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THOUGHT LEADERSHIP REPORT

Climate Reporting in Switzerland

How Aligned are Swiss Companies with the Ordinance on Mandatory Climate Disclosures?

About:

enfinit

Enfinit is a Geneva based advisory practice focusing on the energy transition.

Founded in 2016, Enfinit works with project developers, investors and corporations in structuring their sustainable infrastructure projects and deploying their corporate decarbonisation strategies.

WWW.ENFINIT.CH

About:

Pelt8

Founded in August 2021, Pelt8 aims to make sustainability accessible.

Their solution enables climate action by offering a platform with scalable processes and controls to collect sustainability-related data in an easy and auditable way.

The platform supports international reporting standards, bespoke management reports, and automates reporting.

WWW.PELT8.COM

This report was designed and visualised by Skins Agency
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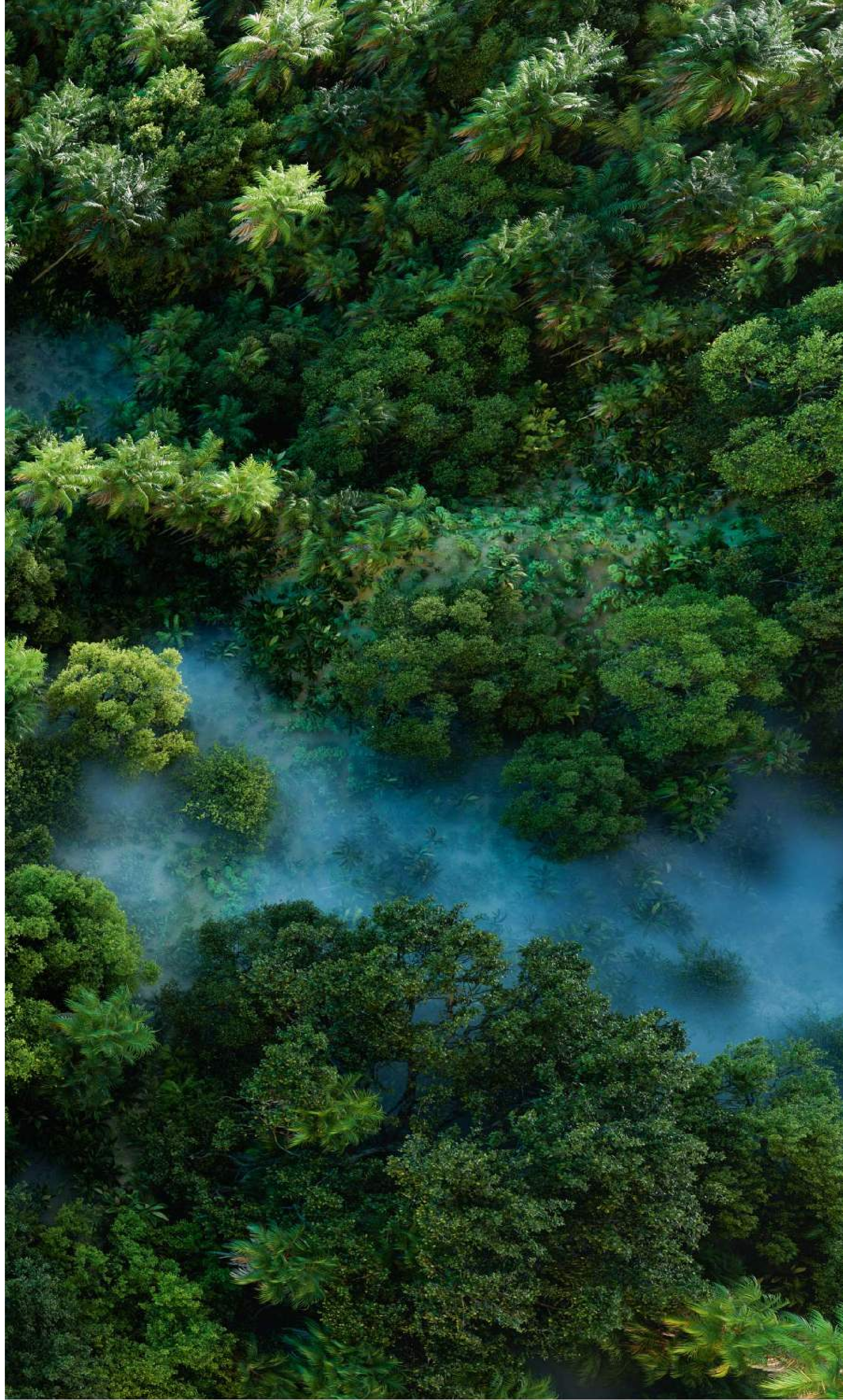
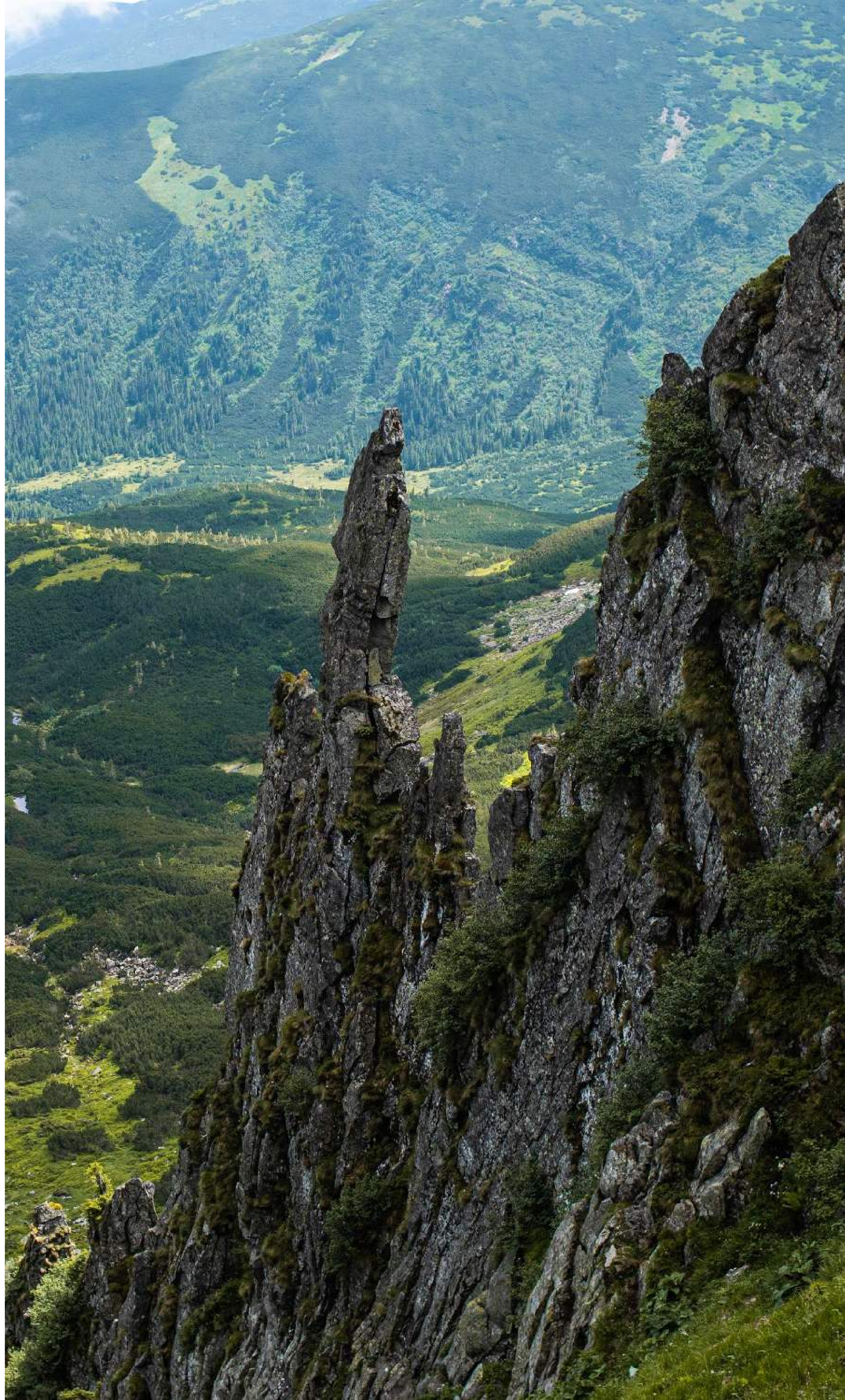
Contents

List of Abbreviations

CHF	Swiss Franc
CO	Swiss Code of Obligations
CSRD	Corporate Sustainability Reporting Directive
ESG	Environmental, social, and governance
ESRS	European Sustainability Reporting Standards
IPCC	Intergovernmental Panel on Climate Change
GHG	Greenhouse gas
GRI	Global Reporting Initiative
SBTI	Science Based Targets initiative
SDG	Sustainable Development Goal
TCFD	Task Force on Climate-related Financial Disclosures
UN	United Nations



Preface



Preface

Dear Reader,

In the face of accelerating climate change, the call for robust corporate climate reporting has become a defining challenge for businesses worldwide. Switzerland has embraced this global initiative by introducing mandatory climate-related reporting for publicly listed companies, effective from January 2024. The ordinance mandates that climate reporting aligns with recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).

Numerous Swiss companies have pioneered non-financial reporting, incorporating TCFD recommended disclosures into their annual sustainability reports. However, many companies are currently navigating the process to ensure future reporting compliance with the climate reporting ordinance.

To better understand the alignment of current reporting with upcoming mandatory obligations, we conducted a research study examining the landscape of climate reporting within the Swiss business ecosystem. Our review encompassed relevant publicly available information from 40 non-financial publicly traded companies.

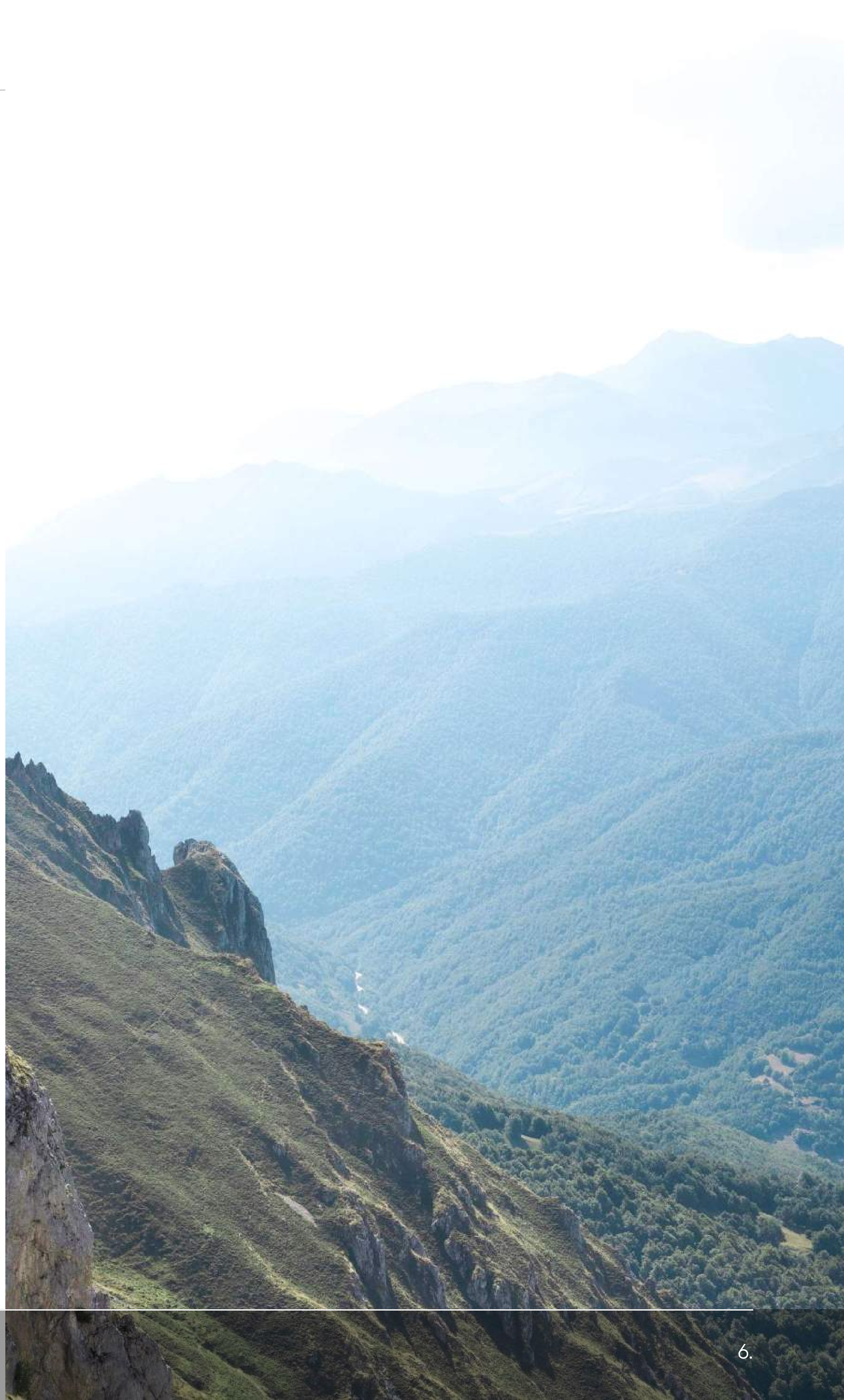
The study serves a dual purpose: firstly, it establishes a baseline benchmark of current reporting practices in Switzerland before the mandatory disclosure takes effect, enabling us to measure year-on-year progress as companies increasingly comply with the Swiss ordinance on climate disclosures. Secondly, it identifies reporting gaps, providing valuable insights for stakeholders to pinpoint areas where additional efforts are needed to enhance disclosure.

In addition to our quantitative research, we highlight best practices as examples of how various topics are addressed among Swiss companies. These examples serve as tangible illustrations for companies seeking guidance on addressing various disclosure requirements.

We trust that this report will offer valuable insights, helping stakeholders benchmark the current state of affairs and catalyse a constructive dialogue propelling businesses toward more resilient, transparent, and sustainable practices.

