



## TCFD INDEX

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# Climate Change

We identify climate change as a risk to our business, not to mention the planet as a whole. By making the problem of climate change a key driver in long term strategic decision-making, we will do our part to fight this problem, creating long term value opportunities in the process. We became a supporter of the Taskforce on Climate-related Financial Disclosures (TCFD) in 2018 and our discussion of our climate change risks and opportunities will follow that framework. We have chosen to follow the TCFD framework because we believe it is the most robust climate change disclosure framework available and will help us define the climate change impacts that will be material to our business. We are proud that our resilience programs earned a perfect score on the 2018 GRESB Resilience module, which indicates that we have a strong foundation to further grow our climate change resilience programs. Our TCFD index can be found on page 22.

## GOVERNANCE

Climate-related risks and opportunities are governed by the Board through the Corporate Social Responsibility and Sustainability Committee. In 2018, the Committee endorsed the TCFD recommendations and tasked management with assessing and reporting against climate related risk for the Company (more information on the Board Committee on page 102). The management team that will be executing those tasks includes representatives from sustainability, risk management, security, asset management and engineering.

## STRATEGIES: RISKS AND OPPORTUNITIES

Anticipated climate change impacts and opportunities include the following:

### 1. Higher costs for energy and water

- We manage rising costs for energy and water through our efficiency programs to protect our tenants, but it is possible that as a result of climate change these costs could increase faster than we can reduce our energy and water use. In particular, California has recently experienced an intense drought, and despite recent increases in precipitation we anticipate severe pricing signals around water use in the short term.
- While we believe we will remain an attractive landlord in comparison to other West Coast landlords, tenants could decide to leave our area entirely for parts of the country where utility costs are lower. To mitigate this risk, we focus on initiatives designed to decrease energy and water costs in our buildings.
- In addition, climate change may cause changes in building energy consumption patterns leading to increased peak demand costs. Our demand response and battery storage initiatives are in place to help mitigate this risk. Similarly, utilities will increasingly change our rate structures to dynamic pricing structures and our ability to shed load on an immediate as-needed basis will help with this risk as well.

### 2. Increased environmental regulation

- We believe we are ahead of our peers in anticipating new energy regulations; for example, because we were prepared, complying with AB 802 was less burdensome for us than certain competitors. We have successfully and proactively influenced new environmental regulation such as the Los Angeles Existing Buildings Energy and Water Efficiency Ordinance and a similar proposed ordinance in Santa Monica. Increased regulation could, however, result in increased costs that motivate some tenants to leave California entirely.
- We do not currently anticipate that the office real estate industry will be regulated by carbon legislation in the short term, though the effects of this legislation on other industries may indirectly affect us through higher energy costs, higher raw materials cost and increased tenant demand for sustainable properties. The increased focus on emissions is why we verify and disclose our Scope 1 and 2 emissions both in this report and to a variety of disclosure platforms such as GRESB, CDP and DJSI and why we committed to establishing carbon neutral operations by the end of 2020 (more information page 29).
- There may be increased government incentives for energy and water conservation and we are well positioned to continue to take advantage of these opportunities.

### 3. Higher costs and more regulation in our supply chain

- Sourcing materials for our buildings could become increasingly expensive and there could be disruptions to the supply chains of our building materials, potentially extending construction times or preventing us from delivering buildings on time. Population migration resulting from climate change could prevent us from being able to source the labor needed to develop and operate our properties.
- Climate change could impact or stress services on which we rely, such as the energy grid, making it more difficult to operate our properties.
- Also, there could be increased permitting restrictions around new construction, potentially around water use or renewables.
- We have experienced development and asset management teams who will be able to mitigate these increases as much as possible. In addition, by committing to sustainable building, we have experienced expedited approvals and community support. Our battery installations can be retrofitted to take buildings off the grid if its reliability becomes compromised.

### 4. Community Impacts

- The communities in which we operate could become increasingly stressed as a result of climate change, disrupting transportation, basic services and the ability of our tenants and employees to maintain current strong levels of productivity. The Building Resilience LA primer will help us preserve business continuity under more strained community conditions.

