

Climate Risk Disclosure Barometer

2020

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About this report

In June 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. The recommendations aim to improve organizational understanding of the impact of climate risks and reduce the risk of a systemic financial shock on the economy, due to climate change. This report provides an annual snapshot of the uptake of the recommendations across the largest companies in Denmark, that operate in the sectors that have been identified as being especially vulnerable to climate change.

TCFD established the recommendations to address the challenge that investors face in obtaining information about a company's existing climate-related risks and opportunities, as well as the climate-related impact on a company. The TCFD recommendations provide companies with a comprehensive framework to systematically report the impact of climate risks and opportunities, making it easier for investors to analyze a company's potential financial impact due to climate change.

The TCFD recommendations assess risks and opportunities due to climate change based on two categories:

- ▶ **Transitional impacts**

Reflect the risks and opportunities associated with changes in the economy due to transition (or lack of transition) to a low-carbon economy. Transitional impacts include growth impacts and changing market demands, technological development, changing regulatory requirements and other macro-economic factors.

- ▶ **Physical impacts**

Reflect the changes in the physical climate, which may impact future business activities. Physical impacts can both be permanent changes in global weather conditions, such as a gradual increase in temperature, rising sea levels or increased precipitation, as well as more acute weather phenomena such as storms and cyclones.

The TCFD recommendations are especially aimed at sectors that are identified as especially vulnerable to climate change impacts. These include both the financial sectors (e.g., banks, insurance companies, asset owners and assets managers) and non-financial sectors (e.g., energy, transportation, materials and buildings, agriculture and food and forest products). In Denmark, the implementation of the TCFD recommendations is currently voluntary for all entities. However, pressure from different stakeholder groups, including investors and regulators, continues to drive uptake of the recommendations for the 2018-19 reporting period.

This report analyzes current corporate disclosures among the largest companies in Denmark, to provide a snapshot of the coverage and quality of reporting on the TCFD recommendations in high-risk sectors. The purpose of this report is to help companies understand the current state of reporting and provide insights into areas of improvement across the different sectors.

The TCFD recommendations are structured around four thematic areas that reflect how companies operate – governance, strategy, risk management and metrics and targets (shown in the figure on page 7).



Core elements of recommended climate-related financial disclosures



- ▶ **Governance**
The organization's governance around climate-related risks and opportunities
- ▶ **Strategy**
The actual and potential impacts of climate-related risks, and opportunities on the organization's businesses, strategy and financial planning
- ▶ **Risk management**
The processes used by the organization to identify, assess and manage climate-related risks
- ▶ **Metrics and targets**
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Methodology

The companies assessed were drawn from the top 50 of the largest Danish companies in terms of revenue. The assessment included companies only from the sectors identified by the TCFD as most exposed to climate-related risks. The assessment excluded several of the top 50 companies, as they did not fall within these sectors. For some categories, additional companies were included to fill out the category. The assessment included 19 large Danish companies, spread across the sectors of banking, insurance, asset management*, energy, transport, agriculture, food and forest. The table below shows the breakdown of companies assessed by sector:

	Climate disclosure barometer sector	Number of companies reviewed
Financial	Banks	3
	Insurance companies	3
	Asset owners and managers	3
Non-financial	Agriculture, food and forest products	3
	Energy	3
	Transport	4

EY Global has developed the methodology for the assessment, and the results have been through several layers of quality review. EY Global has also disclosed a global report that includes selected countries.

The findings are based on disclosures in publicly available information, including annual reports, sustainability reports or any other platform, such as at a company's website. Where publicly available, a company's disclosure concerning the Carbon Disclosure Project (CDP) was also assessed.

Companies were scored through a multi-tiered system that incorporated both the coverage and quality of the disclosures. Firstly, companies were assessed based on how many of the 11 recommended disclosures they addressed. Secondly, the quality of these disclosures was also assessed using the scoring system presented below.

* For the purposes of this report, the asset owners and managers that also operate as banks were exclusively rated in the category of banks.