Qendresa Rugova

Managing Director
Enfinit Sàrl
November 2023
Geneva, Switzerland



Executive Summary

Climate reporting by Swiss companies is not yet aligned with the TCFD recommendations. In this study, we assessed climate related reporting for the fiscal year 2022 from 40 non-financial publicly listed companies on the Swiss SIX stock exchange. Our research focused on the extent of alignment of observed disclosures related to the 4 TCFD fundamental areas (Governance, Strategy, Risk Management, and Metrics and Targets). Results show that public disclosures are generally not well aligned with the TCFD recommendations. It's important to note that our study is based on data up to December 2022. Companies may be currently undertaking significant efforts in improving their publicdisclosures to adhere to the upcoming Swiss Ordinance obligations, which is not reflected in these findings.

Out of the four categories assessed, Governance is the best aligned with TCFD recommendations with nearly two-thirds of companies already disclosing information on various Governance aspects. We can conclude that Swiss companies are generally aligned with TCFD recommendations insofar as Governance is concerned. However, while Board`s oversight on sustainability matters is well highlighted, information related to frequency and the processes followed is either lacking in detail or missing altogether. Additionally, we have observed that Management`s role in identifying, mitigating and monitoring climate related risks is typically broadly mentioned. However, relevant roles and responsibilities of different business functions within the company, as well as the processes, platforms and frequency of oversight by the board are usually not well articulated.

The most notable misalignment with TCFD recommendations is observed in the area of Strategy, where the potential impact of climate-related risks on company strategy is frequently the least addressed among the four fundamental categories. Only 17.5% of companies establish clear time horizons taking into consideration the useful life of the asset`s and infrastructure based on which climate related risks and opportunities are assessed. Furthermore, on average only 23% of the companies in our study provided information on how climate related risks and opportunities impact their Strategy while only 13% describe how resilient their strategies are to such risks. Lastly, only 12.5% (5 out of 40 companies) of the companies in our study make use of Scenario Analysis which is recommended by the Task Force as the method for assessing the potential implications for their businesses in case climate related risks materialise.

Executive Summary

Although Risk Management disclosures exhibit greater alignment in comparison to Strategy the amount of information provided falls short of adhering to TCFD recommendations, with just 37% of the companies making such disclosures. Our analysis show that companies present how sustainability related risks are embedded in their general risk management process. Risks are typically prioritised through a materiality assessment, but they are often only mentioned as generic topics, such as "climate change". Furthermore, climate related risks, such as physical and transition risks, clearly recommend by TCFD, are often overlooked with only 20% of the companies providing a specific list of risks along with the associated mitigating strategies.

Regarding the fourth of the four TCFD fundamental areas, it is essential to distinguish the degree of alignment among different metrics and targets. Notably, metrics and targets related to GHG emissions exhibit a high level of alignment. Our findings show that 85% of the companies disclose GHG related metrics and 67.5% have targets related to GHG emissions. Additionally, most of the companies fare well in terms of disclosures for other environmental related metrics and targets such as those pertaining to energy, waste and water.

However, we can observe a significant misalignment with the TCFD recommendations in the metrics and targets concerning both Physical and Transition risks and opportunities, highlighting a notable lack of attention to the Double Materiality concept. Our study shows that only 3 out of the 40 companies presented metrics related to Physical and Transition risks. Similarly, only 5 companies disclosed metrics related to the proportion of revenues and assets aligned with climate related opportunities. One of the contributing factors to this situation, in our opinion, is the exclusive emphasis on Impact Materiality without consideration of Double Materiality in reporting. Consequently, companies excel in areas related to the environment, like GHG emissions, while metrics concerning the impact of climate-related risks on company performance receive insufficient attention.

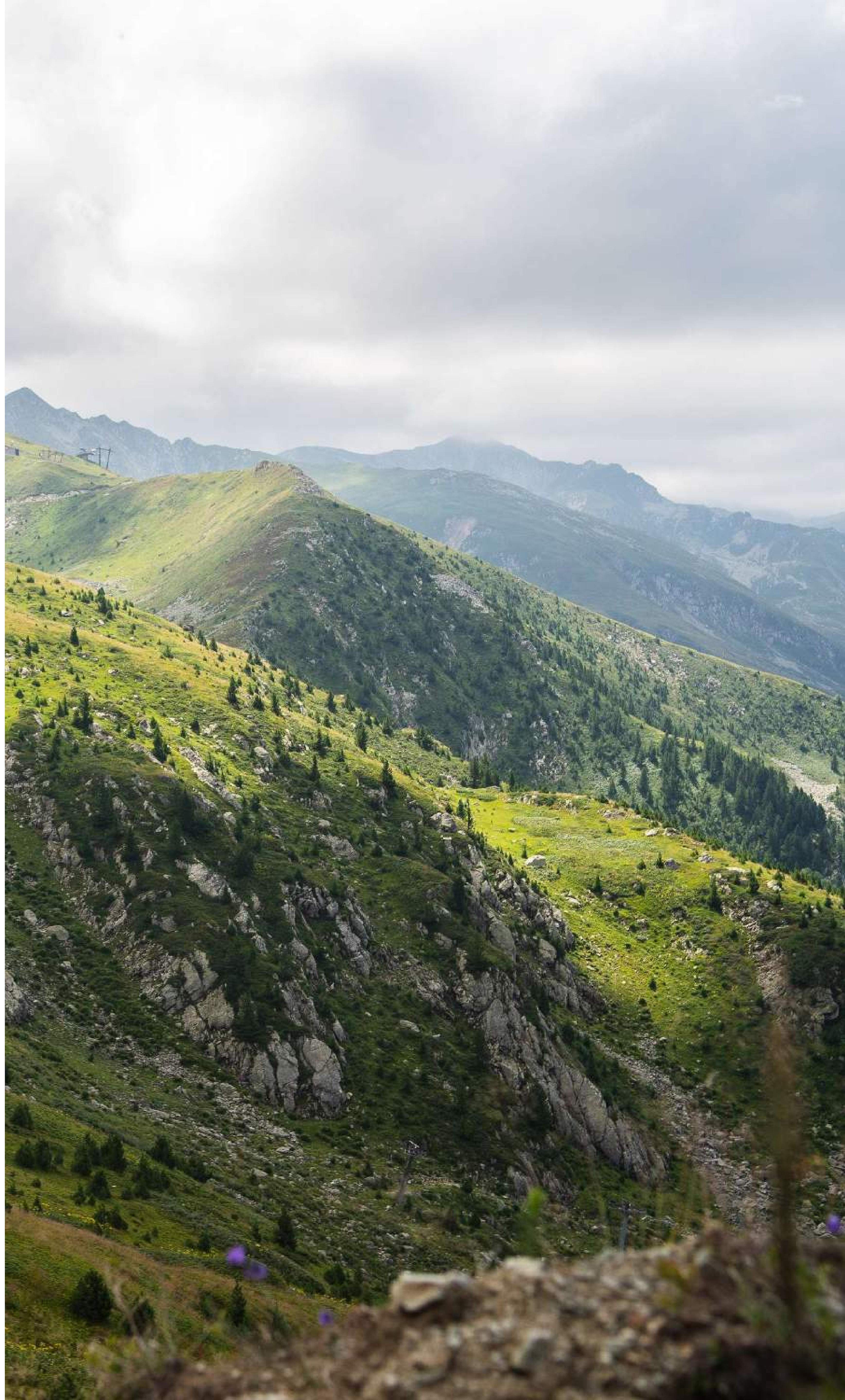
Executive Summary

Lastly, probably as expected, is that companies with higher revenues exhibit a stronger alignment across all four TCFD categories. Companies generating annual revenues exceeding CHF 10 billion can be considered the most aligned with TCFD requirements. Nevertheless, even these sizable companies do not fully align with TCFD recommendations in Strategy, Metrics and Targets regarding physical and transition risks, financial impact disclosure, and detailed transition plans. Conversely, companies with annual revenues below CHF 1 billion display notable deficiencies and substantial misalignment in various aspects of the four TCFD fundamental areas and their related sub-areas. Table to the right presents a visual depiction of how companies align with TCFD recommendations according to their annual revenue where the figures represent the simple averages within each sub-area to account for the multitude of factors considered in the study.

REVENUE RANGES (CHF)				
TCDF Recomendations	Up to 500 mn	500 mn to 1bn	1 to 10 bn	10 bn +
GOVERNANCE				
Board Oversight	45%	58%	71%	88%
Managment's Role	22%	46%	63%	98%
STRATEGY				
Identification of Risks	10%	17%	25%	42%
Impact of Risks	8%	25%	35%	53%
Resilience	3%	9%	13%	44%
RISK MANAGMENT				
Risk Identification Process	13%	27%	44%	58%
Risk Managment	3%	38%	33%	59%
Risk Integration	20%	40%	42%	75%
TARGETS AND METRICS				
GHG Emissions	30%	60%	69%	67%
Other TCDF recommended metrics	2%	20%	12%	35%
Other environmental metrics	33%	80%	78%	96%
GHG Targets	15%	65%	67%	88%
Other TCDF recommended targets	0%	3%	3%	4%
Other environmental targets	17%	47%	36%	71%
Transition Plan	10%	0%	25%	50%
Financial Impact	0%	0%	0%	13%

- Above 80%
- Between 61% and 80%
- Between 41% and 60%
- Between 21% and 40%
- Under 20%

Introduction



Introduction

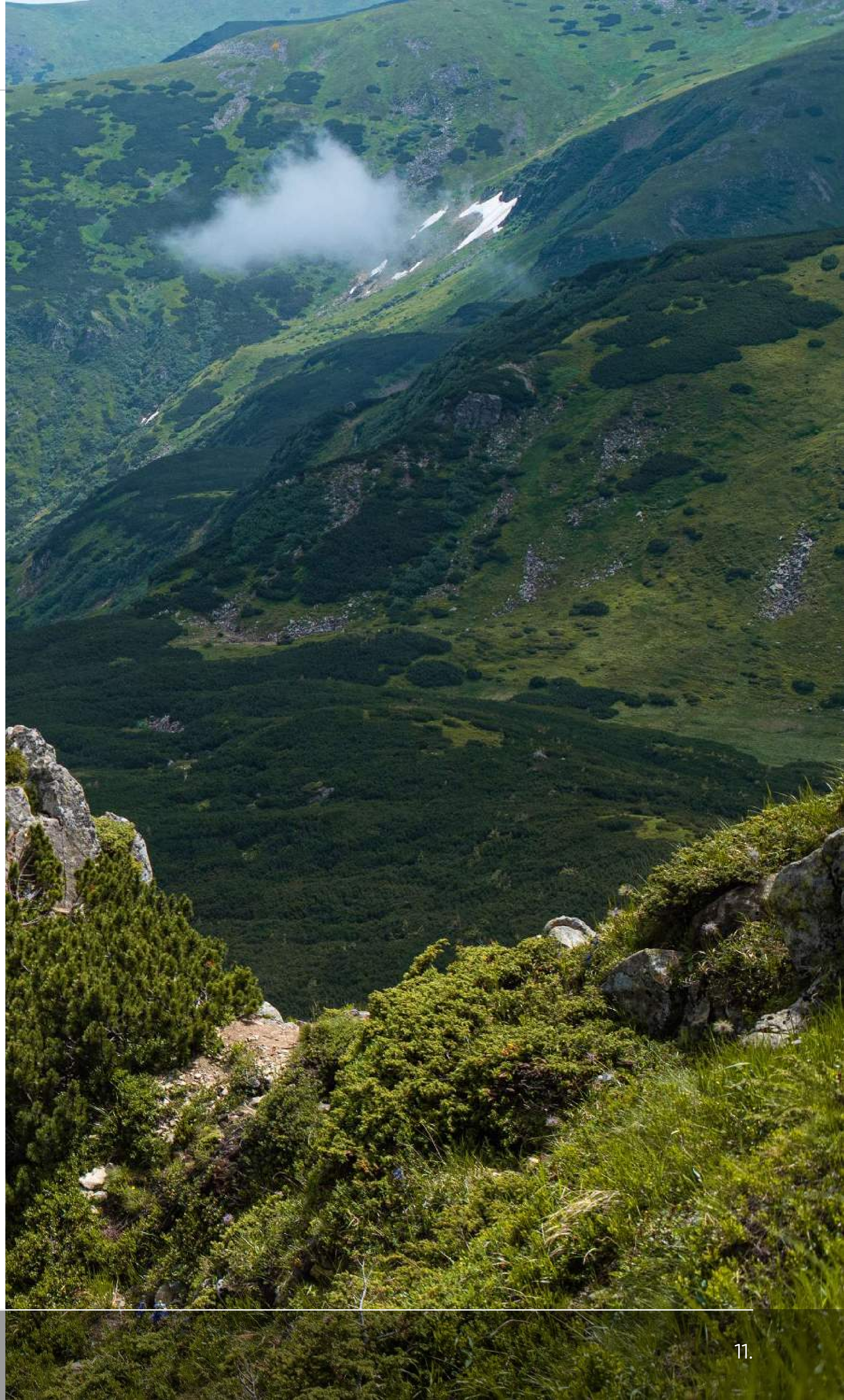
Climate reporting refers to the process of disclosing information about an organization's activities, strategies, and performance related to climate change and its environmental impact. This includes disclosing information on how an organization is contributing to or mitigating climate change, as well as its efforts to adapt to the challenges posed by climate change. Climate reporting is becoming increasingly important as businesses and governments recognize the urgency of addressing climate change.

In November 2022, the Federal Council adopted the ordinance on climate disclosures **(Ordinance)** which requires companies to include additional climate-related information in their non-financial reporting.[1] Article 3 of the Ordinance stipulates that climate disclosures are to be based on the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD).** The Ordinance will enter into force on January 1, 2024, and non-financial reports will have to be aligned with its specifications from 2025 for reporting on the 2024 financial year[2]

To assess readiness for the impending regulatory obligations, we studied the alignment of current climate reporting in Swiss companies with TCFD recommendations. We analysed **40 non-financial companies listed on the Swiss stock exchange,** evaluating the four fundamental aspects outlined by the TCFD, namely Governance, Strategy, Risk Management, and Metrics & Targets.

