

Dow Inc.
USA, Chemicals

Accounting		Climate Assumptions		Audit		Date of analysis: Mar. 15, 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in KAMs	Consistency check	Year end: Dec. 31, 2020 Report date: Feb. 5, 2021 AGM: Apr. 15, 2021
Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Climate Action 100+ company , so seen by investors as key to driving global net zero emissions.
<p>Summary view:</p> <ul style="list-style-type: none"> The company's main raw materials are largely hydrocarbon-based, however it has committed to the goal of becoming carbon-neutral by 2050, with interim goals at 2025 and 2030. The consequences of steps that will be needed to achieve the goals have no visibility in the financial statements, nor is any statement made that such reassessments are in progress. The climate and carbon-related assumptions currently used are not disclosed by the company or noted by the auditor. 						

Background

The Business.

- Following the merger of Dow Chemical and E. I. du Pont de Nemours to establish DowDuPont Inc., Dow Inc. was formed as the holding company for the materials science business; agricultural sciences and special products groups were distributed to DowDuPont.
- Dow produces a range of plastics, industrial intermediates, coatings and silicones. These have in common a largely hydrocarbon-based raw material stream, including natural gas liquids from shale gas and crude oil production, and naphtha from crude oil processing and refining.
- In April, the company's credit rating was downgraded by S&P in light of the global impact of COVID-19 and lower oil prices, and Fitch changed the outlook to negative from stable.

Approach to climate change.

- The company has set (in 2015) a number of goals that relate to climate change, including a:
 - 2025 target of holding absolute greenhouse gas emissions to a 2006 baseline;
 - 2030 goal to reduce net annual carbon emissions by 15% from a 2020 baseline; and
 - To be carbon neutral by 2050, in alignment with the Paris Agreement.
- The 10-K refers to an action plan to achieve carbon neutrality, listing general areas for steps to be taken, but providing no details. Carbon pricing is said to be incorporated into business planning and risk management strategies, but no price information is disclosed.
- The MD&A indicates active monitoring of potential financial impacts from the COVID-19 pandemic and oil price volatility, including: financial health of customers; liquidity; recoverability of assets; and ongoing appropriateness of estimates.
- More sustainable products are identified as both a risk and an opportunity. The strategy includes keeping materials in use to reduce emissions and plastic pollution. By 2030 Dow plans for one million metric tons of plastic to be collected, reused or recycled, and by 2035 for 100% of products sold into packaging applications to be reusable or recyclable.
- Climate change is listed under legal and regulatory risks. Plans to mitigate direct costs of carbon pricing mechanisms under existing regulation include R&D projects to increase energy efficiency and capital investment to lower energy usage and the carbon footprint.
- Physical risks include facilities, particularly on the U.S. Gulf Coast, being susceptible to hurricanes. These have been engineered to better withstand severe weather and rising sea levels and the company continues to study the long-term implications of changing climate.

Accounting: judgements and consistency with other reporting

Accounting judgements		Significant concerns
<ul style="list-style-type: none"> There is no explicit reference to climate change in the notes to the US GAAP financials. It is not apparent that any consideration of climate has been built into the numbers. Useful lives of PP&E vary from 0-50 years (77% being machinery & equipment at 3-25 years). 2020 depreciation roughly implies average lives of 25 years, and 9 remaining. For intangible assets (other than goodwill), implied lives are 15 years with 7 remaining. Asset retirement obligations (AROs) of \$1.2bn are accrued, related to assets for which there are demolition plans. Other assets are assumed to be operating normally, with no shortening of useful lives and no ARO, in the absence of a timeframe for present value calculations. Goodwill impairment testing takes account of long-term hydrocarbon and energy prices, given strong correlation of profits with energy prices. Specific assumptions are not disclosed. 		

Consistency with other reporting		Significant concerns
<ul style="list-style-type: none"> The generality of commitments and plans disclosed in other reporting does not yet lend itself to specific references or disclosures in financial reporting. Increasing disclosure would be expected of associated investments in R&D and CAPEX, as well as considerations of asset lives, retirement obligations, etc. as steps are taken to implement strategies and commitments. The Sustainability Report is prepared in accordance with GRI Standards: Comprehensive option. Dow has committed to implementing TCFD recommendations in the next two years. 		

Climate assumptions: visibility and Paris alignment

Visibility of climate assumptions		Significant concerns
<ul style="list-style-type: none"> There are no disclosed climate-related assumptions. There is thus no sensitivity analysis. 		

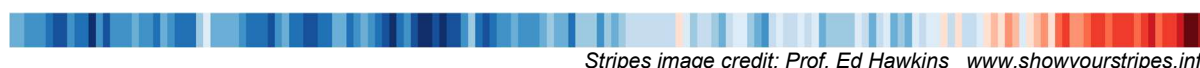
Paris alignment		Significant concerns
<ul style="list-style-type: none"> With no visibility, there can be no alignment of assumptions with the goals of Paris. 		





Audit: visibility in CAMs and consistency check

Audit firm: Deloitte & Touche LLP	Responsible partner: Thomas Nathan Walker
Audit standards: US standards (PCAOB)	

Visibility in Critical Audit Matters		Significant concerns
<ul style="list-style-type: none"> There is no explicit reference to climate change in the auditor's report. The auditor identifies only one Critical Audit Matter, the annual assessment of goodwill for impairment. Substantial negative impacts of COVID-19 on the Company's operations and margin compression caused by lower global energy prices are noted, but there is no detail of the specific climate-related assumptions made in concluding that there was no impairment. Assistance of fair value specialists is referenced, but not climate expertise. 		

Consistency check		Significant concerns
<ul style="list-style-type: none"> The auditor makes no mention of procedures to ascertain consistency of other information included in the 10-K. As such a check is required by PCAOB standards, this implies that no material inconsistency was identified, but it is not possible to assess this or the procedures undertaken, from what is stated. Note also concerns over consistency of reporting (above). The 2021 Proxy makes no mention of climate change considerations by the Audit Committee. 		



The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.	Key
	 Good practice
	 Few concerns
	 Some concerns
	 Significant concerns

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