Results

Companies' climate risks and opportunities disclosures have improved significantly since last year, but there is still room for improvement. Although last year's scoring methodology is different from this year's methodology, all sectors have overall improved their TCFD recommendation disclosures. This indicates that companies are increasingly aware of the TCFD recommendations and their utility for both internal management of risks and opportunities, as well as for investors. Last year's scores combined the coverage and quality rating into one score, while this year's report has separate quality and coverage scores. Therefore, a direct comparison between years cannot be made,^{*} but we can infer that there is a general trend towards improvement. Having said this, most sectors still have a long way to go before being fully aligned with the TCFD recommendations. The illustration on page 9 includes the overall scores for 2018 and 2019:

The most central finding of our assessment is that none of the companies assessed are currently disclosing comprehensive climate risk reporting that would meet the TCFD recommendations. In fact, for some high-risk sectors, the reporting falls short, particularly for insurance companies and companies within the agriculture, food and forestry sectors. Furthermore, even the best-performing sectors in the analysis still have a long way to go in some categories. For example, the strategy and risk categories are again this year's lowest-rated across all sectors.

These findings indicate a need for increased focus and understanding among companies in high-risk sectors of how climate-related risks may impact their company and business model in the short, medium and long terms, and how they will manage these risks in the future.

Coverage	This refers to the percentage of the 11 TCFD recommendations addressed by the company. A score of 100% indicates that the company has addressed all 11 of the recommendations.
Quality	<p>This refers to the average rating out of five, across TCFD recommendations. This rating is based on the quality of the disclosure expressed as a percentage and weighted by coverage. A 100% score indicates that the company has adopted all (11) of the recommendations. This also means the quality of the disclosure meets all the requirements of the TCFD (i.e., gaining a maximum score of five for each of the 11 recommendations). The quality of the disclosures was scored using the following scoring system:</p> <ul style="list-style-type: none">0 Not publicly disclosed1 Limited discussion of the aspect (or only partially discussed)3 Aspect discussed in detail5 All features of the aspect addressed in the disclosure

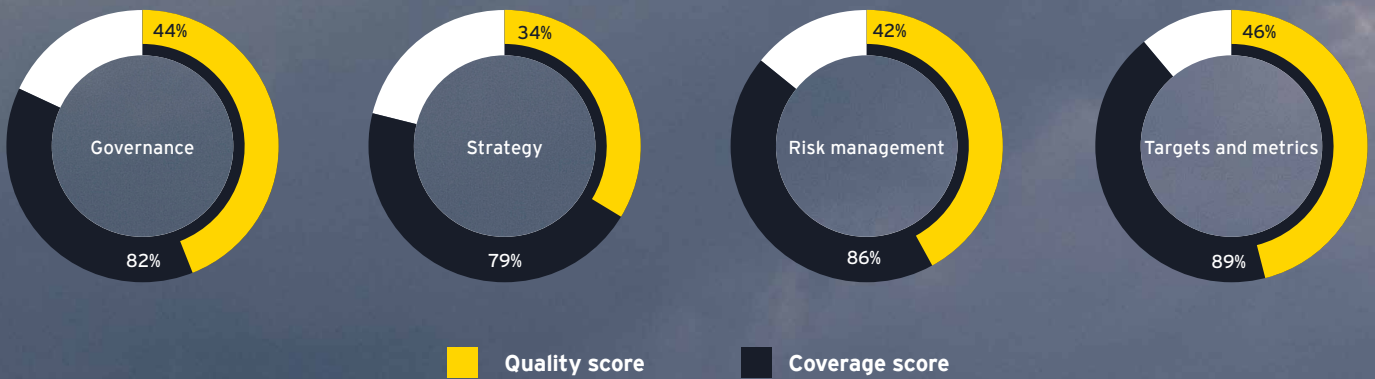
* The most accurate comparison of the scores from 2018 and 2019 is to compare the 2018 score with the quality score for 2019.