In this Study we provide a brief overview of the Swiss Ordinance on mandatory climate disclosures and the TCFD Framework. We then present the results of our study for each of the four TCFD pillars: Governance, Strategy, Risk Management and Metrics & Targets. For each of the pillars, we also present some best practices from Swiss companies that we have observed during our research.

1. This Ordinance governs disclosures on climate issues by companies in accordance with Article 964a of the CO as part of environmental matters within the framework of non-financial matters in accordance with Article 964b of the CO
2. https://www.sustainablefinance.ch/api/rm/MPA3G79MWFHVXX3/2023-08-24-ssf-guidance-tcfd-disclosure-final.pdf



Overview of Swiss Ordinance on mandatory climate disclosures

In November 2022, the Federal Council adopted the ordinance on climate reporting (Ordinance) which requires companies in the scope of Art. 964a of the Swiss Code of Obligations (CO) to include additional climate-related information in their non-financial report as part of their reporting on environmental matters.[3] The Ordinance will enter into force on January 1, 2024, and non-financial reports will have to be aligned with its specifications from 2025 for reporting on the 2024 financial year.[4]

According to the Ordinance, publicly listed companies, banks, and insurance companies with 500 or more employees and at least CHF 20 million in total assets or more than CHF 40 million in turnover are obliged to report publicly on climate issues.

Reporting should be based on the concept of **Double Materiality,** which includes disclosures related to the impact of the company's business activities on the climate (impact materiality) as well as the financial impact that a company incurs because of climate-related activities (financial materiality).

In addition, each company must describe the reduction targets it has set for its direct and indirect greenhouse gas emissions, as well as the transition plan to implement the necessary actions to achieve the set reduction targets.[5] For more details, see the In Focus section on What is Double Materiality?

The CO does not provide specific reporting requirements for non-financial matters. It does, however, refer to the recommendations of TCFD (version of 2017) and TCFD's implementation guidance (version 2021), including cross-sectoral and sector-specific guidances as well as the additional guidance on Metrics, Targets and Transition Plans. The Ordinance specifies that reporting should include a transition plan that is comparable to Swiss climate targets.

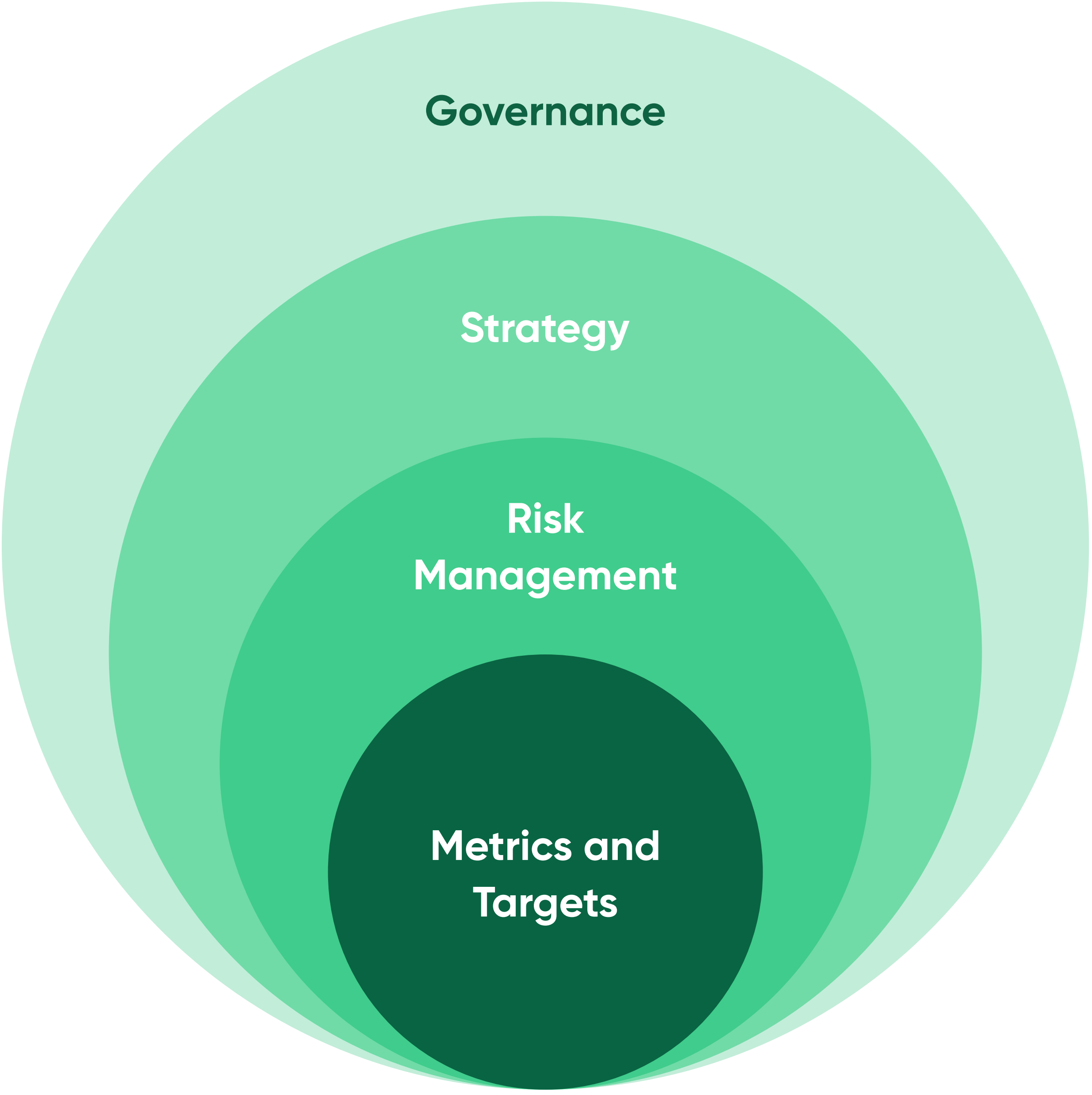
Lastly, as per the Ordinance, if a company does not disclose on climate-related information, it must either demonstrate that it complies in other ways with the climate disclosure obligation, or it should clearly declare that it does not follow any climate concept and justify its reasoning behind such a decision.

3. This Ordinance governs disclosures on climate issues by companies in accordance with Article 964a of the CO as part of environmental matters within the framework of non-financial matters in accordance with Article 964b of the CO
4. https://www.sustainablefinance.ch/api/rm/MPA3G79MWFHVXX3/2023-08-24-ssf-guidance-tcfd-disclosure-final.pdf
5. https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-91859.html

A brief overview of TCFD

The **Task Force on Climate-related Financial Disclosures (TCFD)** was established in 2015 by the Financial Stability Board (FSB), an international body that monitors and makes recommendations about the global financial system. TCFD developed the framework to help organizations, both public and private, disclose clear and consistent information about their climate-related financial risks and opportunities. The aim of the TCFD recommendations is intended to provide information to investors, lenders, and insurance underwriters to appropriately assess and price climate related risks.

The Task Force has structured its eleven recommendations around four thematic areas which represent core elements of how organisations operate. These four thematic areas are Governance, Strategy, Risk Management and Metrics and Targets.



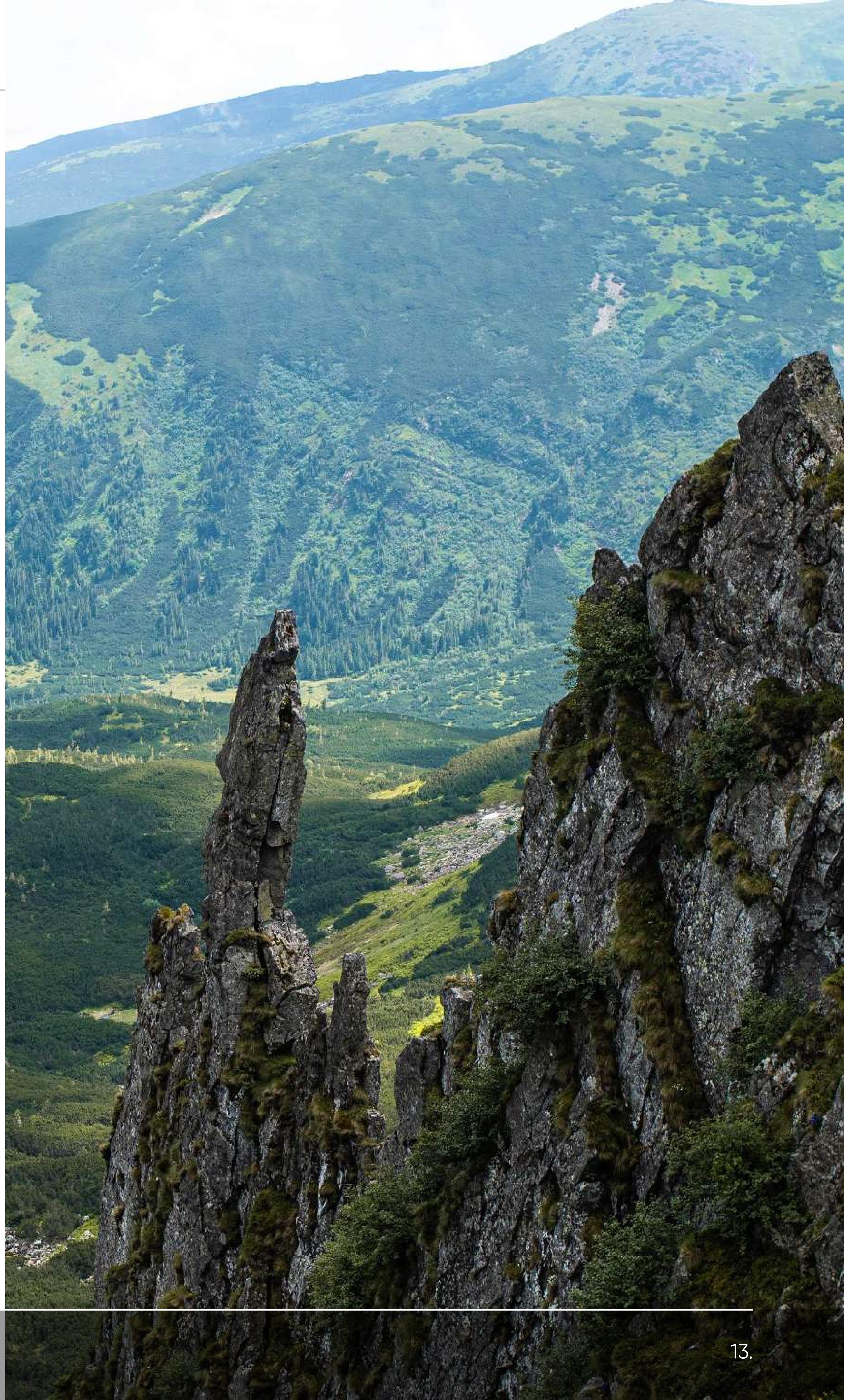
Core Elements of Recommended Climate-Related Financial Disclosures

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 identift, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-releted risks and opportunities



Research Design and Methodology

The main objective of this study was to undertake a comparative assessment of climate reporting in Switzerland and highlight the commonalities and divergences in the key TCFD recommendation areas related to the use of standards, governance, risks and targets to name a few.

Key research question:

How aligned are Swiss publicly listed companies with the TCFD Climate Related Financial Disclosure recommendations that are referenced in the Swiss Ordinance on mandatory climate disclosures?

Methodology:

This study is undertaken along the following 4 key steps.

1. DEFINE SCOPE	2. COLLECT DATA	3. ASSESS DATA	4. DRAFT REPORT
Define the research design and selection criteria Finalize the list of companies included in the resarch	Define the data points to be collected in line with TCFD ecommendatons Complete data collection Cross review reports to ensure consistency and calibration	Reach out to companies to review our findings Update findings based on feed back Assess the collected data Generate findings based on identified levers	Draft the report based on the generated findings Review the report Finalize the report

Scope limitations for this report:

- This study does not claim to be comprehensive. The questionnaire for data collection follows TCFD recommendations and therefore pertains to questions related to climate risks and opportunities. Questions related to social, and governance (outside of climate related topics) have not been included.
- The collected data and findings generated from it are based solely on the information that is publicly available. We acknowledge that, in some cases, climate reporting may be more advanced, which will likely be presented in the next reporting cycle. To ensure consistency, we have only included information that has already been shared with the public as part of each company`s Annual Sustainability Report or Annual Report as of the of December 2022.
- The study does not make a judgement on the quality of the reporting on various aspects. It only assesses the extent to which the companies make such information available and is aligned with the stated TCFD recommendations.
- In addition to sharing the results of our study, we provide a list of what we consider to be good practices on climate reporting from Swiss companies. Such information, however, can be highly subjective and does not in any manner represent legal advice.

Representation of Companies

Company Selection Criteria:

We have included 40 publicly listed companies in our study. There were 3 simple criteria used for the selection of the companies, namely (1) public listing on SIX stock exchange (2) minimum of 500 full-time equivalent employees on a company`s payroll and (3) focus on non-financial companies.

We have purposefully excluded all financial companies such as, banks, insurance companies, asset owners and asset managers. In addition to trying to make the sample size large enough to be representative, we also focused on including companies from various industries such as Industrials, Healthcare, Consumer Staples, Basic Materials, Consumer Discretionary, Technology, Utility.

