial processes supports balanced, forward-looking decisions that deliver sustainable returns. A process for amending decision making can be seen in Figure 3.

Top tips for your team

- Review decision points where short-term incentives dominate, such as procurement decisions
- Incorporate transition considerations into decision making (eg using lifetime costs, shadow pricing, benefits and impairments, and broader strategic benefits for nature and people)
- Use pilots to assess what works, and track outcomes to demonstrate how transition-aligned decisions add value
- Strengthen governance oversight to ensure consistent application

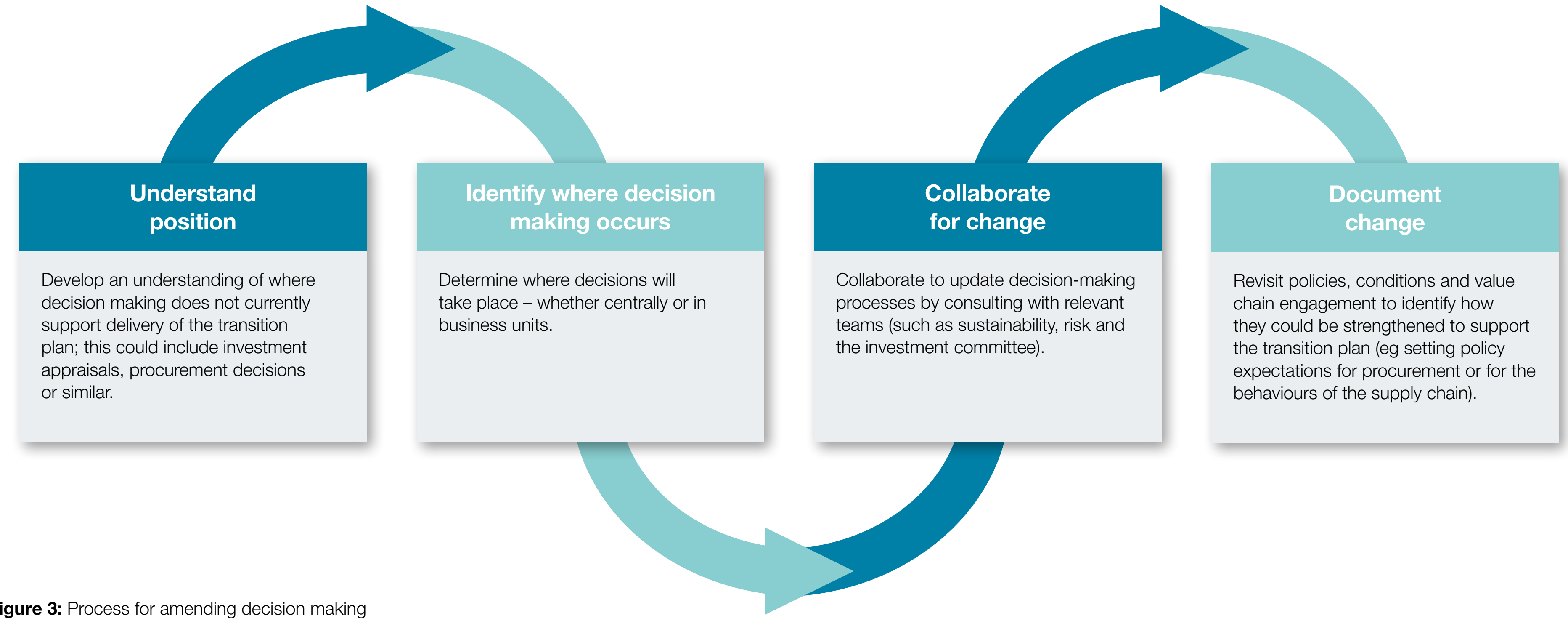

Figure 3: Process for amending decision making

2. A 'stranded asset' arises when changes in market perceptions and behaviour, demand for certain kinds of assets, or non-compliance with changing legislation result in a premature write-down in asset value or early obsolescence.