2019 results*

Average performance against the recommendations by sector

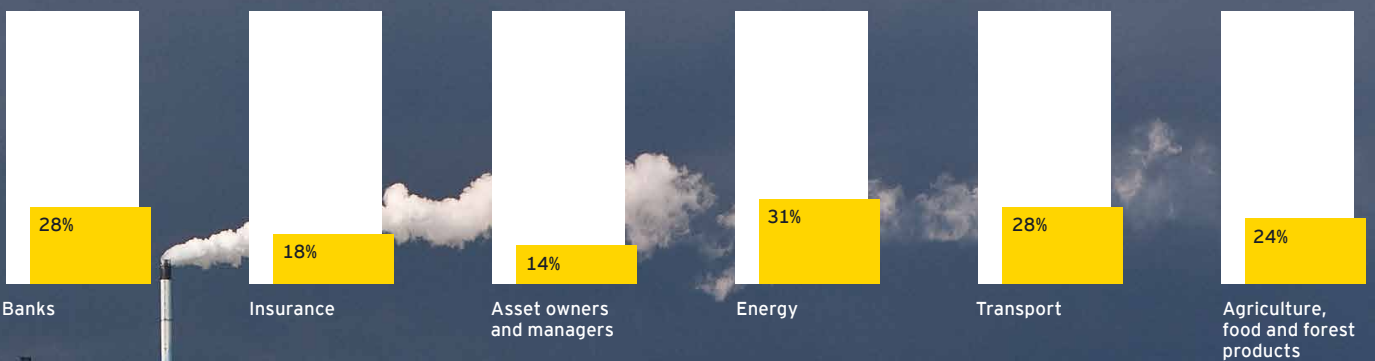


Average performance against the recommendations by disclosure category



2018 results*

Average performance against the recommendations by sector



Average performance against the recommendations by disclosure category



* The 2018 and 2019 surveys have used different rating methodologies. The most accurate comparison is therefore to compare the 2018 score with the 2019 quality score.

Key findings

Lack of disclosure of the impact of a 2°C scenario

Many companies are yet to report on the potential impact that different climate scenarios, including a 2°C scenario, could have on the company's business, strategy, and financial planning. Very few companies disclosed any information on this area, despite many acknowledging the global consensus of keeping global warming below 2°C.

Following are some high-level scenarios, all consistent with a 2°C scenario:

▶ Strong national action plan

In this scenario, a lack of global carbon-trading requires each country to take ambitious action individually, requiring a more rapid domestic transition. National ambition drives technical innovation in renewables, carbon capture and storage.

▶ Global co-operation

In this scenario, coordinated global action results in a smooth transition to a low carbon economy. Access to an international carbon-trading system will provide relatively cheap carbon permits compared to the other scenarios.

▶ Delayed action

In this scenario, a much more accelerated mitigation pathway follows an initial delay towards action after 2030. This scenario assumes slower cost reductions of low carbon technologies due to lack of early investment and a rapidly increasing carbon price, post 2030.

Disparity on the degree of information disclosed between different corporate communication reports

The analysis indicates that the companies that report to the Carbon Disclosure Project (CDP) often provide more comprehensive disclosures on climate-related risks than companies that do not report to CDP. This is most likely driven by the structured nature of the CDP questionnaire, which to a large extent, includes the TCFD areas. For example, the section of the CDP questionnaire related to governance, strategy, risk and opportunities aligns closely with TCFD's core areas. This may drive companies to relate to the specific questions included in the CDP, which consequently results in a higher score in terms of disclosures according to the TCFD recommendations.

For most of the companies included in this report, we identified a degree of disparity between the disclosures made in the CDP reports and the companies' broader corporate communication, including the annual report, sustainability report and general description on their website. This may indicate a lack of alignment between the different communication channels. We generally recommend that companies align the reports so that the same degree of information (though maybe more condensed) is disclosed in the sustainability and/or annual report. This may, furthermore, ease investors' access to information on how the company manages climate-related risks and opportunities, and thus the potential impact on business performance and strategy due to climate change.

Disjointed linkage between climate risk and strategy

Of the four areas of the recommendations, reporting on 'strategy' most often falls short. We generally observe that companies in Denmark are positively focusing and reporting on sustainability indicators. However, they fail to align sustainability and risk management in a way that integrates climate change risk factors into the overarching strategy of the company and enterprise risk management system. This has resulted in high-level approaches to analyze how climate-related risks and opportunities have affected the business organization, strategy and financial planning. Of these, the disclosure of the impact on the latter is often neglected.

Furthermore, most of the companies do not consider their current strategy's resilience against climate-related risks and lacks a structured approach to identify climate-related opportunities. This is arguably an implication of the companies' under-utilization of climate scenario analysis, which otherwise could help companies structure their climate-related risk and opportunity identification process and assess their current strategic trajectory.

Misalignment between climate-related metrics and material risk

Overall, the assessed companies largely make disclosures on some climate-related metrics, but they often do not cover some of the most material climate-related risks that they are exposed to. For example, many of the financial institutions disclose CO₂ emissions in relation to their own operations but disclose very little on their CO₂ emissions from investments and lending activities.

This finding also means that the scope of climate-related metrics is often confined to scope 1 and 2 greenhouse gas (GHG) emissions. For the companies that do report on scope 3 GHG emissions, these usually include non-material emissions such as business travel. Thus, to a large extent, companies need to focus on and disclose their most material scope 3 emissions.