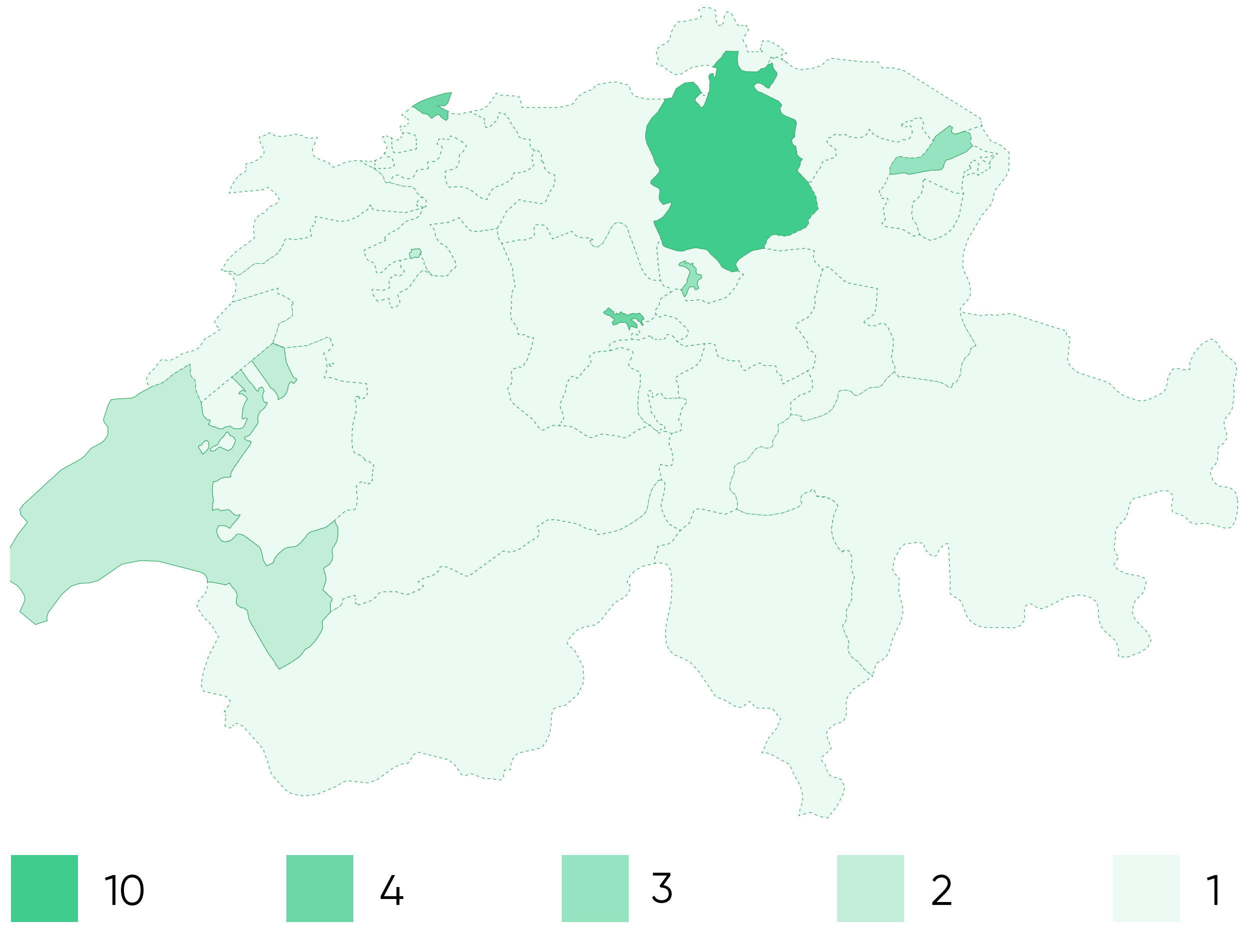
To the right2, we provide a more detailed breakdown of the companies in our sample, based on their annual 2022 revenue, Canton of domicile, and industry.

By Revenue:

BY REVENUE	
1 to 10 bn	12
10 bn +	8
500 mn to 1 bn	10
Up to 500 mn	10
Grand Total	**40**

By Industry:

INDUSTRY	
Basic Materials	6
Consumer Discretionary	4
Consumer Staples	5
Healthcare	5
Industrials	15
Technology	4
Utility	1
Grand Total	**40**



By Canton:

CANTON			
Aargau	1	Solothurn	2
Appenzell Ausserrhoden	1	St. Gallen	3
Basel	4	Thun	1
Bern	1	Ticino	1
Biel / Bienne	1	Uri	1
Geneva	1	Valais	1
Lucerne	4	Vaud	2
Schaffhausen	1	Zug	3
Schwyz	1	Zurich	10
Grand Total	**40**		

Information Accessibility and Standards Used

Information Accessibility

Overall, we can conclude that most of the Swiss companies in our study provide a good level of information on sustainability related topics in general, which includes all ESG (Environmental, Social and Governance) considerations. Such information is usually presented either in a dedicated sustainability report or as an integral part of a company` annual report, which is sometimes referred to as an Integrated Annual Report.

In general, we have observed that 23 out of 40 companies in our study already provide separate and dedicated sustainability reports, 13 others integrate such information within their annual reports and the remaining 4 companies either use dedicated web-pages or have short summaries on ESG related matters. However, it should be noted that such sustainability reports are often focused on the impact materiality i.e. company`s impact on the environment and have less information on the climate related risks posed on the company.

Standards used

The vast majority of sustainability related reporting in Switzerland is based on the Global Reporting Initiative (GRI) reporting standards, while TCFD is rarely referenced as a guiding reporting framework. The infrequent mention of TCFD in the sustainability report is not surprising since alignment with TCFD recommendations was not obligatory at the time of publishing of the reports. In few select cases a separate TCFD report was made available, while some companies include a dedicated section within their sustainability or annual report referencing the main TCFD disclosure recommendations.

In general, we have observed the following,

→ Many companies use more than one set of standards in their reporting.

→ 18 companies reference GRI as the predominant standard used for the preparation of their sustainability related disclosures, 6 make references to SASB and 12 are guided by UN SDGs.

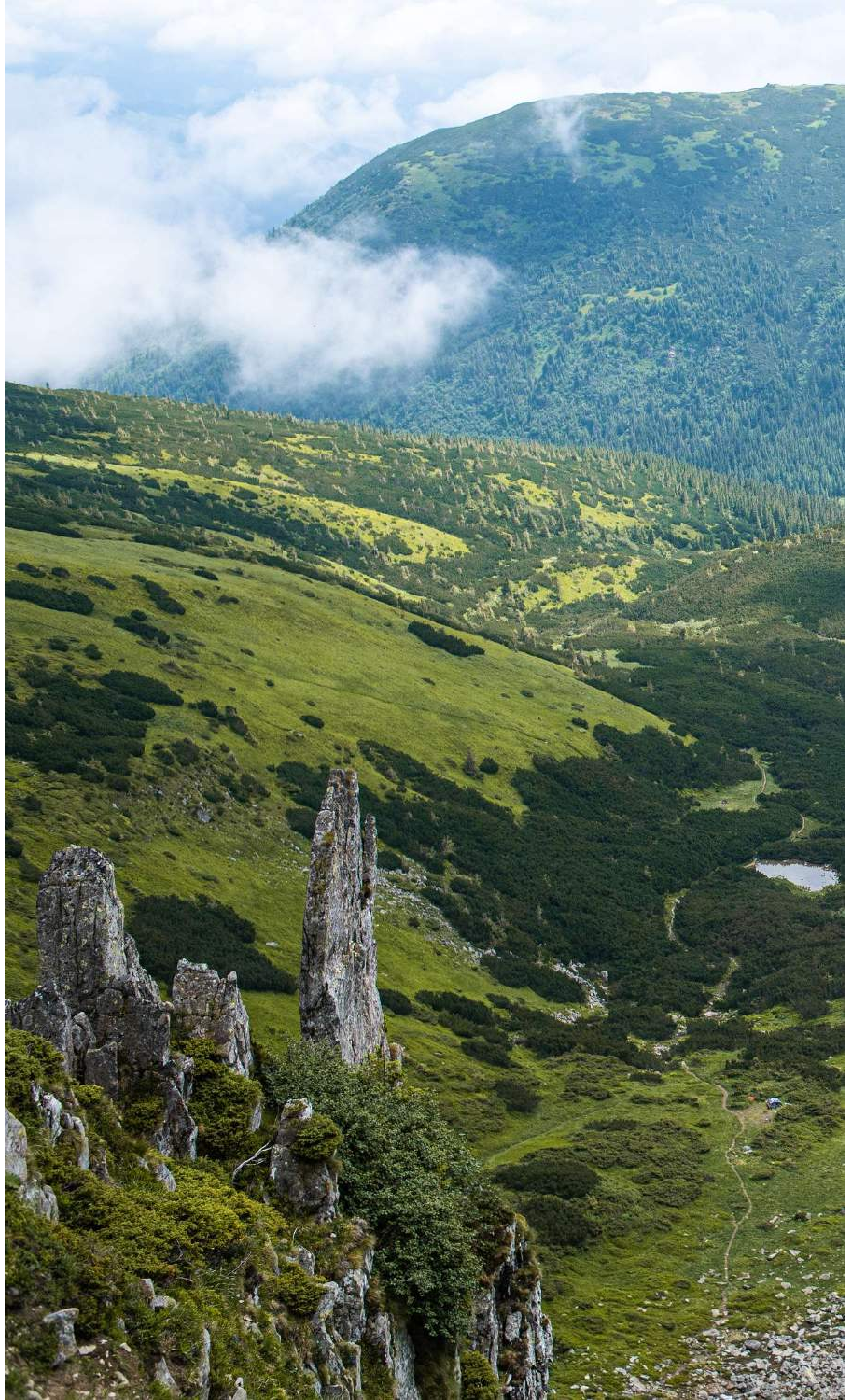
→ 5 make references to TCFD as the basis of preparation while few others also indicate that they plan to integrate TCFD in the future.

→ 5 companies do not make any reference at all to the standards or frameworks they used.

Best Practices

We acknowledge that companies often use various reporting frameworks and standards to satisfy various reporting requirements. Navigating such reports can sometimes be cumbersome for the reader as it is not clear where information is presented. From disclosure and viewer understanding perspective, we observed that most useful and easier to navigate are the reports that have a dedicated section on TCFD or include a clear index table with specific references to the rest of the report where more information on each TCFD recommendation can be found.

