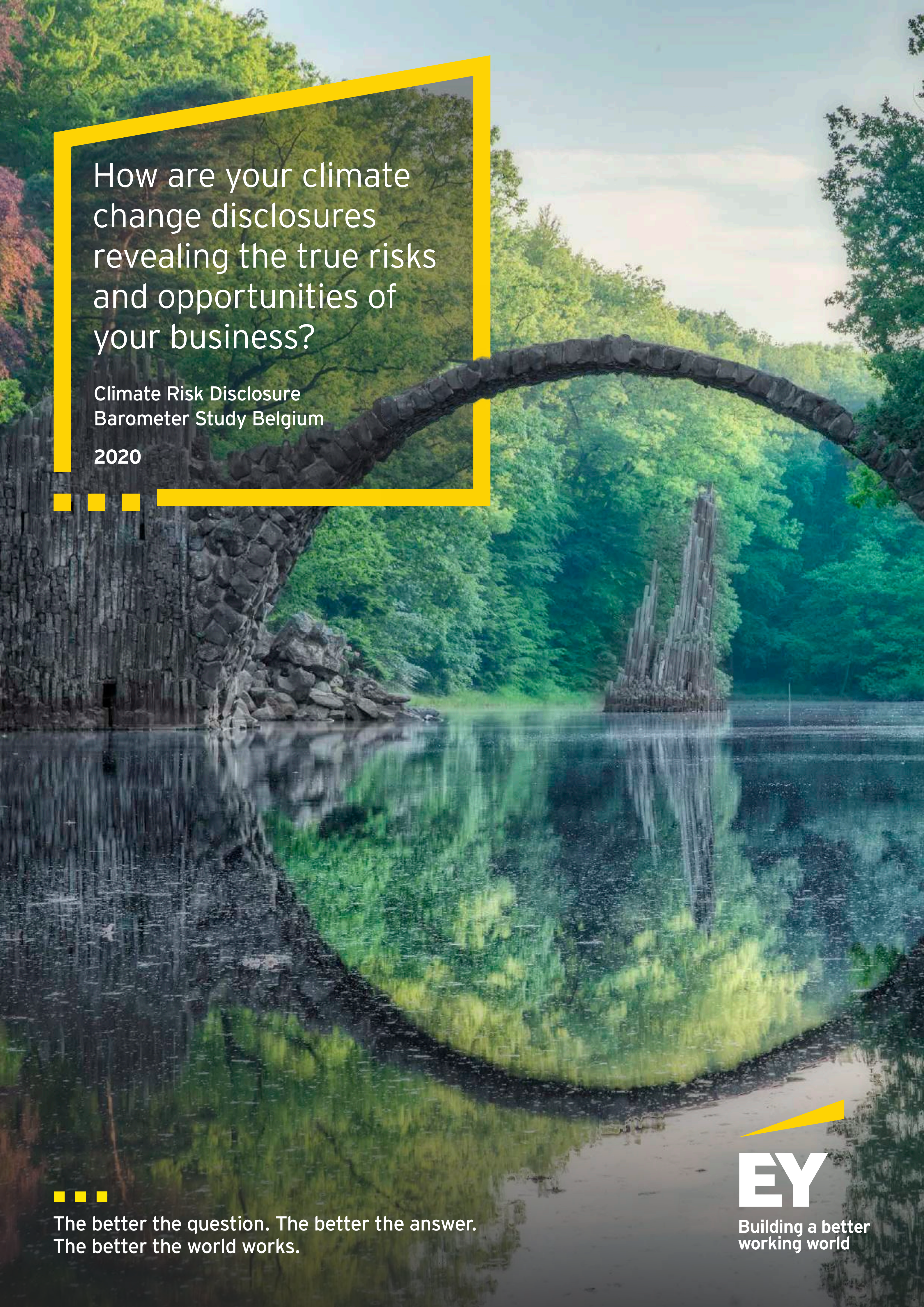


How are your climate change disclosures revealing the true risks and opportunities of your business?

Climate Risk Disclosure
Barometer Study Belgium

2020

The better the question. The better the answer.
The better the world works.

EY
Building a better working world

Content

About this report

The Intergovernmental Panel on Climate Change (IPCC) released a report in 2018 on the impacts of global warning of 1.5˚C and the emission pathways to achieve this goal. The results of the report are putting pressure on policy makers for more ambitious carbon policies, increasing the needs for investors to assess the impact on their investment portfolios and raising the awareness amongst business and consumers about climate change.

Companies need to understand the physical impacts of climate change and the risks associated with the necessary transitioning to a low carbon economy. Companies are also confronted with increased expectations of investors and other stakeholders to make better analyses and disclosures on their resilience to climate risks.

The report assesses the state of play of Belgian companies of the level to which they incorporate climate change in their business strategy through their publicly available reporting.

In line with the 2019 EY Global Climate Risk Disclosure Barometer we are using the TCFD recommendations as a framework to assess the quality of the disclosures. In 2017, the industry-led Task Force on Climate-related Financial Disclosures (TCFD), set up by the financial stability board (FSB), finalized its recommendations on financial climate risk disclosures. They aim to improve investor's and corporates' understanding of the impact of climate risks and to reduce the risk of a systemic financial shock to the economy due to climate change. The TCFD recommendations provide companies with a comprehensive framework to systematically report the impact of climate risks and opportunities.

This report provides insights in the uptake of the TCFD recommendations across a selection of 56 companies in Belgium, both listed and non-listed, across 10 different sectors.

The purpose of this report is to help companies understand the current state of climate reporting and to indicate areas for improvement across the different sectors.

Methodology

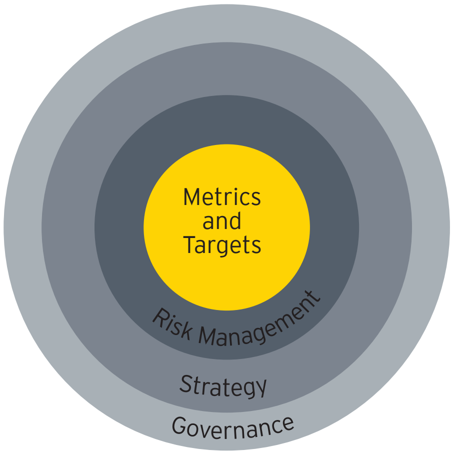
The scoring methodology is taken from the 2019 EY Global Climate Risk Disclosure Barometer, which examines the public disclosures of over 950 companies across a range of sectors in 34 countries, including Belgium.

The findings of the EY Belgium's study are based on disclosures in publicly available information, including annual reports, sustainability reports or the company's website for the 2019 reporting period. When publicly available, a company's disclosure concerning the CDP was also assessed. Due to fact that 2019 CDP reporting is not available yet, our study is based on the 2018 reporting period.