### 5. Business Impacts

- Because we are so proactive on managing climate change risks, we are able to leverage those efforts by obtaining competitive insurance premiums for our buildings.
- By addressing customer and community sustainability objectives, we can be more successful in our development efforts and win more business.
- Being proactive in our community on sustainability via articles, industry forums and interviews also protects our reputation in our industry.
- We consider the risk of non-delivery of design performance in occupied buildings from climate change to be minimal.
- Because we recognize that as a result of climate change our stakeholders are asking for increased transparency, we have expanded our voluntary disclosure efforts, such as by including more sustainability content in the 10-K aligned with SASB and TCFD and disclosing to the Dow Jones Sustainability Indices in 2017 and 2018.

## 2018 GHG PERFORMANCE

Office	Absolute Consumption <sup>2</sup>				Like-for-Like Consumption		
	2017	2018			2017	2018	
	Emissions (Tonnes)	Emissions (Tonnes)	Data Coverage (sf)	Max Coverage (sf)	Emissions (Tonnes)	Emissions (Tonnes)	Like-for-Like Change (%)
Scope 1 <sup>3</sup>	3,647	3,493	9,562,939	9,672,969	3,447	3,367	-2.31%
Scope 2 (Location-Based) <sup>4</sup>	32,335	29,095	9,562,939	9,672,969	29,031	27,224	-6.23%
Scope 2 (Market-Based) <sup>5</sup>	31,565	26,328	9,984,537	10,094,567	28,262	24,456	-13.47%

Life Sciences	Absolute Consumption				Like-for-Like Consumption		
	2017	2018			2017	2018	
	Emissions (Tonnes)	Emissions (Tonnes)	Data Coverage (sf)	Max Coverage (sf)	Emissions (Tonnes)	Emissions (Tonnes)	Like-for-Like Change (%)
Scope 1	472	415	421,598	421,598	472	415	-12.17%
Scope 2 (Location-Based)	4,170	4,112	421,598	421,598	4,170	4,112	-1.39%
Scope 2 (Market-Based)	4,170	4,112	421,598	421,598	4,170	4,112	-1.39%

Whole Portfolio	Absolute Consumption				Like-for-Like Consumption		
	2017	2018			2017	2018	
	Emissions (Tonnes)	Emissions (Tonnes)	Data Coverage (sf)	Max Coverage (sf)	Emissions (Tonnes)	Emissions (Tonnes)	Like-for-Like Change (%)
Scope 1	4,120	3,908	9,984,537	10,094,567	3,919	3,782	-3.50%
Scope 2 (Location-Based)	36,504	33,207	9,984,537	10,094,567	33,201	31,336	-5.62%
Scope 2 (Market-Based)	35,735	30,439	9,984,537	10,094,567	32,431	28,568	-11.91%

<sup>2</sup>The absolute portfolio includes all buildings owned for any portion of 1/1/2018-12/31/2018. These assets total 15,410,293 square feet. Of these assets, 62.9% are directly managed office assets and 23.3% are indirectly managed office assets. The remaining 14.0% are life science assets, of which 19.6% are directly managed and 80.4% are indirectly managed. Buildings are excluded from the like for like portfolio if they were bought or sold within the current or previous reporting period, or stabilized in the reporting period.

<sup>3</sup>Scope 1 emissions are related to the natural gas consumption of our directly managed properties. Scope 2 emissions are related to the electricity consumption of our directly managed properties. The energy consumption of our indirectly managed properties is part of our Scope 3 emissions, which are not included in this report.

<sup>4</sup>We utilize the EPA guidelines, via Energy Star Portfolio Manager's Reporting tool, to generate location-based Scope 1 and Scope 2 emissions data. Full details on how Portfolio Manager calculates greenhouse gas emissions can be found here: <https://www.energystar.gov/buildings/facility-owners-and-managers/existing-buildings/useportfolio-manager/understand-metrics/how>.

<sup>5</sup>We calculate market-based GHG emissions by subtracting the following from our scope 2 location-based emissions: 1) the emissions of any directly-managed building enrolled in a Green-e certified utility program providing a higher proportion of renewable energy and 2) the value of any Green-e certified Renewable Energy Certificates purchased in the reporting year. Green-e® certified renewable energy and carbon offset products meet the most stringent environmental and consumer protection standards in North America. More information is available at [www.green-e.org](http://www.green-e.org).