Governance

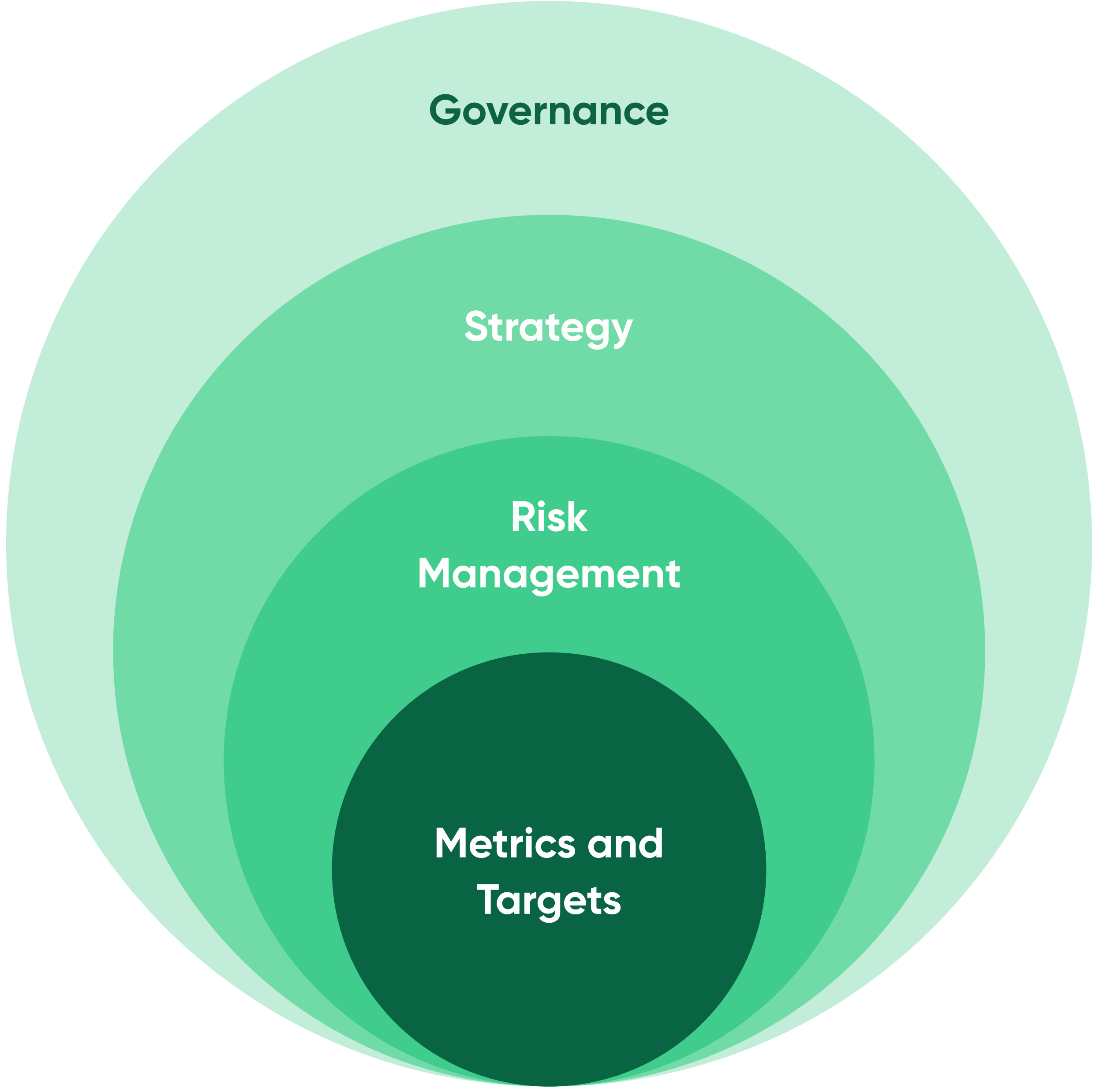


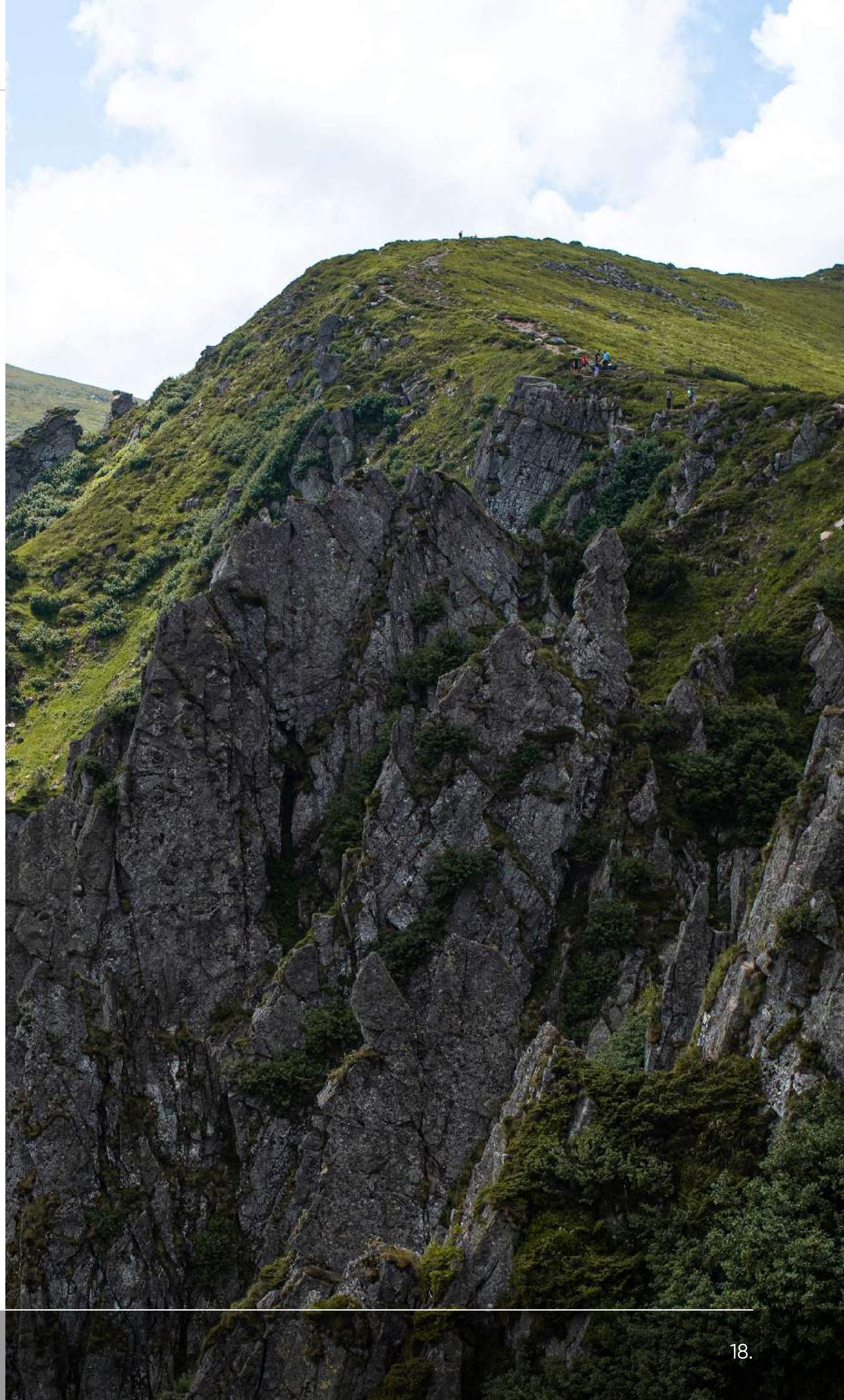
Governance

TCFD puts significant emphasis on Governance, which represents the outer layer of the four thematic elements around which recommendations are structured. Governance therefore provides an overarching oversight on the strategic direction, risk management as well as target setting.

According to TCFD, investors, lenders, insurance underwriters, and other users of climate-related financial disclosures are interested in understanding the role an organization's board plays in overseeing climate-related issues as well as management's role in assessing and managing those issues. Through such disclosures, investors and stakeholders are informed about whether the climate-related issues receive appropriate board and management attention.[6]

It should be noted that TCFD focuses specifically on how organisations govern climate related risks and opportunities and does not specifically cover other ESG topics. During our research we have observed that companies generally describe governance as part of sustainability efforts encompassing all ESG topics without necessarily focusing on climate risks. In our study, we have considered this to be generally in line with TCFD recommendations as we acknowledge that once a company has a governance structure in place, inclusion of climate specific risks and opportunities should be relatively straightforward.





6. TCFD Recommendations 2017

TCFD Recommendations on Governance

TCFD splits the topic in two key recommended disclosures:

A Board's oversight of climate related risks and opportunities.

B Management's role in assessing and managing climate related risks and opportunities.

For each category, the Task Force outlines several climate-related topics that organizations should consider in their disclosures. These topics are presented below.

A Board Oversight

1. The Company describes the **board`s oversight** of climate related risks and opportunities.
2. The Company states the **processes and frequency** by which the board is informed about climate-related issues.
3. The Company states how the board and/or board committees consider climate-related issues when **reviewing and guiding strategy, major plans of action, risk management policies, business plans.**
4. The Company states how the board **monitors and oversees progress** against goals and targets for addressing climate-related issues.

B Management`s role

1. The Company describes **management's role** in assessing and managing climate related risks and opportunities.
2. The Company describes how such management positions **report to the board** or and their responsibilities in assessing and/or managing climate-related issues,
3. The Company describes the associated **organizational structure(s)** as it relates to climate related issues.
4. The Company provides information on the **processes by which management is informed** about climate-related issues.
5. The Company describes how management **monitors** climate-related issues.

Study Results and Observations

A Board Oversight

Overall, our findings show that most of the companies indicate that the ultimate responsibility with regards to climate related topics lies with the company board. Out of the 40 Companies assessed, 80% (32 companies) **describe the board`s oversight** on climate related risks and opportunities, 7.5% do so only partially and 12.5% do not make any such mention.

However, in many cases, this claim lacks specific details regarding the board's supervisory procedures, frequency of meeting, and mechanisms of control in place. For example, in many cases the frequency is indicated as "several times a year".

Our findings show that, only 52.5% describe the **process and frequency** of board briefings on climate-related issues, while 62.5% (or 25 companies) explain how the board or board committees consider climate-related issues when **reviewing and guiding strategy, major plans of action and business plans.**

It is also notable to highlight that 65% of the Companies (26 companies) in the study state how their board **monitors and oversees progress** towards goals and targets for addressing climate-related issues.

Board Oversight on Climate related risks and opportunities

	BOARD OVERSIGHT	YES		PARTIALLY		NO	
1	Board Oversight	32	80%	3	7.5%	5	12.5%
2	Frequency and process	21	52.5%	2	5%	17	42.5%
3	Consider climate-related issues when reviewing strategy	25	62.5%	2	5%	13	32.5%
4	Monitors and oversees progress against goals	26	65%	2	7.5%	11	27.5%

Study Results and Observations

B Management`s Role

In addition to board oversight, TCFD puts considerable emphasis on how the company management team manages climate related risks and opportunities. In this regard, we have made the following findings and observations.

Publicly available information lacks specific details about the management roles responsible for identifying material issues, informing the board and tracking actions related to these issues. Among the companies that present an organisational structure pertaining to climate related topics or sustainability in general, there is inconsistency concerning the level of detail. Some only mention key functions such as Chief Sustainability Officer with minimal details about interactions with other functions or the board. Others, describe in much more detail the processes and the various committees involved in assessing and evaluating risks and opportunities. The latter also clarify the responsibilities of various management positions in achieving set targets.

In the study, slightly more than half (57.5%) fully **describe management's role in assessing and managing climate-related risks and opportunities.** 60% of the companies (24) describe how management reports to the board and their responsibilities regarding climate issues.

Just over half of the companies, 21 companies representing **52.5%, present an organisational structure** outlining parties responsible for handling climate- related topics and how management stays informed about them. Only half of the companies describe their monitor processes for these topics.

Management`s Role on Managing Climate related risks and opportunities

MANAGEMENT`S ROLE	YES		PARTIALLY		NO	
Management`s Role is described	23	57.5%	7	17.5%	10	25%
Reporting to the Board is described	24	60%	3	7.5%	17	32.5%
Organisational Structure	21	52.5%	3	7.5%	16	40%
How Management is informed about Climate issues	22	55%	5	12.5%	13	32.5%
Monitors Climate issues	21	52.5%	5	12.5%	14	35%

Overall, we can conclude that Swiss companies are generally aligned with TCFD recommendations insofar as Governance is concerned. However, while Board`s oversight on sustainability matters is well highlighted, information about the related frequency and the processes is either lacking in detail or missing altogether. Also, we have observed that Management`s role in identifying, managing and monitoring climate risks is typically only broadly mentioned, but the relevant roles and responsibilities of different business functions within the company, as well as the processes, platforms and frequency of oversight by the board are usually not well articulated.

Best Practices - Governance

In light of the observations made, we can emphasize the following best practices:

- Explicitly **state the Board`s oversight** and responsibility regarding climate-related topics.
- Clearly **describe the process by which the board is informed** and the frequency of providing such information. The oversight process can be directly attributable to the Executive Board or a specific board committee, and the frequency of providing information can be straightforward (for example, twice a year).
- Outline the **Board`s expertise** in climate/sustainability topics where relevant. For example, in cases when specific board members have distinct relevant expertise, such references should be clearly made.
- List the relevant **executive body** responsible for implementing the strategy concerning a specific sustainability/climate related topic. For example, an Executive Committee or Sustainability Council. Furthermore, specify the mechanism of how such a body informs the board on material topics and progress.
- Describe in sufficient detail the **functional teams** and processes used by the management team to identify and collect topics from the various business divisions and list the tools to monitor progress of actioned activities to address each topic. For example, many companies have ESG Units, Sustainability Leadership Team as well as other functional teams representing various divisions. Specify the frequency of monitoring progress, such as once or twice a year.
- Indicate relevant **compensation mechanisms** involved in linking environmental performance targets with remuneration, including committees, goals, and relation to overall compensation.
- Provide a visual demonstration of the **organizational** structure and roles and responsibilities, as this can more easily inform investors and stakeholders about the overall Governance.

The figure the right offers a good example from Nestlé clearly indicating the key roles and responsibilities within the organisation.

Figure 1 – Nestlé`s governance of climate-related risks and opportunities

Source: Nestlé TCFD Report

Strategy

Strategy

Companies may be impacted by climate change across multiple dimensions (strategic, operational, reputational, and financial), along the entire value chain, across geographies, and over long periods of time. To account for such potential impacts, the Task Force on Climate related Disclosures advises companies to assess the actual and potential impacts of climate-related risks and opportunities for the organization's businesses, strategy, and financial planning.

Understanding the scope and the potential impact of key climate related risks and opportunities on the overall company strategy is imperative to the entire climate reporting process. Investors and other stakeholders are keen on understanding how the company management sees the various potential climate related issues arising in the short, mid and long-term and the possible responses to any potential strategic direction there may be.

In line with the objectives of this study, we have analysed to what extent Swiss publicly traded companies disclose information on how climate related risks and opportunities impact their Strategy and whether they intend to make any strategic adjustments reflecting on such observed impacts.

TCFD Recommendations on Strategy

TCFD splits the topic in three key recommended disclosure areas:

A **Identification** of short-, medium- and long-term climate-related risks and opportunities

B **Impact** of climate related risks and opportunities on the organization's strategy

C **Resilience** of the organization's strategy

For each category, the Task Force outlines several climate-related topics that organizations should consider in their disclosures. These topics are presented below.

A Identification of climate-related risks and opportunities

1 The Company describes what they consider to be the relevant **short-, medium-, and long-term time horizons,** taking into consideration the useful life of the organization's assets or infrastructure.

2 The Company describes **specific climate-related issues potentially arising** that could have a material financial impact on the organization.

3 The Company describes the **process(es)** used to determine which **risks and opportunities could have a material financial impact** on the organization.

B Impact of climate-related risks and opportunities

1 The Company discusses **how identified climate-related issues have affected their businesses,** strategy, and financial planning.

2 The Company describes **how climate-related issues serve as an input to their financial planning process,** the time period(s) used, and how these risks and opportunities are prioritized.

3 The Company presents a **holistic picture of the interdependencies** among the factors that affect their ability to **create value** over time. Organizations should describe the impact of climate-related issues on their financial performance (e.g., revenues, costs) and financial position (e.g., assets, liabilities).

4 Companies that have made GHG emissions reduction commitments **describe their plans for transitioning to a low-carbon economy,** which could include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition.

C Resilience of organisation`s strategy against climate related risks and opportunities

1 The Company describes how **resilient its strategy is** to climate-related risks and opportunities.

2 The Company describes how the **strategies might change** to address such potential risks and opportunities.

3 The Company describes the potential **impact of climate-related issues on financial performance** (e.g., revenues, costs) and financial position (e.g., assets, liabilities).

4 The Company presents **climate-related scenarios** and are associated time horizon(s) considered.

Study Results and Observations

A Identification of climate-related risks and opportunities

One of the first steps in assessing the implication of climate related issues on company`s strategy is to understand the applicable time-horizons as they relate the company's business model, assets or infrastructure. For example, changes in customer behaviour which is a transition specific market risk may manifest during the next 5 years, while chronic physical risks, such as changes in precipitation patterns, may be observed at a later point in time. In our study, **only 7 out of the 40 companies** analysed (17.5%) clearly state what they consider to be **short term, medium term and long-term risks** as it relates to the useful life of the organization's assets or infrastructure, while 30 companies (75%) do not make any such disclosures.

Once the time horizons are established, companies typically **identify the climate-related issues that are material to their business.** Our findings show that **only 5 companies** (12.5%) disclosure such information, 9 of the companies, (22.5%) did so only partially, and 26 companies do not make any disclosure in this regard at all.

On a more encouraging note, **15 companies** (37.5%) describe the **process** used to determine which **risks and opportunities could have a material financial impact** on the organization and 21 companies do not make any references to such processes. The reason why the process aspect is scored more positively than the identification of climate related issues is because companies generally touch on the process topic through risk management analysis or materiality assessment covering sustainability in general even if climate relate risks are not specifically addressed.

	IDENTIFICATION OF CLIMATE RISKS AND OPPORTUNITIES	YES		PARTIALLY		NO	
1	Time horizons (short, medium, and long-term) are described	7	17.5%	3	7.5%	30	75%
2	Specific climate-related issues that could arise along the time horizons are described.	5	12.5%	9	22.5%	26	65%
3	Processes to determine risks and opportunities that could have a material impact are described	15	37.5%	4	10%	21	52.5%

B Impact of climate-related risks and opportunities

The second level of strategy related TCFD disclosure looks at the extent of impact of climate related risks on company strategy. In our Study we have observed that only **13 companies (32.5%)** present an overview of **how climate related risks and opportunities have affected business strategies,** 6 provide only partial information and 21 (52.5%) do not make any disclosures. This aspect also scores more favourably as companies tend to present a general view of how specific sustainability related trends have impacted their business activities. Nonetheless, details regarding how climate-specific risks and opportunities affect their business model and strategic direction often remain unclear.