Monitoring and reporting are elements to driving corporate action, but we are well aware that not all information is disclosed by companies. Therefore, the desk research has been complemented by in-depth interviews with 25 companies in the scope of the study. The dialogue provided us with valuable background information, which we have integrated in the report, for example by the use of quotes.

Areas of the TCFD recommendations

The TCFD recommendations are structured around four thematic areas that reflect how companies operate: governance, strategy, risk management and metrics and targets.



TCFD thematic areas	TCFD recommended disclosures
Governance The organization's governance around climate-related risks and opportunities	a. Board oversight b. Management's role
Strategy The actual and potential impacts of climate-related risks, and opportunities on the organization's businesses, strategy and financial planning	a. Climate-related risks and opportunities b. Impact on the organization's businesses, strategy, and financial planning c. Resilience of the organization's strategy
Risk Management The processes used by the organization to identify, assess and manage climate-related risks	a. Risk identification & assessment processes b. Risk management process c. Integration into overall risk management
Metrics & Targets The metrics and targets used to assess and mange relevant climate-related risks and opportunities	a. Climate-related metrics in line with strategy and risk management process b. Scope 1, 2, 3 GHG metrics and the related risks c. Climate-related targets and performance against targets

The TCFD recommendations define climate impacts in two distinct categories:

- Transition impacts reflect the risks and opportunities associated with changes in the economy, including growth impacts, sector re-weighting and other macroeconomic factors.
- Physical impacts reflect the changes in the physical climate (e.g., altered rainfall amounts, intensities and timings) that may impact future business activities.

Scoring

Companies were scored on the availability and quality of their climate-related disclosures, using the following scoring system:

0 – Not publicly disclosed

1 – Limited discussion of the aspects (or only partially discussed)

2 – Aspects are discussed in detail

3 – Addressed all features of the aspect in the disclosure

The rating was expressed as a percentage of the maximum score should the company implement all 11 TCFD recommendations. A score of 100% indicates that the company adopted all the recommendations and the quality of the disclosure met all the requirements of the TCFD (i.e., gaining a maximum score of 3 for each of the 11 recommendations).

Selection of companies

We have selected 56 companies in 10 different sectors. The sectors are the ones identified by the TCFD recommendations as most vulnerable to climate change impacts: Banks, Insurance companies, Asset owners and Asset managers, Energy, Transportation, Materials and Buildings, Agriculture, Food and Forest products. We have added four sectors to our assessment based on the importance to our economy and the potential overall impact of climate change across the value chains: Retail, Health and Consumer Goods, as well as Telecom and Services, Holdings and Technology. 60% of the companies assessed are listed on Euronext.

The selection consists of:

- The BEL 20
- 13 other listed companies (mostly BEL Mid) to reach a balance in listed companies in every sector.
- 23 non-listed companies based on the following criteria: majority of the shareholders in Belgium, sector (identified by the TCFD as most exposed to climate-related risks or one of the four selected relevant non-key TCFD-sectors) and company size. The energy sector was excluded from the assessment because of the first criterium.

Sector	Sectors identified by TCFD as most exposed to risk	Number of companies assessed
Food & Beverage	Agriculture, Food and Forest products	9
Banks & Asset managers	Banks & Asset managers	6
Insurance	Insurance	3
Manufacturing	Materials and Buildings	11
Real estate	Materials and Buildings	4
Transport	Transport	4
Health, Retail and Consumer goods	N/A	6
Technology	N/A	5
Telecom and Services	N/A	4
Holdings	N/A	4
Total		**56**

Key findings

Our analysis shows that two out of three companies assessed have disclosed some climate-related risks. This proves that many companies are aware of the challenges related to climate change.

There is however room for improvement, especially in terms of quality of disclosures. The overall score of 31% shows that the level of detail of information is still limited. The responsiveness to the TCFD recommendations differs significantly within every sector. The scores in each sector vary considerably between one or a few high performers, a middle bracket and a number of low-performing companies.

Assessing climate-related risks and opportunities is complex and requires detailed analysis on how climate change impacts a business and how the business is responding. The majority of companies have yet to report on the potential financial impact that different climate scenarios could have on their business, strategy and financial planning. Climate change scenario planning not only addresses the TCFD recommendations, but also – and primarily – provides companies with new inputs into business strategy and planning, which enhances internal capabilities and processes.

Almost the entire economy will be facing major disruption from climate transition and climate impacts over the coming years. Yet, a majority of companies are not engaging strategically with these risks or positioning themselves to take advantage of potential opportunities. With investors paying increasing attention, this is likely to affect their valuation even before the impacts are fully realized.

Average results per TCFD component

The TCFD recommendations which companies reported best on are "metrics and targets" (mainly driven by reporting on Scope 1 and 2 greenhouse gas emissions) and "governance" in the second instance. Disclosures relating to "strategy" and "risk management" were less developed.

Belgian versus global results

While the TCFD recommendations are globally the most recognized framework for climate-related disclosures and analyses, full compliance is for companies worldwide a challenging exercise. The average results of the Belgian study are fully in line with the results of the Global Climate Risk Disclosure study.

Good to know...

66% of the companies in the panel have disclosed climate-related information to some extent in their public reporting.

48 % of the listed companies in the panel

55 % of the BEL 20 companies

mention and adopt the TCFD recommendations to some extent.

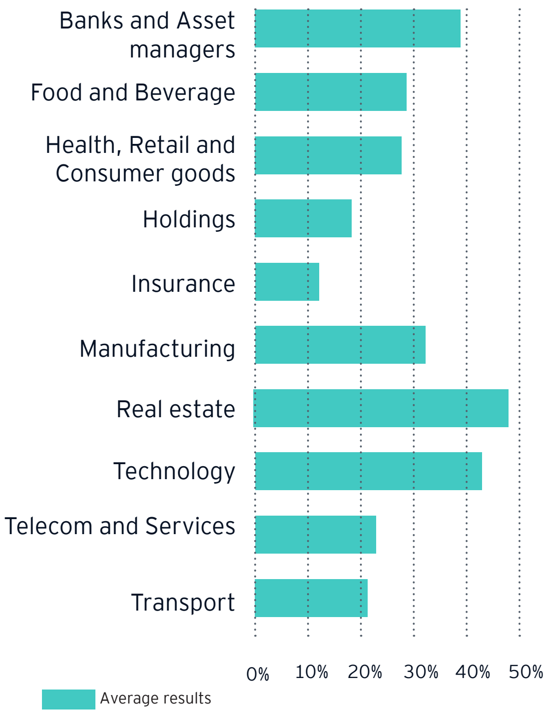
Average results per sector

The Real estate sector has the highest scores, in terms of coverage and quality of the disclosure. This sector is followed by the Technology sector. The 'Banking and Asset manager' sector came in third place. In addition, the 'Manufacturing' sector scored relatively well.