Banks

Sector overview

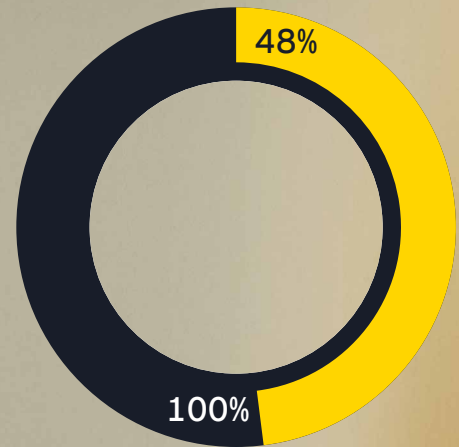
The assessment included three companies in this sector. The overall score of the three banks was rather even, and they all scored relatively high on all four areas of the TCFD recommendations. The high scores are arguably a reflection of the banks' alignment of their climate-related risk disclosures with the TCFD recommendations, and their reporting to the CDP, which also encourages companies to consider all aspects of the TCFD recommendations. However, the extensive details found in their CDP reports of climate-related impacts could be more explicitly described in the annual reports or sustainability reports.

The high score of the banks also reflects their high coverage rate. All the banks address all the TCFD recommendations. However, there is a general need for the banks to be more articulated on metrics and targets on which they all scored low. Furthermore, the banks also lack a detailed description of the most material and high-risk areas in relation to investments and lending.

The use of climate scenarios is also an area of which all the banks lack a detailed description. The banks are aware of climate scenarios, but the general sentiment is that climate scenario analysis in practice is rather immature, and a proper methodology needs to be further developed for the banks to be able to use it in practice. Consequently, all the banks score low on their reporting on climate scenarios.

Areas of improvement

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



Sector Rating per Category



Governance

All three banks report to have sustainability or business ethics boards, which are overall responsible for climate-related issues. These banks also report on the governance structures for climate risk and sustainability with designated risk committees and clear assignment of responsibility up to the CEO level. Overall, this indicates that the sector has, and increasingly is recognizing the importance of a solid governance structure for overseeing sustainability and climate change issues. However, disclosure of how their governance structures and business strategy and model are connected could be improved to highlight a clear integration of governance of climate-related risks and opportunities in the core business.

Strategy

All three banks report on climate-related risks and opportunities to a varying degree, of which two qualitatively describe the potential financial impact in a high-level manner. One of the banks provides a detailed description of risk and opportunities with overall estimated financial implications. The remaining two banks report not to have identified any material climate-related risk; however, without providing any description of the underlying assumptions to illuminate the reasons for these conclusions. On the contrary, all the banks reported on opportunities, specifically regarding sustainable finance product offerings.

Furthermore, none of the banks have conducted a structured climate scenario analysis or tested the resilience of their current strategy. This indicates a general immaturity of the use of scenario analysis for climate risk identification and reporting in the sector.

Risk management

All three banks report having processes for identifying and managing climate risks in their overall organizational risk management system. This is, however, described in general terms without a clear link between the climate-related and overall risk management. Consequently, all the banks have scored low on the degree of integrating climate-related risk identification, assessment and management processes in the organization's overall enterprise risk management systems. Processes for managing climate-related risks are also described through an overall description of how carbon footprint portfolio assessments are utilized. A more detailed description of both credit and investment policy is, however, lacking and is an area of improvement for the banks.

Metrics and targets

In general, the coverage of metrics and targets by the banks is good, and all three banks have relatively robust disclosures on metrics, including reporting on scope 1, 2 and 3 emissions and historical data. However, reporting on scope 3 mainly encompasses non-material aspects such as business travel, and all the banks only have a short- and high-level description of their CO₂ emissions in relation to their investments. Most of the banks do not provide comprehensive metrics on climate-related risks and opportunities in relation to their investment and lending activities. For example, only one bank provides metrics on climate-related opportunities, such as amount of green bonds owned. Furthermore, only one bank provides a high-level overview of the amount of assets, which are exposed to climate-related risks, concerning their total assets.

Lastly, all the banks in the analysis score low on targets. The reason being that the foregrounded targets are few and mainly relate to their own operations and are therefore not aligned with the significant risks and opportunities related to the banks' investments and lending activities.