Similarly, companies seldomly state how climate risks and opportunities serve as an input to financial planning. **Only 7 companies** explicitly state that such information is used to make plans, 11 partially and the majority (55%) provide no such information. When it comes to presenting a **holistic picture of interdependencies that create value,** most of the companies (72.5%) do not include such information.

IMPACT OF CLIMATE RISKS AND OPPORTUNITIES	YES		PARTIALLY		NO	
Company describes how climate issues have affected the business, strategy and financial planning.	13	32.5%	6	15%	21	52.5%
Company describes how climate issues serve as an input to financial planning.	7	17.5%	11	27.5%	22	55%
Company presents a holistic picture of interdependencies among factors that create value.	7	17.5%	4	10%	29	72.5%

Study Results and Observations

C Resilience of organisation`s strategy against climate related risks and opportunities

Lastly, after having identified the issues that may impact Company`s strategy and the extent of such issues, investors are keen to understand in what way is the current strategy resilient to such potential changes. For example, a company might anticipate a shift in customer preferences for a specific product, which is recognized as a transition opportunity, and, consequently, contributes to the resilience of the company. The data from our study show that **only 6 companies** (15%) describe the **resilience of their strategies.** The same figure (15%) is also observed when considering if companies disclose how they have adjusted the strategy to reflect on such observed risks and opportunities

Regarding the **potential impact of climate-related matters on financial performance,** such estimations are seldom disclosed, as 33 companies (82.5%) provide no such information, and **only 6 companies** report on the financial rimplications.

Lastly, Swiss companies generally do not use Scenario Analysis as a tool to help them make climate-related strategic and risk management decisions. **Only 5 companies** clearly state the use of **Scenario Analysis,** while the absolute majority (87.5% of the total) do not make any such references.

RESILIENCE OF ORGANISATION`S STRATEGY AGAINST CLIMATE RELATED RISKS AND OPPORTUNITIES	YES		PARTIALLY		NO	
The Company describes how resilient its strategy is to climate-related risks and opportunities.	6	15%	7	17.5%	27	67.5%
The Company describes how the strategies might change to address such potential risks and opportunities.	6	15%	3	10%	30	75%
The Company describes the potential impact of climate-related issues on financial performance.	4	10%	3	7.5%	33	82.5%
The Company presents climate-related scenarios and are associated time horizon(s) considered.	5	12.5%	-	-	35	87.5%

Overall, the current level of disclosure by the publicly listed Swiss companies on the impact of climate related risks on their Strategy is not considered to be in line with TCFD as, on average only 23% of the companies in our study provided information on how climate related risks and opportunities impact their Strategy while only 13% describe how resilient their strategies are to such risks. This is considered a major shortcoming in climate reporting as without a proper understanding of strategic implications, shareholders will not have the sufficient level of information to understand climate related implications and the subsequent resilience of the company to such risks, respectively the upside because of opportunities

Best Practices - Strategy

In light of the observations made, we can emphasize the following best practices:

→ Define clear **timeframes** (short, medium and long-term) as they relate to climate risks and opportunities, while taking into consideration business model and the useful life of company`s assets or infrastructure.

→ **Swiss Steel** presented below, provides a good overview of its short-term strategy development.

→ Identify **climate-related** issues that could arise during the defined timeframes and may have material impact on the Company. Such topics could be Transition Risks (such as changes in policy or emerging technologies) and Physical Risks (severe weather events, rising sea levels etc.)

- TCFD`s implementing guidance provides a good list of Risks and Opportunities including potential financial impacts as a guidance for companies.[7]

→ We recommend the use of **Scenario Analysis** to understand various plausible outcomes and their impact. We present a summary of the Scenario Analysis in the **In Focus** section including an example from **Holcim.**

→ Clearly demonstrate how the **business strategy is resilient** against the identified climate risks and opportunities.

→ In some cases, companies observe change in sales patterns due climate relate issues which may prompt possible opportunities. One such example was observed with **Holcim.** In their 2022 Integrated Annual Report they clearly explain their strategic shift from traditional products such as cement to low carbon construction solutions focusing on decarbonisation of buildings and circular economy such as roofing solutions, energy efficiency etc.

→ We also recommend, for ease of reference, to use a **dedicated** section and/or an index table on business strategy resilience which summarises the key topics.

→ Elaborate how the identified climate-related risk and opportunities have **affected strategy and financial planning** pertaining to various business areas such as products and services, supply chain, and investment in research and development.

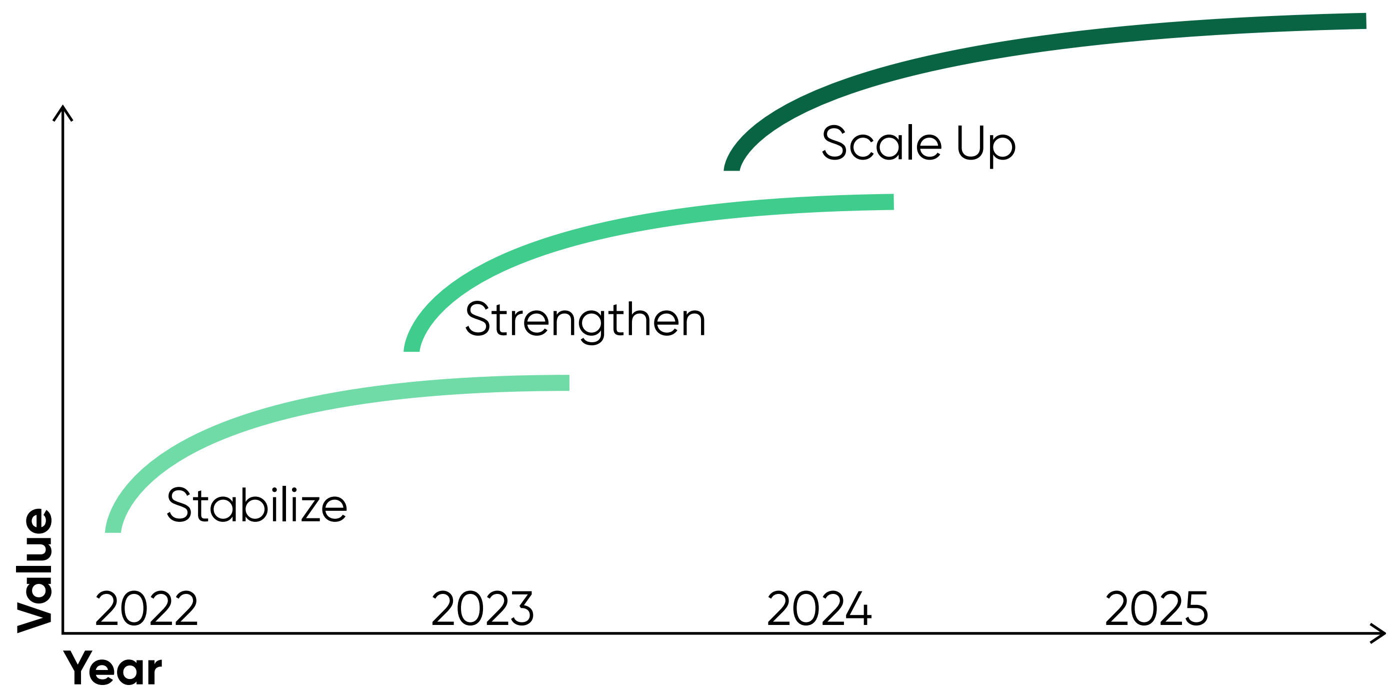
→ Some companies present a single table which combines the identified climate risk and opportunities arising along the defined timeframes and their impact.

7. https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf

Figure 2 – Swiss Steel strategy development (2022 – 2025)

The triad for sustainable value

The implementation of our strategy program SSG 2025 will turn us into a leading and best-in-class steel manufacturer, leading the green transformation in Europe. It will create an integrated Group with one strong brand, ensuring profitable growth with a focus on core markets. And finally, it will allow us to deliver excellent performance.



Stabilize

We are focusing on our core business and driving improvement initiatives to become more resilient. This requires us to assess all our assets and our product portfolio, and to ensure our core business areas have a clear focus and mission and deliver performance. This will boost our performance and stabilize our Group.

Strengthen

To achieve long-term success, we are adapting our organizational setup to respond quickly and flexibly in our continually changing business environment. This allows us to focus on key activites and drives us to achieve greater efficiency and performance.

Scale up

With the same resolve and building on our strong foundation, we will intensify our efforts to seize further growth opportunities in our core markets and execute our Green Steel strategy.

Source: Swiss Steel Sustainability Report 2022

In Focus: Scenario Analysis

This section is a synopsis of TCFD`s supplemental guidance on Scenario Analysis developed to assist large- and midsized non-financial companies wishing to implement climate-related scenarios.[8]

What is a Scenario Analysis

Scenarios are descriptions of hypothetical, plausible futures (not forecasts) that help companies to answer the question "What would be the potential implications for our strategy if the future described in a scenario materialised?"

Scenario Analysis helps companies make strategic and risk management decisions under complex and uncertain conditions such as climate change. Adjustments to a company's strategy and financial plans represent a key disclosure element. Investors and other stakeholders want to understand how a company is positioning itself strategically, operationally, and financially in light of potential climate-related impacts.

Why Scenario Analysis

Climate change is a systemic phenomenon, affecting ecological, social, and economic systems, including far-ranging implications for businesses. Scenario-based planning circumvents the impossible task of trying to predict the future and instead focuses on the key uncertainties relevant to a company's strategic decisions. Scenarios describe pathways from today to tomorrow, helping executives to look at a number of plausible possibilities and to develop flexible options and timely responses. The number of scenarios should be sufficiently diverse to create challenging "what-if" analyses and capture a wide range of insights about uncertain futures.

Types of Scenarios:

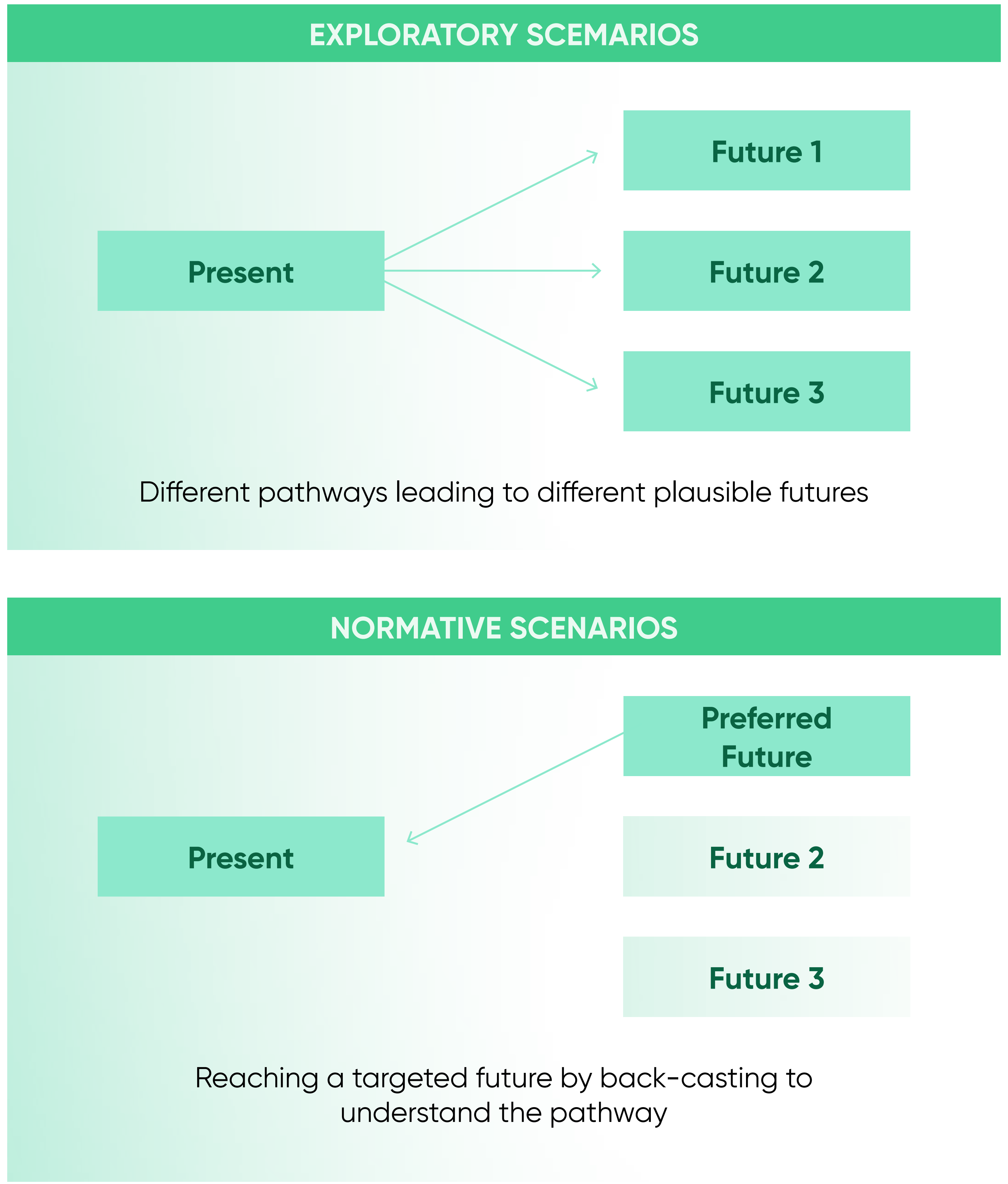
The two main types of scenarios are (1) exploratory scenarios used to explore a range of different possible futures and (2) normative scenarios used to plan for a preferred future.

For normative scenarios, analysis starts with a preferred future outcome and then back-casts plausible pathways from the preferred future to the present in order to inform decisions on what is needed to achieve that preferred future. Examples of normative climate related scenarios are those targeting net-zero emissions by 2050.