MONITOR, ANALYSE AND REPORT

Aligning transition planning and financial planning is an iterative process, but its success depends on having useful data and management information that give decision makers insight into progress. While most organizations have strong financial reporting systems, emissions and transition data and reporting may be less mature. CFOs should support capability building across finance and sustainability teams to strengthen data governance, building on existing systems to integrate financial and sustainability data into a single view. Integrated data supports better informed decisions and strengthens external reporting across investor frameworks and regulatory requirements. For external reporting, CFOs must balance transparency with flexibility, providing credible and sufficient information while allowing for unforeseen developments that may require a change in course. Use recognized standards and associated guidance, such as the IFRS Sustainability Disclosure Standards, the European Sustainability Reporting Standards (ESRS) and the Global Reporting Initiative (GRI) Standards, to support external reporting.

Top tips for your team

- Assess existing data systems and identify where climate and finance data can connect
- Develop integrated dashboards and visual tools showing financial and emissions progress together; see Figure 4 for an example
- Consider a range of additional KPIs aside from emissions reporting which can be used to track progress
- Ensure reporting meets investor and regulatory expectations and use visual tools to simplify communications

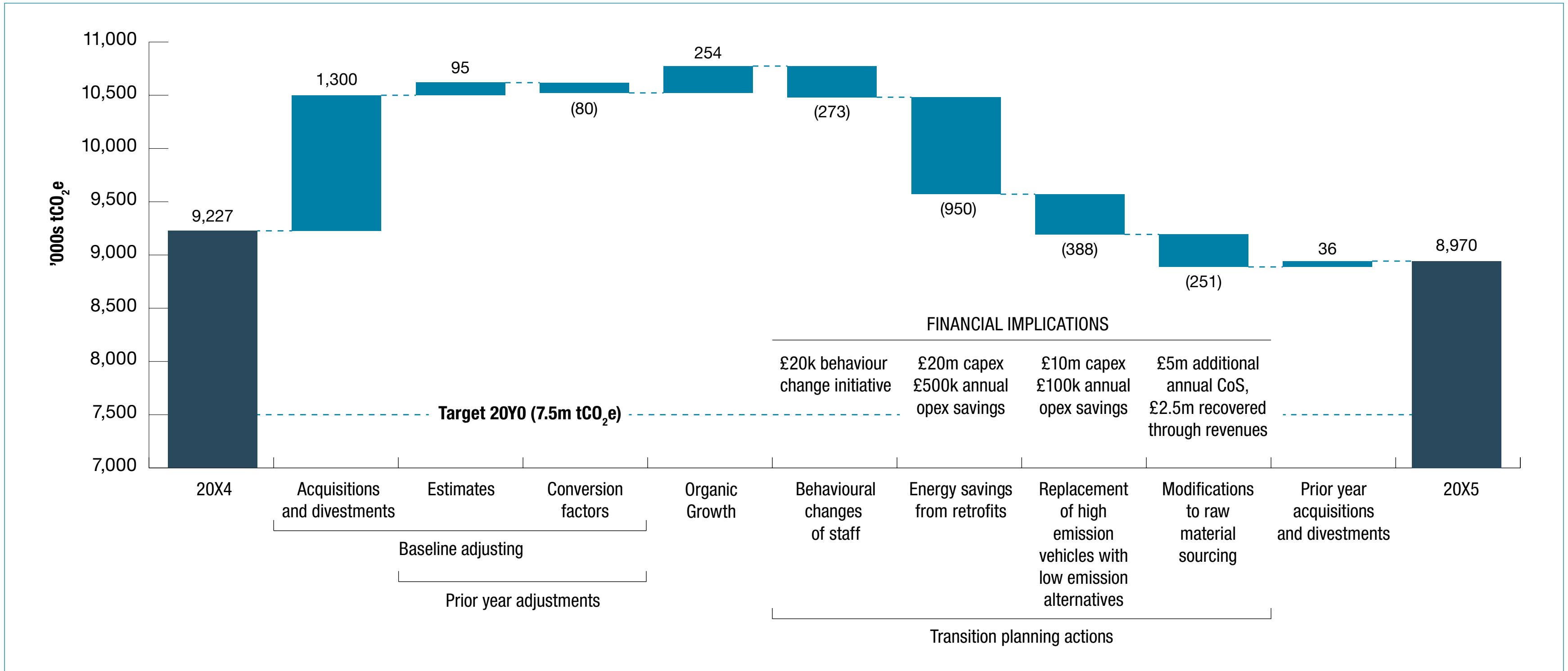

Figure 4: Visual tools to set out emissions and financial impacts (source: based on illustrative figures from Typico plc's 2009 Greenhouse Gas Emissions Report)