Asset owners and managers

Sector overview

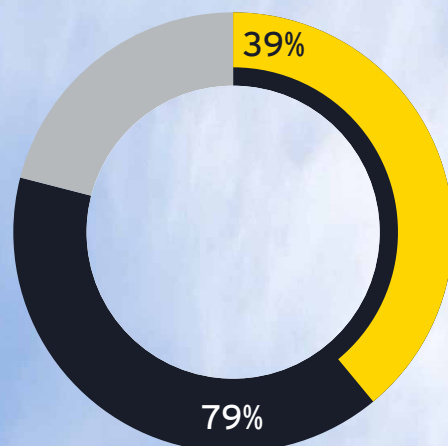
The assessment included three companies in this sector. Despite their broad exposure to climate-related risks across the industry, the level of climate-change disclosure varies greatly among the analyzed companies—in terms of coverage and quality of reporting. Two of the companies have relatively high coverage scores, while one company significantly underperforms, which brings down the overall sector score.

None of the companies assessed disclose material risk metrics and targets in relation to investment portfolios and are instead mostly confined to their own operations.

Furthermore, although the companies cover governance structures and strategy integration in relation to climate-related risk, they mostly describe the risks in an overall, high-level manner with little attention to disclosing mitigation strategies or management procedures of different leadership levels.

Areas of improvement:

- ▶ Disclosure of metrics to measure the company's performance on climate-related risks
- ▶ Identification of targets
- ▶ Integration of climate risk into the general investment strategy
- ▶ Disclosure of 2°C climate scenario impacts on business performance and strategy



Sector Rating per Category



Governance

Of the assessed companies, only one did not address all the governance parameters recommended by TCFD. Furthermore, the degree of detail disclosed is significantly low for two of the companies, which means that the top-performing company in the sector drives up the average sector score.

The worst-performing company does not disclose any information regarding board oversight of climate-related risks and opportunities. The top-performing company describes in a comprehensive and detailed manner the board's and the sustainability committee's involvement and responsibilities, the interaction with management, as well as the connection between their climate-related strategy and the overall business strategy. In respect of management's role in addressing climate-related risks, the top-performing company reports having a clear division of responsibility with the company's internal responsible investments board overseeing compliance with the responsible investment policy. The remaining two companies only describe managements' role in a high-level manner without disclosing reporting procedures and monitoring processes.

Strategy

The coverage of strategy implications in relation to climate-related risks and opportunities is uneven across the assessed companies. While two companies report on the strategic implications, the worst-performing company does not cover two out of the three TCFD recommendation areas within the strategy category. Furthermore, the degree of detail in the information disclosed is limited, and climate-related risks and opportunities constitute only a minor part in the risk disclosure of the companies assessed. Even the top-performing company falls short in disclosing adequately on strategy implications, and all the companies lack the inclusion of specific time horizons, as well as the estimated financial impacts. The use of climate-scenario analysis to gauge the climate-related risks and opportunities is also underutilized, with two of the companies only using it to assess a specific investment portfolio's resilience; however, without assessing their overriding investment strategy's resilience.

Risk management

Most of the companies disclose risk management procedures in relation to climate-related risks, with only one company missing to report on climate risk management's integration into its overall enterprise risk management. Furthermore, only one of the companies assessed has adequately described the climate risk assessment process, both in relation to its 2°C scenario-analysis and overall screening processes. The remainder of companies have a very limited description of risk management processes, and only briefly describe their Environment, Social and Governance (ESG) screenings of investments and active ownership approaches.

Metrics and targets

In general, all companies performed poorly in this category, both in terms of coverage and quality, resulting in the lowest-performing TCFD category for the sector. Two companies have included a considerable number of metrics in their reporting, although they are mainly related to their own operations, hereunder scope 1 and 2 emissions. One of the companies does not even disclose basic sustainability indicators or emission statistics. This indicates that the data available among portfolio companies is scarce, which hinders asset owners and managers in disclosing their most critical climate impact in a meaningful way. Nevertheless, an overall alignment with metrics and targets to key risks in the sector is missing, including a meaningful description of metrics and targets related to the carbon footprint of investment portfolios.