Exploratory scenarios describe a diverse set of plausible future states. These scenarios are then used to assess potential climate-related risks and uncertainties and test the resiliency of various strategies to a wide range of future conditions.

8. https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf

Figure 3 – Types of Scenarios



Source:
TCFD Guidance on Scenario Analysis for Non-Financial Companies

In Focus: Scenario Analysis

Scenario Structural Elements

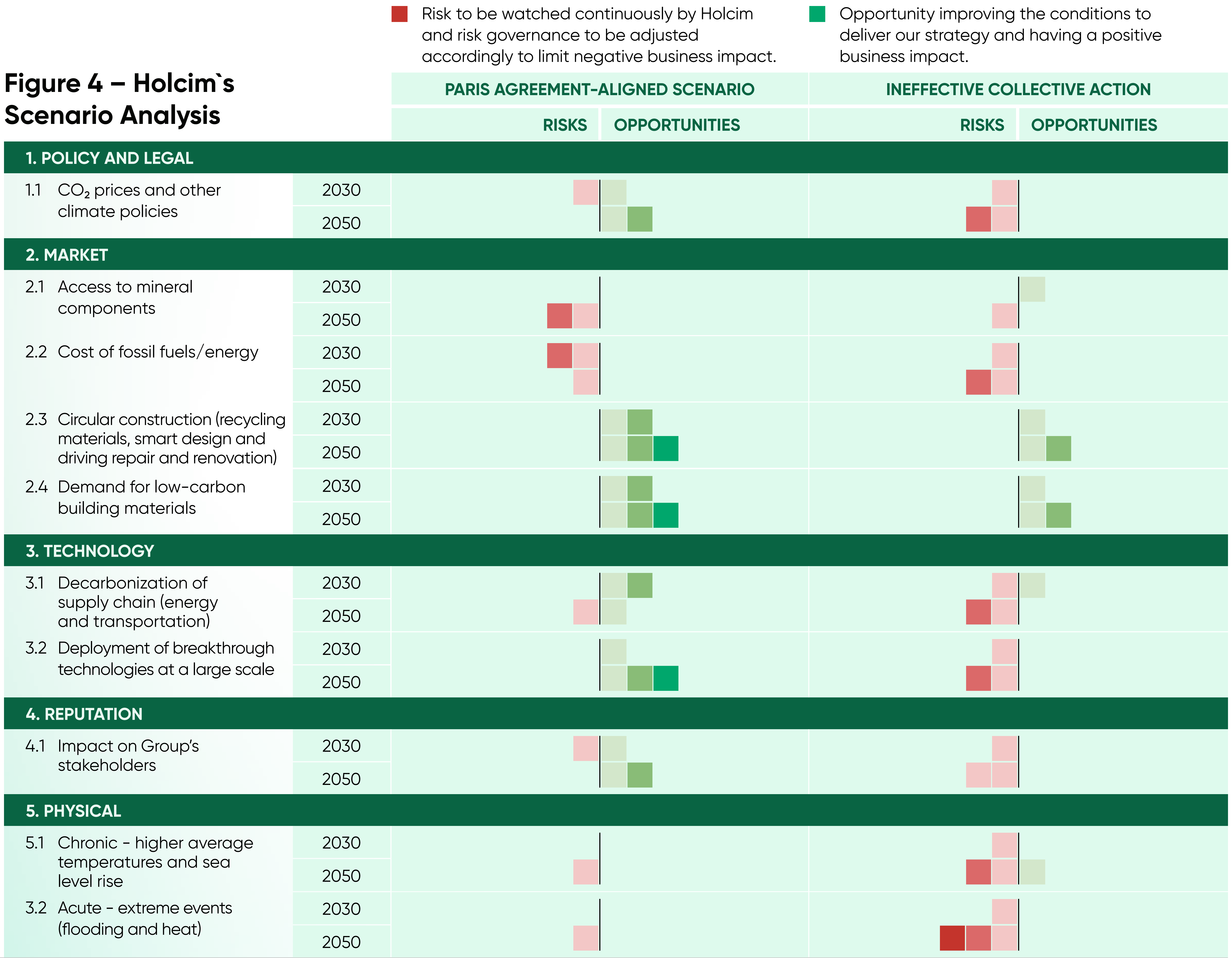
Scope of the Scenario Analysis: Ideally, scenario analysis should encompass the company as a whole, including supply and distribution chains. Initially, however, a company may focus on a particular critical business unit, product line, geography, asset, or input(s) that may be highly impacted by climate-related risks or opportunities before expanding the scope of its scenario analysis.

Time Horizon: Scenario time horizons are typically longer than many corporate planning horizons. Scenario time horizons that are too short may result in simple extrapolations of current thinking and trends, and therefore not reveal the information needed to assess the resilience of the company's climate-related strategy.

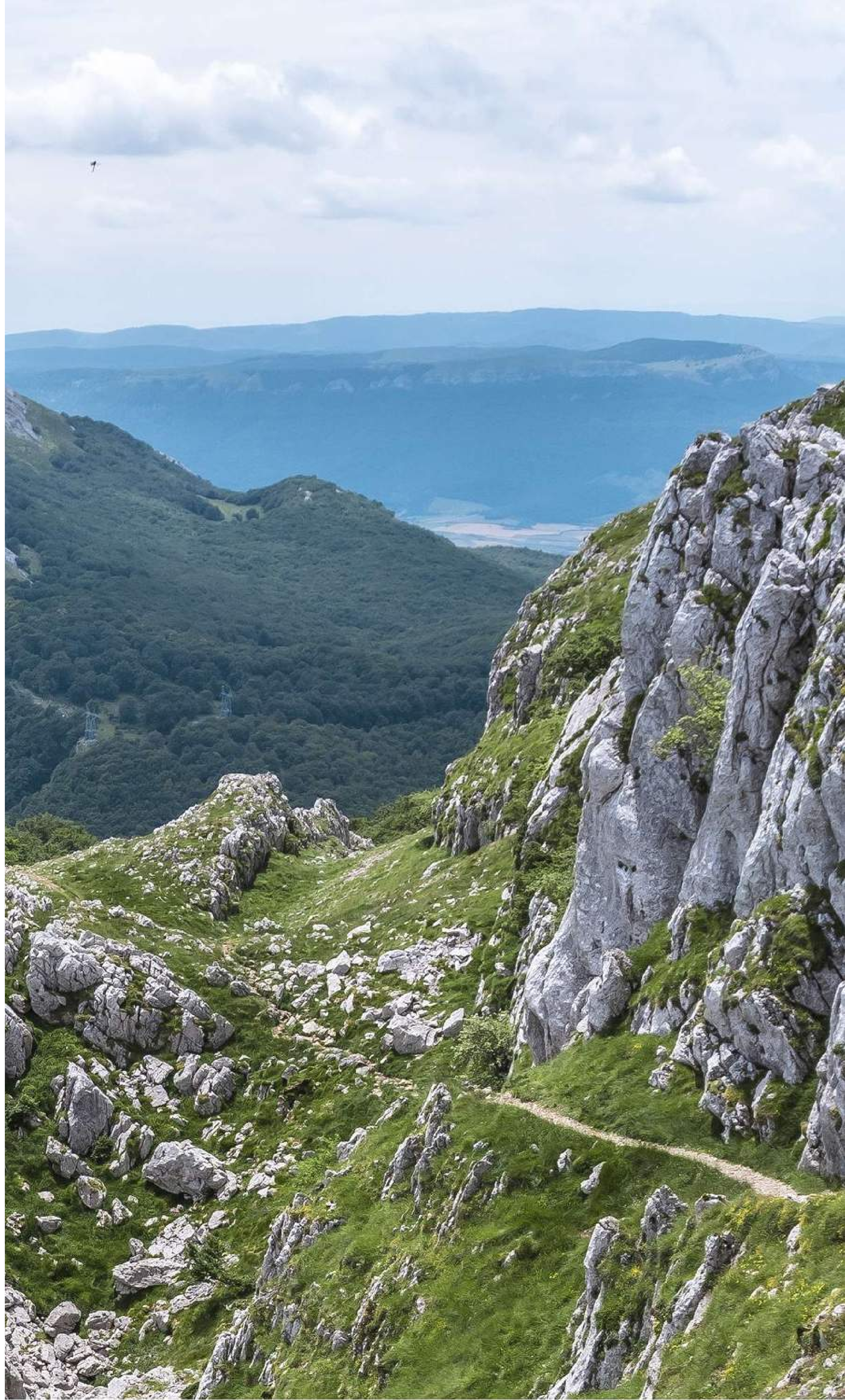
Numbers of Scenario Analysis: The range of scenarios should be sufficiently diverse in order to create challenging "what-if" analyses and capture a wide range of assumptions about uncertain futures. Some companies undertaking scenario analysis for the first time begin with two scenarios, usually at opposite ends of temperature outcomes. However, scenario methodologies recommend three or four scenarios to avoid focusing on two possible outcomes that may be interpreted as "good" and "bad".

Figure 4 – Holcim`s Scenario Analysis

Source: Holcim Integrated Report 2022



Risk Management



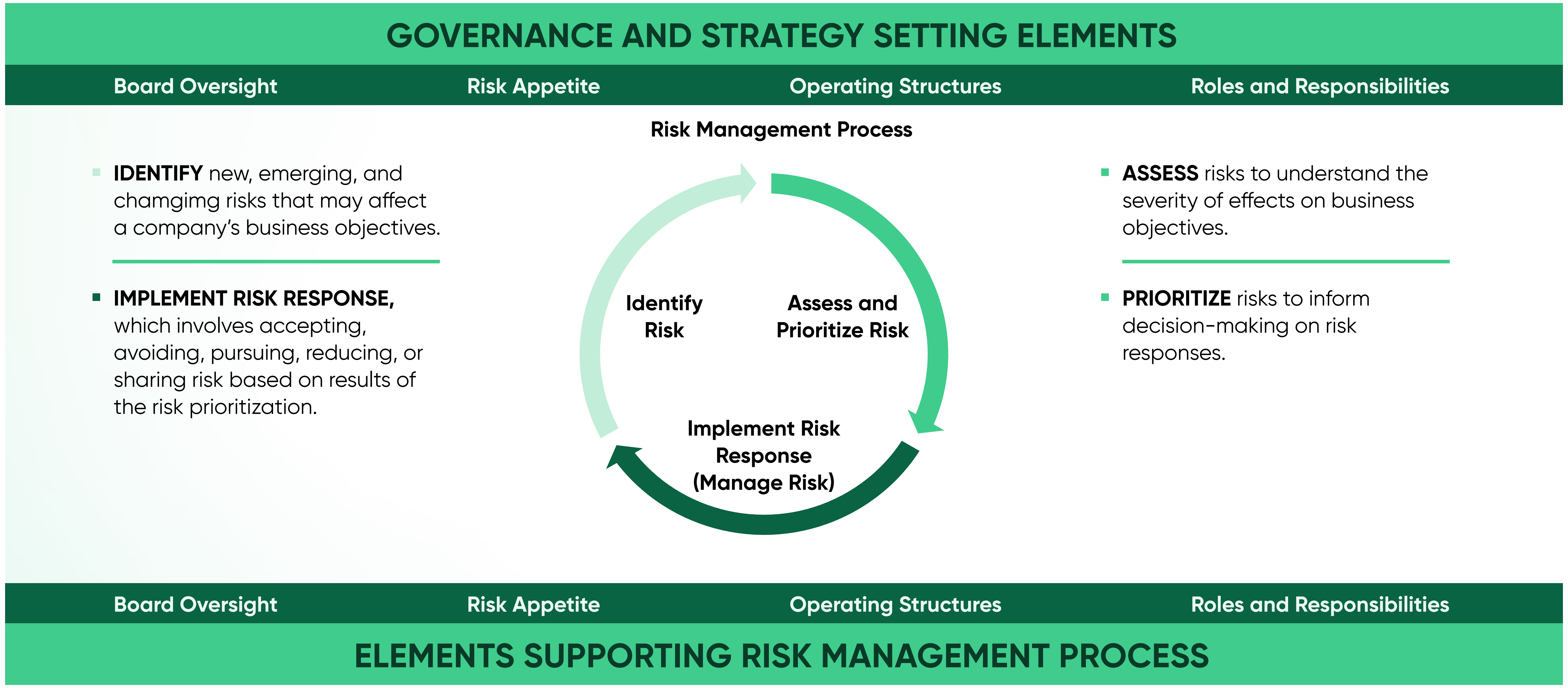
Risk Management

According to the Task Force, the primary purpose of disclosing risk management processes is to provide context for how the company thinks about and addresses the most significant risks to successfully execute its strategy and accomplish its business objectives.

TCFD`s supplementary guidance on Risk Management presents a general overview of the risk management process and its three key elements, as depicted in the figure 5. Furthermore, the Task Force recommends that companies disclose how this 3-step process is integrated within the overall business risk management process. The objective is to ensure that climate related issues and associated risks receive the necessary consideration throughout the strategic decision-making by leadership and are actioned adequately.

As such, we should highlight that Strategy and Risk Management, 2 of the 4 core elements of TCFD, are highly interrelated and influence one another. In TCFD`s core element about Strategy, companies are asked to present the process of identifying climate risks and opportunities that may impact the strategy. Within a similar context, in Risk Management companies are asked to disclose the process of identifying specific risks, quantifying their size and impact, managing such risks and their integration within the risk taxonomy as part of the company`s business strategy.

Figure 5 – Common Risk Management Process and Key Elements



Source: TCFD Guidance on Risk Management

TCFD Recommendations on Risk Management

TCFD splits the topic in three recommended disclosures:

A Process of Risk Identification

B Management of Risks

C Integration of Risks

For each element, the Task Force outlines several climate-related topics that organizations should consider in their disclosures. These topics are presented below.

A Risk Identification

1 The Company describes the **processes for identifying and assessing climate-related risks** (transitional and physical risks)

2 The Company describes whether it **considers existing and emerging regulatory requirements** related to climate change (e.g., limits on emissions) as well as other relevant factors considered.

3 The Company discloses the processes for **assessing the potential size** and scope of identified climate-related risks.