These sectors are significantly impacted by transition risks. Examples are: exposure to fossil fuel supply chains for technology companies, changes in climate and energy policies for Real estate companies, regulatory and commercial pressures for banks and accessibility to low carbon substitutes for manufacturing companies.

At the other end of the spectrum, 'insurance' companies and 'holding' companies were the underperformers. This finding is consistent with the Global Climate Risk Disclosure Barometer and highlights a global issue with climate risk disclosures of these sectors. However, the companies in the holding sector especially have expressed their commitment to strategically address the impacts of climate change and to manage the required transition.

Next to the sector company size is also a determining factor for the quality of climate reporting. Whether a company is listed or not influences the coverage and quality of the disclosures even more. The larger the company, the more detailed information can be found, especially when the company is listed. In contrast to listed companies, we notice that family owned companies communicate less information. Furthermore, CDP reporting contains more details than annual reporting or communication on the website. The presence of CDP answers is thus a decisive factor for company scores.



Comparisons between sectors and analysis of an individual sector should be done cautiously, because the scores are averages based on large discrepancies within a sector.

Observations and recommendations

Embedding climate risks in company strategies

'It's time to stop debating the role of companies in addressing the climate emergency' - is also a key finding of the EY 2019 CEO Imperative Study. Boards, CEOs and investors agree on the main global challenges of our time — including climate change — and overwhelmingly believe businesses should take the lead in addressing them.

Climate change is being acknowledged, but climate risk factors are not structurally embedded into the overarching company strategy and risk management system. This has resulted in high-level approaches to climate-related risks and opportunities. However, the disclosure of the impact is often missing. The reason therefore is that climate risks are often long-term and more complex in nature than traditional business risks, which contributes to a lack of understanding and measurement of their potential impacts.

Embedding climate change in a company strategy requires changes to the governance system. Good practices are, for example, education of the board and management and introduction of sustainability-related management remuneration. It also requires changes to the risk assessment processes and the utilization of climate scenario analysis to assess the current strategy's resilience. Interviewees have mentioned that risk teams struggle with the uncertainty linked to long time horizons, the qualitative and incomplete data and the lack of a uniform methodology.

The importance to keep the focus on climate change in a COVID-19 reality

However impacting the COVID-19 crisis is, climate change remains one of the most pressing economic and environmental and social challenges globally. Until now, both public and private institutions have not taken action quickly enough to avert the climate crisis. The emergence of COVID-19 shows the importance of long-term thinking and embedding this into strategies and risk management processes.

During interviews with 25 CEO's and sustainability leaders, we enquired about the impact of the COVID-19 crisis on the climate commitments of their companies. The general sentiment was that the crisis is not jeopardizing the companies' strategies because climate change risks are just as present now as they were before the pandemic. Thus, while dealing with the immediate challenges posed by COVID-19, maintaining strategies and programs that reduce risks are perceived to be just as important for building organizational resilience. Some claim that there is likely to be a renewed focus on sustainability and climate change at board level as non-executive directors in particular ask questions about whether companies' governance frameworks are adequate to deal with crisis situations and megatrends.

As our governments are analyzing and executing 'post-Covid' resilience plans, it is important that they include high ambition levels with regard to climate change mitigation. As such, supporting the business community to lower their emissions, develop smart solutions and setting the right example to meet the global Paris agreement is a minimum expectation. Companies have expressed their concern about the fractured efforts of our governments to lead the private sector through the crisis.

Alignment between material risks and climate-related metrics

Overall, the assessed companies disclose some climate-related metrics, but often not fully linked to the material climate-related risks they are exposed to. For example, most financial institutions disclose CO_2 emissions in relation to their own operations, but disclose very little on the CO_2 emissions from investments and lending activities. Overall, the scope of climate-related metrics is confined to Scope 1 and 2 CO_2 emissions. The companies that do report on Scope 3 emissions often only included non-material emissions such as business travel.

Climate-related risks should be seen as material financial risks by management and board. The materiality determination process for climate-related issues should be described in detail. This includes information such as mode and frequency, criteria used, level of stakeholder involvement and link to the value chain. Companies should focus on and disclose their most material Scope 3 emissions. Several companies have expressed it is needed to achieve a higher degree of standardization in the calculation of Scope 3 emissions. The involvement of the Management and the Board in this materiality process is key.

Assessment of the financial impact of climate risks through scenario-planning

The majority of companies have yet to report on the potential financial impact that different climate scenarios could have on their business, strategy and financial planning. The majority of the companies disclose some climate-related risks and impact in a high-level, qualitative way. The ones that provide a quantitative estimation of the financial impact, often do not give information on the calculation method or connection with their climate scenarios. The information is mostly not integrated into the financial statements, but only disclosed in the CDP responses. Companies struggle with the collection of accurate data given the uncertainty linked to future projections.

Where undertaken, transition risks were generally the risks modeled in scenario analysis. One of the key reasons is that the time–scales over which companies are likely to feel the consequences of transition risks are more immediate. Although some companies have considered the physical implications of a changing climate, they are yet to fully integrate these risks into their valuation models.

We recommend companies to use scenario-analysis to assess the potential financial impacts of climate change on their business in more detail. The companies who performed a scenario-analysis use a 2°C scenario, aligned with the International Energy Association (IEA). Their scenario lays out an energy system and carbon dioxide (CO_2) emissions trajectory consistent with at least a 50% chance of limiting the average global temperature increase to 2°C by 2100. A few top-performing companies use the Science-Based Target (SBT) scenarios. However, we have noticed that more companies are in the process of implementing scenario-analysis by 2020.

Standardization of the information disclosed in corporate reports

The analysis indicates that the companies that report to CDP provide more comprehensive disclosures on climate-related risks than companies that do not report to CDP. This is driven by the structured nature of the CDP questionnaire which includes the TDFD recommendations. The section of the CDP questionnaire related to governance, strategy, risk and opportunities aligns closely with TCFD's core areas.

For the majority of the companies included in the study we identified a degree of disparity between the disclosures made in the CDP reports and their broader corporate communication, including the annual or sustainability report and information on the website.

This indicates a lack of alignment between the different communication channels. We recommend that companies link the core content of the reports, though understandably more condensed in the annual or sustainability reports than in CDP answers.

The interviews show that many companies are struggling with their environmental communication. While they recognize the benefits of transparency and reporting, there are ongoing discussions on what, how, where and when to communicate in order to provide an accurate and attractive report to a variety of stakeholders.