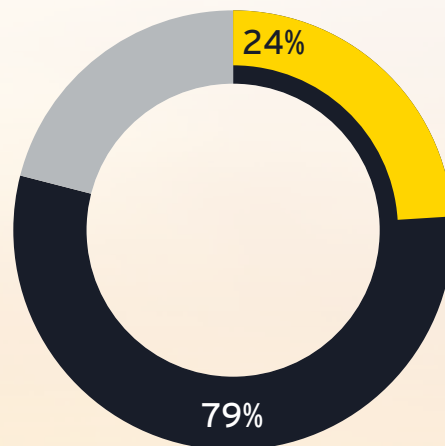
Insurance

Sector overview

The assessment included three companies in this sector. Most of the companies address most of the TCFD recommendations. However, the sector receives low average disclosure scores on quality across all categories, with one company scoring significantly higher, which drives up the average score of the sector. This result reflects limited details in the information disclosed. All the companies reported inadequately about the link between climate-related risks and their governance structures, risk management procedures, and strategy. The use of climate scenario analysis was especially missing, with none of the companies describing this in their reporting. Consequently, physical climate risk disclosure received limited attention related to risk management and integration, despite this being a highly material risk for the sector.

Areas of improvement:

- ▶ Extended description of the company's risk management processes and governance structure
- ▶ Closer linkage of climate risk and company strategy
- ▶ Increased disclosure of how climate change, and especially physical risks associated with climate change, impact the sector
- ▶ Integration of climate risk into the company's general risk management framework



Sector Rating per Category



Governance

Only one company discloses information regarding board oversight of climate-related risks and opportunities, while the remaining two do not mention it at all. In respect of management's role in addressing climate-related risks, only one company reported having a clear division of responsibility with a risk management function reporting to the risk committee and with the overall responsibility delegated to a CSR committee. Clarity around board-level sustainability committees, including composition and interaction with management, remains a future focus area.

Strategy

Two out of three companies address strategy implications concerning climate risks and opportunities. Furthermore, climate-related risks and opportunities play only a minor role in the companies' overall risk disclosures. As a result, most companies use high-level descriptions of the risks that they face. Only one company has a more detailed description of general risks and opportunities with a focus on physical risks, discussing the possible implications of these. None of the companies refer to any form of climate scenario analysis. As a result, the attention to physical risks is in general insufficient in the disclosures, despite this being highly material for the sector. We recommend a more detailed description of time horizons for these risks, the strategic implications such as the physical impacts of climate change on insurance policies, as well as mitigation initiatives.

Risk management

Most of the companies disclose climate-related risk management information, with only one company not disclosing information about its climate-related risk management processes. Moreover, only one of the companies assessed describes in more detail its process for identifying and managing climate-related risks, which consequently drives the overall sectors to score significantly upwards. The remaining two companies provide no or only very limited descriptions of their risk management processes. This indicates a general need in the insurance sector for understanding and/or reporting on the integration of climate risks in the overall enterprise risk management process.

Metrics and targets

All companies disclose metrics and targets in relation to climate risks. However, the assessed companies only report on energy consumption and CO₂ emissions in relation to their own operations. Furthermore, only one company reports on scope 1 and 2 emissions as well as selected scope 3 emissions, and describes the methodology. However, as these metrics are confined to the companies' own operations, they are unlikely to be the key climate-related risk issues for the insurance sector. What we need is more attention to climate-related targets and metrics that align with the most material risks and opportunities.

Agriculture, food and forestry

Sector overview

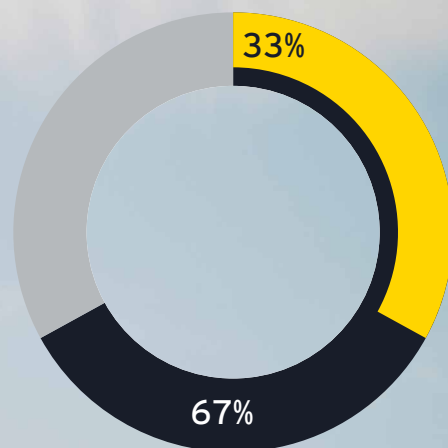
All three companies assessed in this sector are engaged in either the food or the beverage industry. Overall, the agricultural sector has moderate coverage of the TCFD recommendations. However, quality scores across the recommendations are relatively low. One company, which also is the only participant in the CDP, significantly outperforms the other two, improving the benchmark average for the sector overall.

Overall, the companies are, to some extent, aware of climate-related risks, and report on climate-related metrics and targets. However, the companies only tend to report on these 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, hereunder a 2°C scenario, to understand the longer-term impacts, including risks and opportunities for the company. Besides, none of the companies indicate that they will be exploring the use of climate scenarios in the near future.

Areas of improvement

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



Sector Rating per Category



Governance

The coverage of governance disclosures is moderate among the companies assessed. Except for one company, the governance structure for sustainability is only reported at a very general level, with no specific mention of the governance of climate-related risks. Although one company provides a detailed disclosure of the board's oversight of climate-related risks and opportunities, including managerial responsibilities, the overall quality of reporting in this sector is rather low.