## RISK MANAGEMENT

Climate change risks and opportunities include policy, market, technology and reputational concerns and are a focus area for the Board and management. We manage these risks in each stage of the building cycle:

<b>ACQUISITIONS</b>	We conduct deep due diligence during the acquisition phase which includes building resiliency, energy and water consumption, building safety and materials, social impacts on the local community, certifications, environmental regulations and risk of disasters such as earthquakes and flooding. This can involve Phase I environmental studies, structural evaluation and property condition reports.
<b>DEVELOPMENT</b>	We have longstanding expertise in planning for seismic events by incorporating seismic gas shutoff valves, increased sprinkler seismic bracing and locking sprinkler valves in the open position for relevant projects. We are currently exploring a range of mitigation strategies to cope with potential sea level rise. This includes putting important equipment on risers or relocating it from basements entirely.
<b>OPERATIONS</b>	All of our buildings have Emergency Response Plans that outline a building's response to particular emergency scenarios that incorporate extreme weather due to climate change. We also use a mobile-enabled system to quickly communicate to employees and tenants in the event of an emergency. In addition, though we have no property in a FEMA floodplain, we have benchmarked our buildings for their flood risk under a 10 foot sea level rise scenario, which we believe to be a reasonable result of current 100 year climate change projections. A significant portion of our portfolio would be impacted under this 100 year scenario and our Emergency Response Plans also address flooding risk. In addition, we conduct energy risk assessments through ASHRAE Level II energy audits and retrocommissioning studies.
<b>METRICS AND TARGETS</b>	We follow the WRI/WBSCD GHG Protocol in developing and reporting our Scope 1 and 2 emissions inventory. We report both location-based and market-based scope 2 emissions. Our reported emissions are independently assured by DNV GL. Further, both our emissions and our targets for reductions were validated by Science Based Targets in 2018. <sup>6</sup> Recognizing the importance of reducing the Company's greenhouse gas impact on the environment, we have committed to establishing carbon neutral operations by December 31, 2020. More information on this announcement below. For scopes 1 and 2, this exceeds our carbon reduction goals previously validated by Science Based Targets, which was a 72% reduction across scopes 1, 2 and 3 by 2050. We anticipate that approximately 25% of this reduction will be created through the use of renewables and the remainder through other carbon reduction activities.

<sup>6</sup> Science Based Targets is a collaboration between the Carbon Disclosure Project, the United Nations Global Compact, the World Resources Institute and the World Wide Fund for Nature, which independently assesses and approves the carbon reduction goals of companies.



JOHN KILROY MAKES CARBON NEUTRAL OPERATIONS ANNOUNCEMENT AT THE GLOBAL CLIMATE ACTION SUMMIT

### Carbon Neutral Operations Commitment

We announced at the Global Climate Action Summit (GCAS) that we commit to establishing carbon neutral operations by year end 2020. GCAS brought together the world's climate leaders to launch deep environmental commitments and accelerated action from cities, states, businesses and investors. We believe that ours was the most meaningful climate commitment made at the Summit from the American real estate sector.

Our CEO John Kilroy made the announcement in the opening remarks of the Sustainable Communities track at GCAS, which featured government leaders and real estate developers from Europe, Africa and Asia. "KRC has a longstanding commitment to sustainability because it is the right thing to. Our sustainability programs have been and will continue to be positive for our bottom line, promoting tenant and employee satisfaction, reducing operating cost and making our buildings more resilient to whatever may lie ahead," said Mr. Kilroy in his remarks.

Achieving carbon neutral operations will involve three steps for us. First, we will continue to reduce the energy consumption of our stabilized properties and entire announced development pipeline through maximizing onsite energy reductions. Second, we will continue to take advantage of all onsite solar and battery installation opportunities. Finally, we will make the remainder of the energy consumption 100% renewably powered by adding capacity to the grid through an offsite energy power purchase agreement, executed in 2018.

Through these programs, KRC will reach Scope 1 (direct emissions from onsite combustion of natural gas) and Scope 2 (indirect emissions from onsite consumption of electricity) carbon neutrality by the end of 2020, exceeding our carbon reduction goals previously validated by Science Based Targets (see page 27).