Changing reporting practices

The information disclosed in the annual reports of certain companies is likely to change in the future. From 2022 onwards financial companies and large companies who fall under the Non-Financial Reporting Directive will have to align their public disclosures to the Taxonomy regulation. By June 2021, the European Commission will adopt a delegated act specifying how these obligations should be applied.

Banks and Asset managers

Sector overview

The assessment included six companies, 2 listed and 4 non-listed. The overall score of the Banks and Asset managers was rather even. They all scored relatively high on all four TCFD categories.

The scores are a confirmation of the EY CEO Imperative Study 2019 in which investors rank climate change as one of the top global challenges that threaten business growth, considerably higher than boards and management. The sector scores are arguably a reflection of the Banks and Asset managers' alignment of their climate-related risk disclosures with the TCFD recommendations and their reporting to the CDP. However, the information provided in their CDP reports is not described as detailed in the annual or sustainability reports.

There is a general need for the Banks and Asset managers to be more articulate on strategy and risk management. Furthermore, the banks lack a detailed description of the most material and high-risk areas in relation to investment and lending.

All the Banks and Asset managers score low on the reporting of climate scenarios. The general sentiment in the sector is that climate scenario analysis practices are rather immature and proper methodologies needs to be further developed.

Areas for improvement

- Stronger linkage of climate risk management to overall company strategy and organization
- Disclosure of the financial impact of climate change scenarios
- Disclosure regarding the risks and impact of lending and investment activities

39% **Average score**

Sector rating per TCFD category

Governance	42%
Strategy	37%
Risk management	26%
Metrics and targets	54%

Governance

Banks and Asset managers scored 43% on governance disclosures related to climate change. The detail of governance structures was most frequently documented within CDP responses. In less detailed disclosures, governance was treated along with sustainability or risk committee's reporting without any further delineation of climate risks. Best performers provided details about the governance arrangements for:

- Managing a Bank or Asset managers' own carbon emissions
- Managing the transition risks of companies included in the lending and investment portfolio
- Managing the physical risks of the assets funded through the lending and investment activities

Strategy

A number of banks provided general statements on the resilience of the organization in relation to the climate risks. Strategy disclosures however fall short in TCFD scoring, mainly because they do not relate to the results of a scenario analysis. Most banks identified certain climate risks and opportunities in their CDP responses, but only a few such disclosures provided insights into the potential impact on the organization. Disclosures generally excluded physical risks, which continues to be a threat to the banking sector because of their large mortgage portfolios. Some of the more advanced strategic disclosures included:

- Transition risks to the lending portfolio from changes in regulation and demand
- Opportunities to assist in the financing of green growth sectors
- Reputational risks from not responding or proactively assisting customers on climate change

Risk management

Risk management disclosures were the least developed of the four TCFD components. Less-detailed disclosures stated climate risks were assessed as part of established environment, social and governance (ESG) due diligence processes, conducted before making an investment decision, similar to the frameworks of the Equator Principles framework or ESG materiality assessments. More-detailed disclosures identified the key sectors exposed to higher levels of physical and transition climate risks and stated investments in these sectors were regularly monitored for changes in climate risks.

Metrics and targets

More than half of banks and asset managers disclosed metrics - generally their Scope 1 and 2 GHG emissions and in some cases, Scope 3 (such as those from travel and waste). Some banks also disclosed the use of an internal carbon price to drive Scope 1 and 2 emission reductions.

Climate-related targets predominantly focused on the Scope 1 and 2 GHG emissions, which are not linked to the key climate risks linked to investments. Where banks and asset managers set targets to address transition risks of their investments, it mostly concerns quantitative targets for green lending and qualitative lending restrictions in sectors with high emissions.

Food and Beverage

Sector overview

The selection counts 4 listed and 5 non-listed companies, of which 7 are food production and 2 beverage companies.

Overall, the food sector has an average quality of reporting of the TCFD recommendations. One company significantly outperforms the others, which improves the sector average.

The companies are generally well aware of climate-related risks. However, they only tend to report on the TCFD recommendation categories in a qualitative, high-level manner. Additionally, there is a lack of integration of climate-related risks into the companies' overall enterprise risk management.

Currently, none of the companies make use of climate scenarios to understand the longer-term impacts, including risks and opportunities for the company. None of the companies indicate that they will be exploring the use of climate scenarios in the near future.

Areas for improvement

- Identification of climate-related risks and opportunities, including their strategic and financial implications
- Stronger linkage of climate risks and opportunities with overall company strategy
- Increased use of climate scenarios for the identification of risks and opportunities

28% **Average score**

Sector rating per TCFD category

Governance	30%
Strategy	26%
Risk management	26%
Metrics and targets	30%

Governance

A majority of companies disclosed information about the governance arrangements for sustainability issues, mentioning that these cover climate change, but did not provide any further detail.

"

Given global warming, the access to water and preservation of sources will be key future sustainability issues. Spadel is well placed to help face these challenges

Marc du Bois

Chief Executive Officer, Spadel

Strategy

Overall, the quality of reporting on strategy is the highest of the reporting categories. Although most of the companies assessed identify either climate-related risks or opportunities for their operations, the quality of their risk identification could be improved.

The impact of risks is only described at a very general, qualitative level with no or limited information about the financial impact. Low scores were attributed to companies failing to disclose a methodology or information about their materiality processes to identify and prioritize the risks. Estimations on timeframes were generally lacking and none of the companies assessed use scenario analysis to identify risks and opportunities.

"

The ecologic awareness has entered political spheres but hasn't reached economic reality. It is essential to adopt business models that incorporate our planetary limitations

Jacques Crahay

Chief Executive Officer, Groupe Warcoing-Cosucra

Risk management

The companies assessed provide little information on how climate-related risks are integrated into their overall enterprise risk management, consistent with a lack of strategic integration of climate risks. The majority of companies were able to provide some description of their risk management processes. However, most of these companies did not provide any specific information on the management process for climate-related risks, which resulted in lower scores.

One higher performing company disclosed the process in detail to identify, assess and mitigate climate risks, including physical climate risks, as well as their materiality process and how they are integrated into the global risk management process.

"

At Vandemoortele we tackle climate not only as a risk, but also as an opportunity to create great taste in a responsible way

Marc Croonen

Chief Human Resources, Sustainability and Communication Vandemoortele

Metrics and targets

Six of the eight assessed companies reported their Scope 1 and Scope 2 GHG emissions. Two of them are disclosed other climate-related metrics and targets, such as water and energy consumption and waste generation. For the top performers, the most common source of information disclosed was in (more or less integrated) annual reports.

Health, Retail and Consumer goods

Sector overview

The sector is a combination of three pharma-biotech companies, two retailers and one consumer goods producer. Five listed and one non-listed company are included.