Strategy

Overall, the quality of reporting on strategy is the lowest for all reporting categories. Although all the companies assessed identify either climate-related risks or opportunities for their operations, the quality of their risk identification is low. None of the companies assessed use scenario analysis to identify risks and opportunities, and the impact of risks is only described at a very general, qualitative level with limited information about the methodology or assessed financial impact.

Risk management

Overall, it remains unclear as to how the companies identify climate-related risks and opportunities. Furthermore, only one company describes how the identified climate-related risks are managed, and the assessed companies 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. This results in a low-quality score in the risk management category.

Metrics and targets

Metrics and targets form the category with the highest coverage and quality of reporting. Yet, the performance, particularly in quality, varies between companies. One company clearly outperforms the other two. Between the remaining two companies one performs moderately and the other relatively poorly. Two out of the three companies have set climate-related targets, and one of these companies even receives top scores in two of the TCFD recommendations within this category, due to the company's extensive description of climate-related climate-related metrics and targets.

Energy

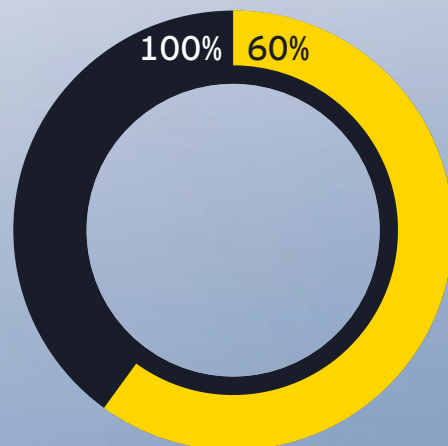
Sector overview

The assessment included three companies from the energy sector. The energy sector is the best performing non-financial sector in terms of the coverage of disclosure categories since all companies disclose on all 11 categories. Besides, two out of three companies included in the assessment of the energy sector achieve high quality scores across the disclosure categories, and the last company performs moderately. Therefore, this is also the best-performing sector in terms of the quality and depth of the coverage.

All the companies assessed perform particularly well in their disclosure of climate-related risks and opportunities, and in their reporting on metrics and targets related to climate-related risks. This indicates that the energy sector generally recognizes climate-related risks to have a significant impact on the sector. Although all companies state that they either apply or will be applying climate-related scenario analysis in the near future, there is very limited disclosure on the resilience of the companies' strategies against different scenarios at present.

Areas of improvement

- ▶ Extended description of the financial and strategic impact of climate-related risks and opportunities
- ▶ Extended disclosure of scope 3 emissions
- ▶ Enhanced utilization of climate scenarios to evaluate the resilience of company strategy against climate-related risks



Sector Rating per Category



Governance

The quality of reporting on disclosure categories related to governance varies significantly between the three companies. One company outperforms the other two because it provides an extensive overview of its governance structure, including a clear division of responsibility among the company's board of directors and management. Besides, the company's board of directors incorporates climate-related risks when assessing and deciding upon new investments, or the discontinuation of existing activities, and monitors the company's progress in relation to CO₂ reduction on a monthly basis. This company drives up the sector's average quality score, whereby the energy sector achieves the highest quality score in governance. However, it is important to note that the two remaining companies provide limited information on governance, concerning the role of management in assessing and managing climate-related risks and opportunities.

Strategy

Overall, this is the area where the energy sector receives the lowest quality score. Two companies perform particularly well in providing comprehensive disclosure of their climate-related risks and opportunities, including both transitional and physical risks. However, there is room for improvement in describing how climate-related risks and opportunities impact company strategy as well as financial planning. Likewise, although two companies apply climate-related scenarios, and the last company is in the process of developing a methodology to do so, all companies could improve their disclosure on how resilient their strategies are in relation to different climate scenarios.

Risk management

Like the governance category, one company drives up the sector's performance in terms of the quality of reporting on risk management. This company manages to achieve high scores for detailed disclosures on the risk identification and management process. Climate-related risks are consistently integrated into the company's overall strategy, and their impact is assessed on a financial basis in line with the company's general enterprise risk management processes. The two remaining companies provide rather high-level disclosure on risk management related to climate issues.