With a total score of 27%, the overall quality of the sector's climate disclosures is average. The average is strongly influenced by the high scores of one pharmaceutical top performer and one medium performer in the consumer goods segment. No less than three companies do not disclose any climate related information (two pharmaceutical companies and one retailer).

Considering the sector's impact linked to the manufacturing processes and the supply chain, there is an urgency to mainstream climate disclosures.

Areas for improvement

- CO_2 reporting: Scope 1, Scope 2 and Scope 3
- Consideration of the financial and strategic impact of climate risks and opportunities
- More transparency on the impacts throughout the complex supply chain and end of life of the products sold
- The disclosure of transition risks and physical risks

27% Average score

Sector rating per TCFD category

Governance	28%
Strategy	22%
Risk management	28%
Metrics and targets	31%

Governance

Only half of the companies in scope have some level of reporting on climate governance. Three companies, among which one published no annual report nor a CDP answer, are overall underperformers on the TCFD recommendations. The two leaders on the other hand have established governance processes to identify and manage (supply chain) risk, slightly more elaborated on management than on board level. CDP responses included the discussion on board and management involvement.

> Trust your intuition and jump. You'll never know which innovations and future changes lie in front of you, so don't be afraid to start the journey and tackle climate action today.

Elise Barbé

Group sustainability specialist

Strategy

Compared to the other TCFD categories, strategy gets the lowest score. Again, three companies fail to report on any strategy aspect. The other three companies have identified the risks and opportunities in a rather detailed way, two of whom took the supply chain into account. The analysis of the impact of these risks and opportunities on the strategy and resilience is done in more concise way, not applying the scenario analysis approach.

> Circular economy and climate provide opportunities to promote our products are qualitative and durable. The second hand market is growing fast and we are assessing the possibility to rent some of our products.

Katia et Simon-Pierre Gilliot-De Paepe

Co-Chief Executive Officers, Noukie's

Risk management

Half of the companies have developed processes to identify and manage climate risks. One company demonstrates strong links between their climate-related risk management and their overall risk management. While pharma typically is a risk-averse sector leading to advanced risk monitoring systems, it is remarkable that two pharma companies do not disclose any sustainability, nor climate risk information.

Metrics and targets

One pharma company discloses metrics and targets in accordance with all TCFD requirements, thus also incorporating ESG performance into remuneration calculations. Mapping the impact of the broader supply chains, mostly the impact of transportation and the product use phase remains a challenge, since only one company also reports Scope 3 metrics and targets. Two companies report Scope 1 and Scope 2 metrics alone.

> There is a constant discussion within UCB on whether our climate targets are ambitious enough, even if we are committed to a challenging absolute reduction of greenhouse gas emissions. That is why we have added specific objectives to our most challenging Scope 3 emissions in 2019.

Marc Van Meldert

Sr Director Health, Safety & Environment

Holdings

Sector overview

The assessment included four listed companies.

Holding companies were the underperformers, despite well-established initiatives targeted at investors. Nevertheless, all four companies have expressed an engagement to further strengthen their sustainability policy. Therefore it is expected that their approach towards climate mitigation will be strengthened in the coming years.

The current picture of climate change disclosure among the companies analyzed is quite similar. Although the reports cover governance structures in relation to climate related risks, they mostly describe the risks in an overall, high-level manner. Some companies disclose risk identification and management approaches in relation to their investment portfolio, although in a non-structural way. The UN PRI (Principles for Responsible Investment) is the international framework to which two of the four companies have engaged themselves to. Some holding companies report CDP scores of a few portfolio companies.

Areas for improvement

- Disclosure of metrics to measure the portfolio's performance on climate-related risks and identification of targets
- Full integration of climate risks into the general investment strategy
- Disclosure of climate scenario impacts on business performance and strategy

17% **Average score**

Sector rating per TCFD category

Governance	25%
Strategy	14%
Risk management	19%
Metrics and targets	14%

Governance

Governance was best addressed of all four TCFD components. Half of the companies mention the board's and management's responsibility for overseeing climate-related risk and opportunities. The other half mentions it either for the board or for the management. The oversight and management process for climate-related risks is not specifically described, as it is embedded in the 'Environment Social and Governance' (ESG) management process. The information does not include the frequency of meetings during which climate-related issues were mentioned or a clear description of the interaction between the management and the board on climate-related issues.

Strategy

Two companies identify general climate risks and opportunities and mention generic impacts on the organization. One company only identifies climate as a risk. The degree of detail in the information disclosed is limited, with no time horizon specified, limited reference to the process for determining material risks & opportunities and no reference to climate-related scenario planning. The challenge for holding companies is thus to assess the potential impacts on their business and portfolio in more detail.

Risk management

One company does not report on climate risk management's integration into its enterprise risk management. The other companies have a limited description of risk management processes and briefly describe the ESG screenings of investments and active ownership approaches. Specific criteria used to screen or manage the portfolio's exposure to climate impact, such as stranded assets, carbon pricing and physical impact risks, are not disclosed.

Metrics and targets

Three companies have included some metrics in their reporting, although they are mainly related to their own operations, hereunder Scope 1 and 2 emissions. Data for the portfolio – their most critical impact – is only partially available. Nevertheless, some mention they are working on completing the information.

“

If we want to tackle climate change, harmonization is key. The scattered landscape of standards, metrics and regulation needs to make place for an overall framework for companies to manage their long term value.

Wauthier de Bassompierre

Member of the Sofina Executive Committee

Insurance

Sector overview

The assessment included three companies of which one is listed. However, as four of the six banks in the segment 'banks and asset managers' also have insurance activities, the results of the insurance sector should be seen in combination. This would positively influence the scores of the insurance sector.

Recently, insurers have been facing greater pressure from shareholders to disclose and address climate risks. Despite external pressure and the fact that climate change impacts the sector's core business, the sector lags behind other sectors.

All the companies reported inadequately about the link between climate-related risks and the risk management procedures and strategy. Systematic monitoring across the board and management, the use of climate scenario analysis or carbon risks assessment on insurance products are international good practices that could not be found in the reports.

Physical risks disclosures received limited attention, however this being highly material for the sector.

Areas for improvement

- Extended description of the company's risk management processes and governance structure
- Integration of climate risks into the company's risk management framework
- Closer linkage of climate risk and company strategy
- Increased disclosure on how climate change impacts the company, especially physical risks in consideration of financial losses from the extreme weather events

13% Average score

Sector rating per TCFD category

Governance	17%
Strategy	15%
Risk management	4%
Metrics and targets	19%

Governance

Two out of three companies mentioned that the board and management play a role in climate-related oversight and management. However, the information is limited to a brief mention. Clarity around cross-functional climate change working groups, awareness and capability building remain focus area.

Strategy

Two of out of three companies report at a high level on overall climate related risks and opportunities, discussing the possible implication of these physical risks (mainly related to extreme weather events), with no time horizon specified and limited reference to the process for determining material risks & opportunities. None of the companies refer to climate scenario analysis. As a result, the attention to physical risks is insufficient in the disclosures. We recommend a more detailed description of time horizons of these risks and the strategic implications, such as the physical impacts of climate change on insurance policies and the transition impacts on investment policies.

Risk management

Only one company briefly mentions the existence of a climate-related risk identification and assessment process, with no additional details provided. This indicates a need in the insurance sector for understanding and reporting on the integration of climate risks in the overall enterprise risk management process, for example, how physical risks impact insurance products, changing premiums and product offerings.

Metrics and targets

Metrics and targets is the most developed TCFD category. Two out three companies report on Scope 1 and Scope 2 GHG emissions, with some, but limited details on the methodology used. However, Scope 3 emissions are not disclosed and the available metrics are confined to the own operations.

More attention is needed to metrics and targets that align with the insurance company's most material risks and opportunities. Insurance companies should develop robust targets and metrics for climate risks aligned to weather-related physical risks and the carbon intensity of their investment portfolio.

Manufacturing

Sector overview

The manufacturing sector counts 11 companies, all large companies equally divided between listed and non-listed organizations. The sector is one of the better performers of the study with an overall score of 34%.

The sector, in all its diversity, is well aware of the climate-related risks it is exposed to especially through the fossil fuel intensity in the supply chains. The sector is exposed to competition from low-carbon technologies, such as electrification and resource-efficient manufacturing. Responding to the challenges from these disruptive technologies has led to better risk management and strategy disclosures from the majority of the companies.

The majority of the companies report part of the TCFD recommendations in a basic way and part in a more detailed way. Four companies provide only basic information on selected TCFD recommendations. One company stands out and nearly achieves the maximum score.

Areas for improvement

- Reporting of physical and transition risks linked to the importance of transition risks for the sector
- Quantitative measurement of the impact of climate change (potentially positive and/or negative)
- Resilience strategy for the long term

34% Average score

Sector rating per TCFD category

Governance	33%
Strategy	24%
Risk management	39%
Metrics and targets	39%

Governance

Manufacturing companies scored 33% on the Governance category. Overall, responsibilities have been defined extensively for the board and management for sustainability matters, but not specifically for climate-related matters. For example, the existence of a sustainability officer who reports to the board is mentioned, but no further details on roles and responsibilities are provided. One company disclosed details on the interaction between management and board and internal reporting processes.

Strategy

Compared to the other TCFD recommendations, climate strategy has the lowest scoring, representing an overall score of 24%. Brief, high-level descriptions of climate risks and opportunities and their impact are available, together with a short description of the resilience strategy of the organization towards climate change. This information is found in CDP reporting. Quantitative impact reporting or climate-related scenarios, as well as the development of a low-carbon transition plan to support the long-term business strategy are missing.

“

With the One Planet strategy, Solvay aims to address the impacts of its operations throughout the value chain. Bringing positive value with our products as well as an ambition to reduce negative impacts is central to our approach.

Michel Washer

Deputy Chief Sustainability Officer Solvay

Risk management

With a score of 39%, the majority of companies report on the process for identifying and managing climate risks. An area of improvement is the link between climate risk management and overall risk management. One frontrunner reaches the highest score for all criteria and explained that the identified risks were analyzed on the basis of group-wide risk scenarios and were prioritized according to their impact and their probability. The most commonly identified risks consist of extreme weather events which may result in a loss of production or damaged properties.

“

We are fully aware of the stakes and sense of urgency, but the transition will take time. Industrial production methods and business approaches are not easy to change.

Jean-Luc Maurange

Managing Director John Cockerill

Metrics and targets

Metrics and targets end up with the same score of 39%. Nearly all companies in scope disclosed information on several KPIs, such as energy consumption, water and waste, with at least one year of historical data. More than half reported on CO_2 emissions, Scope 1 and Scope 2. Lack of accurate measurement throughout the supply chain meant that only two companies attempted to disclose Scope 3.

Information regarding targets was lacking in almost one-third of the companies' disclosures. Only one company report on completely aligned with TCFD recommendations and one company disclosed information nearly completely aligned. These two companies provided information on the link between climate targets and remuneration.

“

There is a legislative trend to force a circular economy upon the industry, requiring many additional efforts by businesses. Legislators should ensure that the requirements apply to all actors and that our industries remain competitive with producers located outside of the European Union.

Hubert Bosten

Chief Executive Officer NMC

“

Societal changes have an important impact on climate change: demography and economic development are variables that mostly influence human impact on the environment.

Rodolphe Collinet

Chief Executive Officer Carmeuse

Real estate

Sector overview

The sector represents four listed companies.

The sector's high average score is influenced by the high scores of two Real estate companies. One other company reports in a basic way on governance and metrics & targets, but does not disclose information on risk management and strategy. Another company only discloses some basic metrics on climate change.

The importance of ensuring the long-term stability of investment portfolios in the wake of climate change is continuing to increase. It is therefore a necessity for the entire sector to keep up with the top performers, and for the top performers to keep focusing on the risk mitigation of their portfolio.

Only one company of the five registered a CDP answer. The GRESB (Global Real Estate Benchmark) which incorporates TCFD requirements, is however used by the 3 leading companies.

Areas for improvement

- Impact analysis of the relevant physical and transition risks
- Integrating climate impacts in investment strategies
- More information on measurement and management processes

48% Average score

Sector rating per TCFD category

Governance	50%
Strategy	39%
Risk management	36%
Metrics and targets	69%

Governance

Two out of four companies in scope have reported in detail on the Board's oversight and the management's role in overseeing and managing climate-related risks. Disclosures mention responsibilities and internal processes in place. TCFD areas that are missing are the interaction between management and board operations and emerging climate-related issues (in contrast to the current situation). One company report in a limited or very limited way on governance matters.

> Support from the board and management is an indispensable internal driver for actions on climate change.
>
> **Hanna De Groote**
>
> Head of Corporate Social Responsibility Cofinimmo

Strategy

With increasing needs for climate-resilient infrastructure, only one company explicitly described physical risks which could be impactful to its operations. The average score for Strategy represents one company with extensive insight in risks and opportunities and their potential impact, clearly explained in the CDP report. Two other companies have done a risk identification and impact exercise and provided general information on the existence of risks, such as increased costs linked with carbon-intensive construction materials and the need for a resilience strategy for the company, both with a different level of detail. One company did not describe any risk or opportunity related to climate change over the short, medium or long-term. Furthermore no company had developed a scenario analysis.