Metrics and targets

To some extent, all companies disclose their scope 1 and scope 2 emissions. However, disclosure on scope 3 emissions is still rather limited, leaving room for improvement for the energy sector. In this reporting category, one company receives two high scores for its disclosure on metrics used to assess its climate-related risks and opportunities, and its description of climate-related performance targets. Specifically, the company includes clearly-defined boundaries and historical data for climate-related metrics and targets, allowing for a simple overview of the company's performance against targets. Moreover, the company has implemented climate-related performance indicators in its incentive programs at the executive board level, effectively tying individual climate-related targets to the remuneration schemes of executive board members. The other two companies perform moderately in these two aspects.

Transport

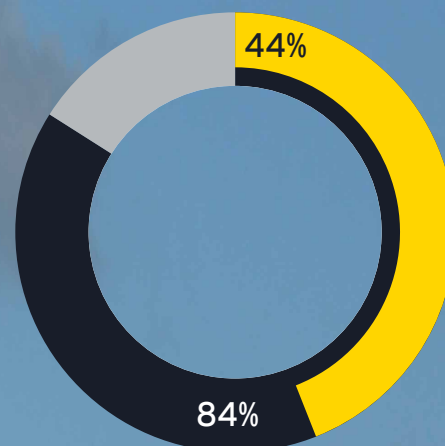
Sector overview

The assessment included four companies in the transport sector. Overall, the sector scored high on coverage of the 11 TCFD recommendations. However, the quality of the companies' disclosure of climate-related risks in all four disclosure categories varies significantly between the four companies assessed. One company scores very low and does not cover 5 out of the 11 recommendations. Two companies achieve moderate-quality scores, while the last company clearly outperforms the rest in respect of all four reporting categories. This company drives up the average quality score for the sector, resulting in the transport sector being the second best-performing non-financial sector and third best-performing sector overall.

The considerable variations in performance across the companies assessed mean that, on average, the sector receives moderate scores for indicators related to governance, risk management and metrics and targets. The sector visibly performs worst in the strategy category, because three out of the four companies assessed perform poorly, displaying a lack of understanding of the risks and opportunities that climate-related issues pose to their business.

Areas of improvement

- ▶ Extended consideration of climate-related risks and opportunities, as well as thorough assessments of the financial and strategic impact thereof
- ▶ Evaluation of the resilience of company strategy against different climate scenarios
- ▶ Usage of metrics and targets allowing for the evaluation of performance related to managing climate-related risks and opportunities



Sector Rating per Category



Governance

One company receives low scores on its quality of reporting on issues related to governance because there is no direct mention of climate-related issues, and the company only discloses its governance structure related to sustainability in general. The remaining three companies perform better, with one company performing particularly well and achieving the maximum score for this reporting category. This company clearly discloses its governance structure by outlining the different tiers that its governance of climate-related risks is divided into, and how these tiers relate to each other.

Strategy

As stated above, strategy is the category where the transport sector receives the lowest quality scores. Although all the assessed companies are aware of climate-related risks, the quality of their disclosures varies considerably. One company gets a high score for a detailed description of climate-related risks and opportunities by specifying both physical and transitional risks with clear time horizons. Two companies provide very limited and inconsistent accounts of climate-related risks and opportunities, leaving room for considerable improvement. Besides, all companies can improve on their description of the impact of climate-related risks on the companies' strategy and financial planning. Lastly, only one company applies climate scenarios to evaluate the resilience of its strategy against climate-related risks, indicating a lack of consideration of the impact that climate-related risks may have on the sector.

Risk management

In this category, one company receives low-quality scores for very limited descriptions of their processes related to identifying, assessing and managing climate-related risks. This company also fails to provide adequate explanations of how management processes related to climate risks are integrated into its overall risk management. The remaining three companies achieve moderate to high scores for their disclosures related to risk management. Once again, one company outperforms the rest, receiving two high scores for a detailed account of its processes for identifying, assessing, and managing risks, which include reviewing climate-related risks at both company and asset levels.

Metrics and targets

Two of the companies assessed only report on a limited number of targets in a qualitative manner, while the other two companies have quantitative targets with clearly-defined baselines and methodologies for evaluating performance against the targets. The companies receive low to moderate scores for their disclosures on scope 1, scope 2 and scope 3 emissions. Two companies do not disclose any information on scope 3 emissions and provide limited information on the methodology used to disclose scope 1 and scope 2 emissions. The two other companies report on scope 3 emissions, but not on those most material categories to the sector. Therefore, there is a lot of room for improvement in relation to disclosing scope 3 emissions across the sector.

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