Risk management

Two frontrunning companies scored high for the risk management criterium. The main challenge is to link the climate risk assessment to the update of the business strategy. Another company provides high level statements regarding the consideration of climate-related risks, but doesn't link it to the general risk management. One company doesn't report information in this TCFD category.

Metrics and targets

The sector scores very high on metrics and targets. They are much more present than the other three TCFD information categories and all four companies disclosed at least some climate-related KPIs. Three companies reported on Scope 1, Scope 2 and Scope 3 emissions, linked to building materials and leasing activities. Only, the companies don't always disclosed KPIs related to all key risks or provided full details on boundaries and methodology, but in general the quality of the metrics is very high. Only one company doesn't disclose targets.

Technology

Sector overview

The selection of companies for the Technology sector consists of four large organizations, of which three are listed.

The technology sector has the second best average score (43%) in terms of both coverage of the key TCFD criteria and quality of disclosures. This high performance is in line with the Global Climate Risk Disclosure Barometer.

While not a key sector under the TCFD recommendations, the sector has emerged as a leading sector in response to climate change mitigation. This may be because the large and growing companies are significant users of electricity and are increasingly exposed to media attention and reputational risk. The stakeholders expect these companies to be leaders in green technology and to be driving innovation in areas, such as energy procurement. As such, the sector is positioning itself to be part of the solution as the economy transitions to a low-carbon future.

Three of the four companies include part of the TCFD recommendations in their annual reporting and report to CDP. One company does not disclose any information linked to the TCFD recommendations.

Areas for improvement

- CO_2 calculations: Scope 2 and Scope 3, especially the impact of the extraction of raw material, the user phase and the end of life
- Thorough assessments of the financial and strategic impacts of climate risks and opportunities, using technology and data management
- Evaluation of the resilience of company strategy against climate scenarios
- More focus on transition risks as this is highly relevant for the sector

43% Average score

Sector rating per TCFD category

Governance	50%
Strategy	44%
Risk management	36%
Metrics and targets	44%

Governance

With a score of 50%, disclosures mentioned governance bodies and processes in place to oversee general sustainability issues. One company discloses all TCFD recommendation in this area, another company disclose some aspects in detail and one company does not discloses any information.

Strategy

Understanding climate change is essential to the strategies of the technology companies. Two companies have identified the key climate risks their organization is facing with focus on regulatory risks leading to increased electricity costs. The frontrunner explains specific physical and transitional risks and opportunities, quantifies the impacts thereof and provides an explanation on the organization's outlook using different climate-related scenarios.

“

The products of IBA play a key role in the ecological transition: our aim is to heal people and help them live longer. As we begin to better understand the connection between health and the environment, we cannot act on health alone without affecting the environment. It would be incoherent.

Pierre Mottet

IBA, Chairman of the board

Risk management

Two companies provided insight in the system to identify and manage risks and opportunities, linking to the overall risk management process. The mix of these high scores and two zero's (two companies scored zero for all climate reporting criteria) results in combined score of 36%.

“

The challenge with climate risks is that the time horizon is longer than what we typically address in risk assessment. Collaboration between the sustainability and risk team will help us to better assess and manage climate risks both in the short and longer term.

An Saveyn

Corporate Sustainability Manager Barco

Metrics and targets

The score is based on the use of climate-related metrics and targets. Three out of four companies disclose Scope 1 and Scope 2 CO_2 emissions. Two companies combine metrics with targets. One company discloses Scope 3 metrics and targets and another company identifies Scope 3 reporting as an ambition for 2020. It shows that complete disclosures on CO_2 emissions and emission reduction targets are currently a work in progress.

“

In aviation, there are common environmental and economic interests to reduce emissions. Performance is improving year by year. As such, there is a natural alignment between environmental goals and economic objectives.

Bernard Delvaux

Chief Executive Officer Sonaca

Telecom and Services

Sector overview

The Telecommunications and Services sector represents five companies of which three are non-listed services companies, have no public annual report, nor a CDP answer, leading to an overall score of zero. The two listed telecom companies, achieved high scores in coverage and quality for all four TCFD components.

While the Telecom sector is not a key sector under the TCFD recommendations, it has emerged as a leader in response to climate change, in line with the results of the global Climate Risk Disclosure Barometer. The reasons are comparable to the ones explained in the technology sector. The sector has been the focus of several initiatives to reduce CO_2 emissions which appears to be having an impact on the quality of disclosures.

The sector average leads to a fairly low score, but the difference between the subsectors Telecom and Services is remarkable. Our interviews prove however that the lack of transparency of the service companies is not fully representative of their climate-related efforts.

The analysis below focuses on the telecom companies.

Areas for improvement

- Consistent reporting across the value chain in the Services sector
- Focus on opportunities of climate change
- Disclosure of climate scenario impacts on business performance and strategy
- Consideration of climate risks and reporting in the services sector

23% Average score

Sector rating per TCFD category

Governance	27%
Strategy	24%
Risk management	20%
Metrics and targets	22%

Governance

The telecom companies provided detailed information on the governance of climate-related issues, being the role and responsibility of audit, risk and sustainability leaders, management and the board. One company clearly described the interaction between management and the board on climate-related issues.

“

All positive initiatives are welcome, but they will not be enough. It is time to set real targets and an appropriate governance to create a real impact.

Pascal Laffineur

Chief Executive Officer, NRB

Strategy

The telecom companies are well aware of the physical risks and to some extent also of the transition risks they are facing. The companies are disclosing the impact these risks have on their assets and a resilience strategy to deal with the risks, partly using scenario planning. However, the quantification of the impact is still in progress and remains a challenge.

“

Our new sustainability strategy has an increased focus on climate action and circular economy. It is an essential part of our ambition to become Europe’s reference operator.

Philippe Deconinck

CSR Manager for the Environment and Supply Chain, Proximus

Risk management

The telecom companies are taking action to identify and manage risks and opportunities, to some extent formally integrated in the organization’s overall risk management. However, one telecom company expressed the willingness to communicate on the efforts done but also the fear of being accused of greenwashing.

“

The biggest challenge for the future is the full embedding of sustainability in the day-to-day operations and decisions of a company. It is like a marathon. To get to the finish line you need the right focus and continuous motivation at all levels of the company.

Ineke Rampart

Corporate Affairs Director, Telenet

Metrics and targets

Both telecom companies disclose metrics related to all sector key risks, with a more or less clear explanation of boundaries, calculation methods and historical data. The companies reported on Scope 1, Scope 2 and Scope 3 CO_2 emissions. The target setting exercise is in constant evolution, in line with international climate and reporting initiatives.

“

The ecological transition is not a process that can be initiated from within a company alone. It should be the attitude of every citizen.

Eric Domb

Chief Executive Officer, Pairi Daiza

“

We communicate our efforts, but we wish to remain authentic and not have our efforts result in greenwashing.

Anne Lafère

Chief Operating Officer, Easyfairs

Transport

Sector overview

The sector represents four large companies of which one is a listed company.

The transport sector is well aware of its CO_2 intensity. All companies are engaged in carbon emissions reduction programs, such as electrification and energy saving initiatives. The sector also faces regulation on CO_2 emissions reduction.

This is however not always reflected in a transparent public reporting.

One of the assessed companies responded to the CDP, next to providing extensive annual reporting, therefore obtaining top performance scores. The other three companies that did not respond to CDP and have an incomplete or no annual reporting, received a rather low overall score.

Areas for improvement

- Consistent reporting across the value chain
- Extended analysis and reporting of transition and physical risks and opportunities as well as the financial and strategic impacts thereof
- Description of the risk identification and management processes
- Reporting on government roles and responsibilities
- Evaluation of the resilience of company strategy against climate scenarios

22% **Average score**

Sector rating per TCFD category

Governance	17%
Strategy	22%
Risk management	22%
Metrics and targets	25%

Governance

One transport company reported on Governance. Their disclosures mentioned governance bodies and processes in place to oversee general sustainability issues and climate related risks, without providing specific information on the frequency of and process for interaction between management and the board. The other companies do not mention the board and/or management's roles and responsibilities. Although the information is not disclosed, we have learned from the interviews that these bodies have a role in overseeing sustainability matters.

Strategy

Following the awareness of its responsibility to climate change, the transport sector has reported on their most pressing climate risks, such as emissions and environmental footprint. One company described in a partly quantitative way with detailed articulation on the organizational response to address these impacts. It was also done by another company in a high level, qualitative way. Two companies did not disclose climate strategy information.

Risk management

One company extensively disclosed the risk identification and management processes and in general the integration of these processes into overall risk management. The other two companies did not provide insight into the risk management systems.

Metrics and targets

In line with most other sectors, this is the TCFD category with the highest score. One company reported the CO_2 emissions including Scope 3 and explained the methodology used. Another company disclosed targets, without any detail on the calculation method or comparison between the current performance and the targets.

> "Airports are often blamed, while their proportional contribution to climate change is very small. The risk is to create new regulations in Europe, which could create an unfair playing field with companies operating outside of the Europe. It is a fight that should be fought on a global level.
>
> **Luc Partoune**
> Chief Executive Officer, Liege Airport

Climate reporting versus non-financial reporting

When comparing climate reporting with general reporting practices entrance in non-financial or sustainability reporting we can conclude:

- The annual report is replacing the sustainability report: climate related information is increasingly embedded in the annual report instead of a separate sustainability report or on the website. To keep the readability and conciseness of annual reporting, companies use a combination of communication channels. Where general information on climate can be found in the annual report, more detail is provided in CDP reporting.
- Integrated Reporting (Framework by the IIRC) is an evolution of corporate reporting based on the principle of connectivity of financial and non-financial information. We saw that the companies that report along the principles of Integrated Reporting are able to better quantify the impacts of climate related risks, link them to overall risk management and report on the governance topic in an integrated manner.
- Companies often present company risks and opportunities by using a materiality matrix. The term 'climate change' and environmental issues related to climate change are increasingly popping up in these matrices although not always amongst the high material topics.
- The focus in non-financial reports lies increasingly on climate impact and CO_2 emissions: Scope 1, Scope 2 and often Scope 3. More and more, quantitative objectives are set to support carbon reduction strategies. Increasingly, these are science-based CO_2 targets, in line with the Paris Agreement goals to limit global warming.
- Use of different reporting frameworks: even though the majority of the companies use the Global Reporting Initiative (GRI) to report on non-financial data, companies often use a combination of standards: GRI, the Sustainable Development Goals (SDG), Climate Disclosure Standards Board (CDSB) or Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. As the availability of non-financial information is rising, so does the complexity and the need for harmonized and reliable climate and other non-financial information.

What's next?

Climate risks are more complex and longer-term in nature than most traditional business risks. This has contributed to a lack of understanding and measurement on their potential impacts. As discussed earlier, if an organization does not have a clear understanding of the range and magnitude of potential financial impacts from climate change, this may be increasingly detrimental to its financial performance.

Given the complexity, it requires several years for an organization to be in a position to generate valuable information to help make informed decisions. The earlier a company embarks on this journey and provides a platform to help educate directors and management about climate risks, the better positioned a company will be to engage with investors, shareholders and other stakeholders on the impacts and opportunities for the organization.

Companies that seek to understand their climate risks exposure can ask themselves the following questions.

What are the biggest emission sources in my value chain?	What are the incentives, instruments or indicators that can help me align my strategy with the 2°C road map?	What are my stakeholders' expectations in terms of climate footprint and carbon performance?
What type of climate risks is my business exposed to in the long run?	?	How will my products and services be affected by carbon policies and targets?
Are the international climate policies and national commitments integrated into my business strategy, supply chain or sourcing strategy?	What is the potential exposure to new regulations?	Are some of my products or activities at risk regarding the 2°C road map?

Who we are

EY

EY consists of an integrated network of companies, located in 176 countries and is a world leader in consultancy, audit, accounting, tax and transactions. EY offers a wide range of professional services for business and public sector.

EY Climate Change & Sustainability Services (CCaSS)

EY has a worldwide network of 1100 sustainability professionals.

We combine our core experience in the field of audit and advice with sustainability expertise and in-depth knowledge of the market.

EY CCaSS supports organizations in the private and public sector in their economic, ecological and social issues. The specialized department of EY in Belgium has 12 employees. We have extensive experience in the private, public and non-profit sector. In the Belgian team, we have specific, worldwide expertise in non-financial reporting and circular economy. As a one-stop-shop partner in the field of sustainability advice and audit, we help integrate sustainability into business strategies, operational processes and reporting from companies to stakeholders.

We have experience in working on climate and energy issues with governments, industrial corporations and investors. We are a leading provider of climate risk disclosures and green bond services, having worked with some of the largest emissions intensive and asset owners globally.

EY is involved in industry groups leading the way on climate disclosures and green finance, such as TCFD and the Climate Bond Initiative, where we are an approved verifier. Through this involvement we have a good understanding about the expectations of investors and the processes organizations go through to integrate climate change strategy into their business. We tailor our services and teams to any requirements to help address an organization's climate change challenges.

Certain services may be restricted for EY audit clients and their affiliates to comply with applicable independence standards.

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About EY

EY is a global leader in assurance, tax, strategy, transaction and consulting services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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