B Risk Management

1 The Company describes their **processes for managing climate-related risks,** including how they make decisions to mitigate, transfer, accept, or control those risks.

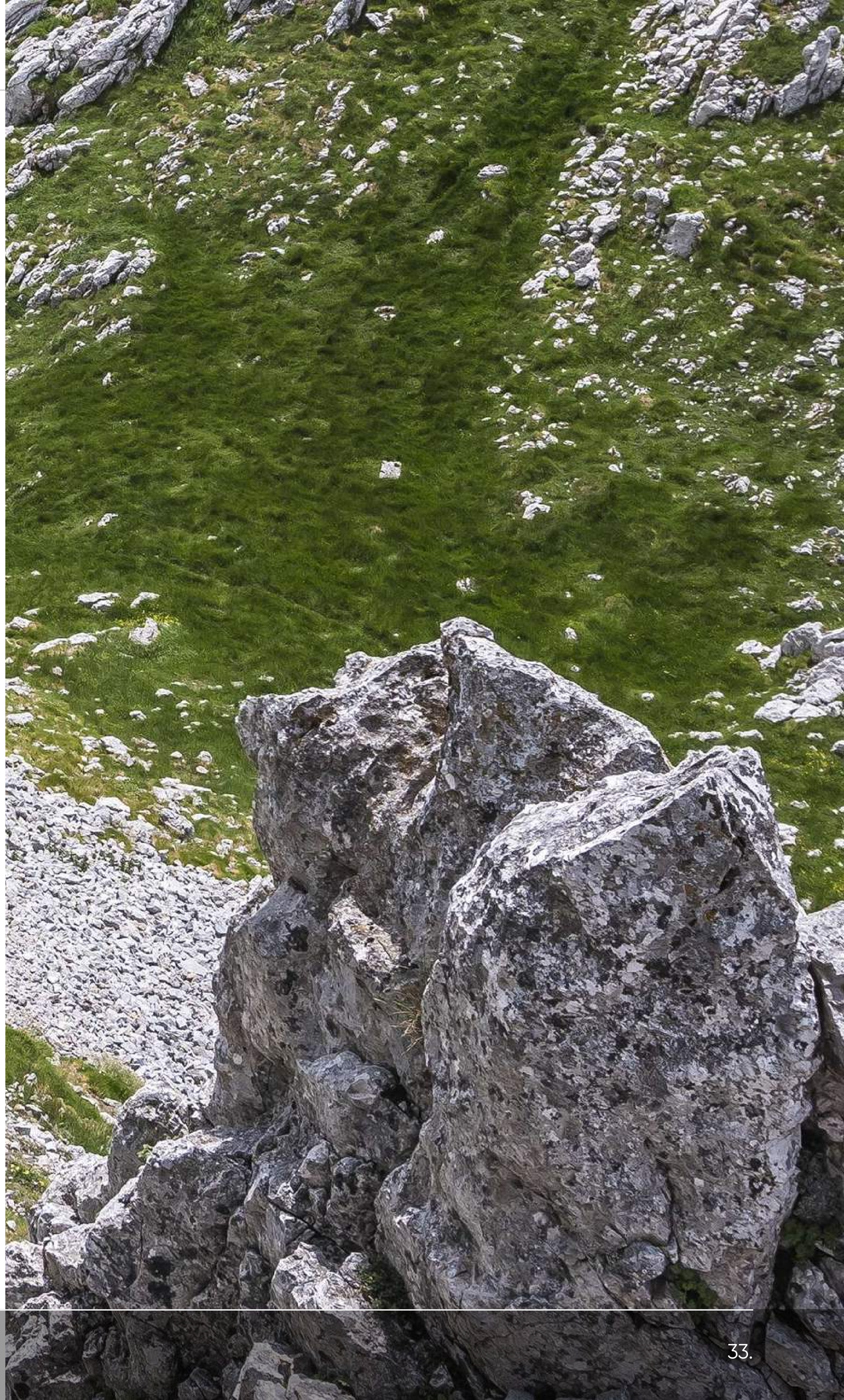
2 The Organization describes their **processes for prioritizing climate-related risks,** including how materiality determinations are made within their organizations.

3 The Company **provides a list of climate related risks** along with mitigants.

4 The Company provides a list of **identified opportunities** for each identified category.

C Risk Integration

1 The Company describes how climate related risks are **integrated** into the organization's overall risk management.



Study Results and Observations

A Risk Identification and assessment

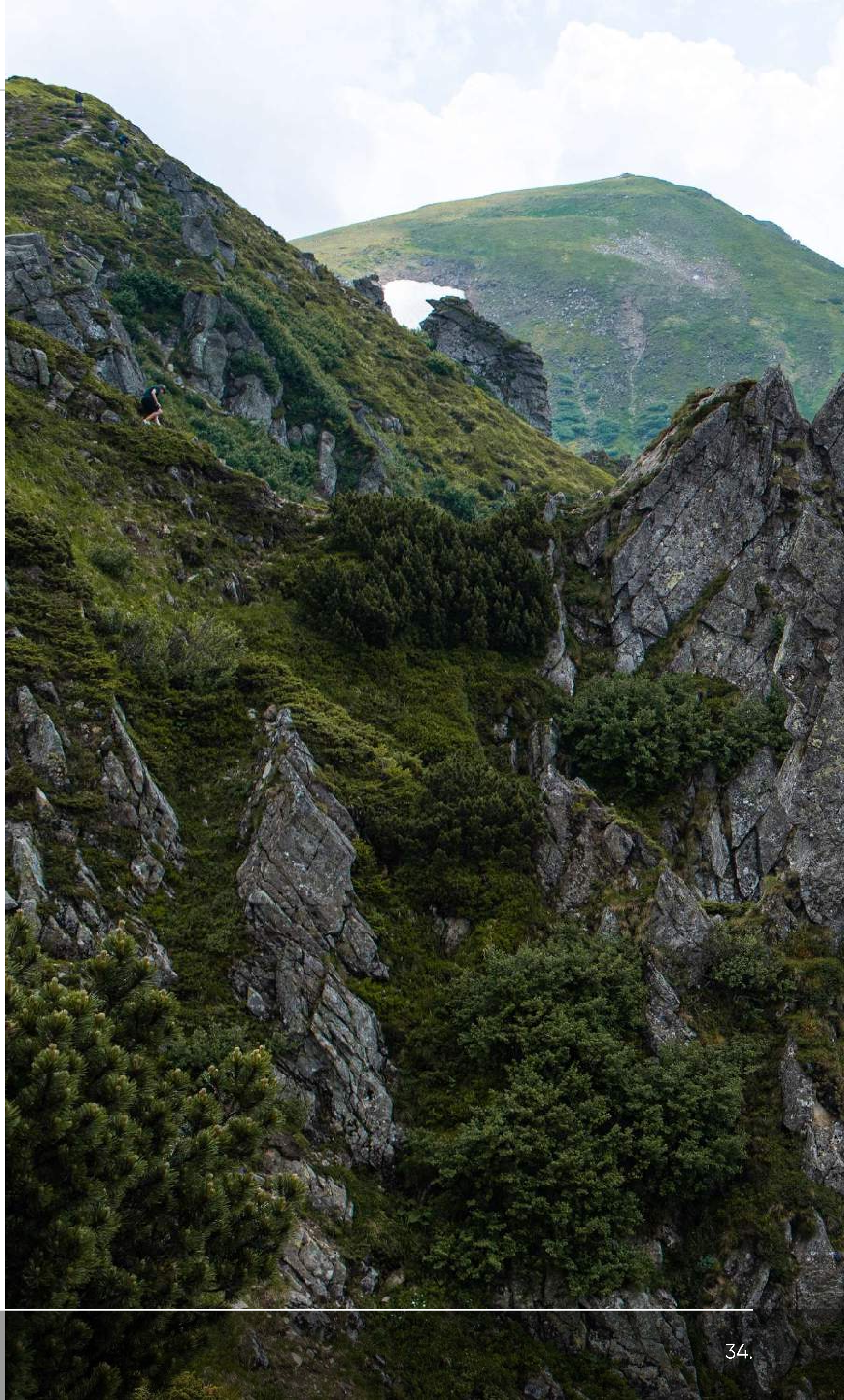
Investors want to understand the process companies use to identify climate-related risks and opportunities. This may be a separate process or part of the general business risk management process. To ensure full transparency and compliance with TCFD recommendations, companies should make a clear statement about such processes.

Out of 40 companies assessed in our study, **13 of them (32.5%)** describe **the process for identifying and assessing** climate-related risks (transitional and physical risks), 3 companies only do so partially, while 24 of them (or 60% of the total) do not make any disclosures at all.

On a more positive note, half of the companies already disclose that they **consider existing and emerging regulatory requirements** related to climate change as part of the risk management process.

The process of assessing the **potential size of climate risks,** however, is not well disclosed with **only 9 companies** (22.5% of the total) providing some indication as to **the size of such risks.** Unfortunately, we have observed that the vast majority (30 companies or 75% of the total) do not make any disclosures.

RISK IDENTIFICATION AND ASSESSMENT	YES		PARTIALLY		NO	
The Company describes the processes for identifying climate-related risks	13	32.5%	3	7.5%	24	60%
Existing and emerging regulatory requirements are considered.	20	50%	1	2.5%	19	47.5%
The processes for assessing the potential size and scope of identified climate-related risks is described	9	22.5%	1	2.5%	30	75%



Study Results and Observations

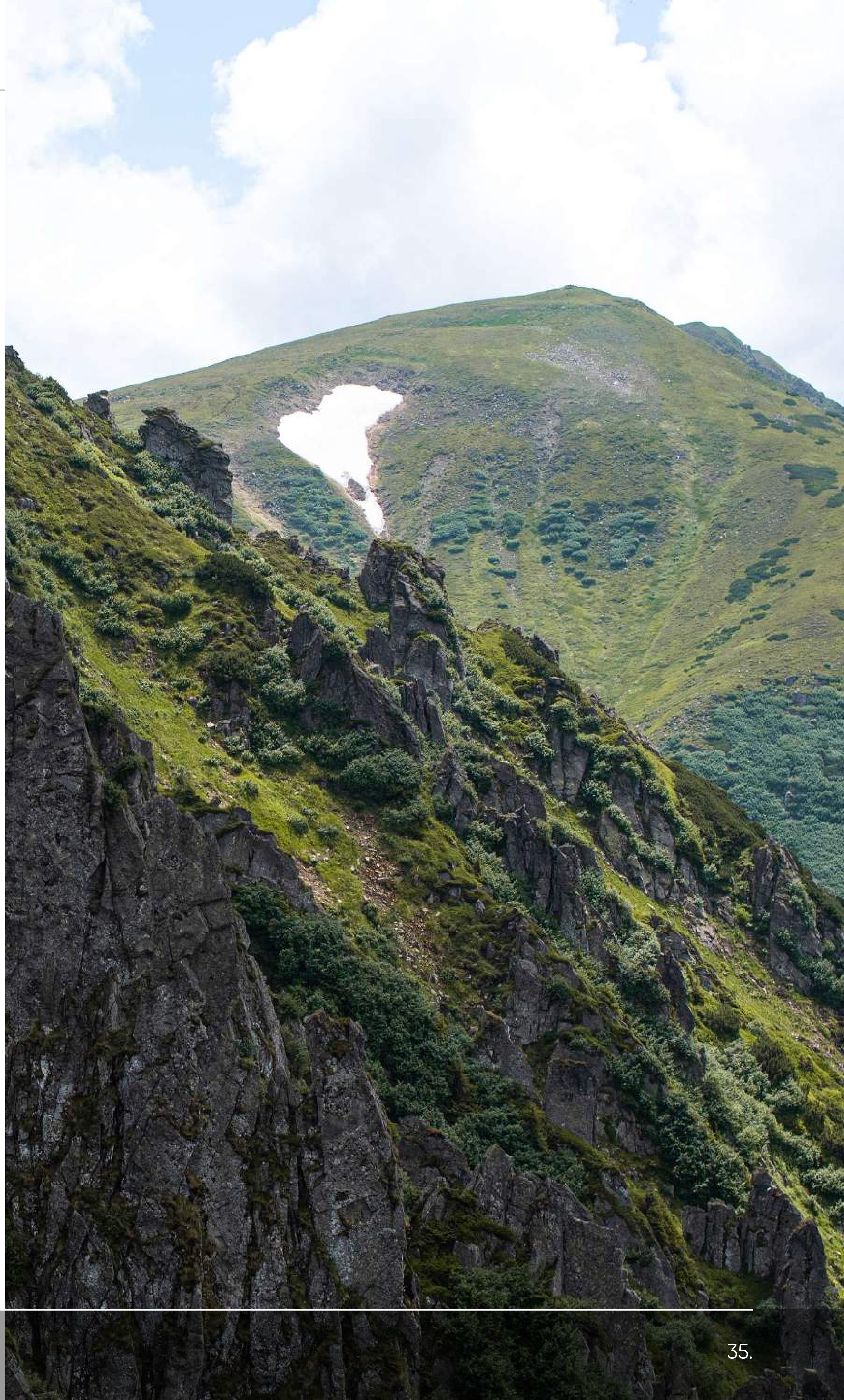
B Risk Management

After identifying and assessing the climate related risks, companies complete the process by making business decisions on how to manage them. This step includes prioritization of which risks the companies are willing to accept, transfer or mitigate through specific actions. The Task Force explicitly recommends that companies disclose the **process by which such risk management is done.** Our Study shows that only **12 companies (or 30% of the total) clearly describe the process of managing climate** related risks, 5 of them only do so partially, and the majority (or 57.5%) do not make any such description.

Prioritisation of risks is typically done through some form of scenario analysis, materiality assessment, simulation, or a combination thereof, whereby the level of impact of various risks on company`s business activities is quantified. We have observed that more than **half of the companies (24 companies or 60% of the total) include a form of materiality assessment** and present a materiality matrix which include sustainability related topics.

TCFD encourages companies to identify and assess the potential financial risks associated with climate change. This includes **physical risks,** which are the risks resulting from climate change that can be event driven (acute) or longer-term shifts (chronic) in climate patterns (e.g., extreme weather events), and **transition risks,** which are the risks related to the process of transitioning to a lower-carbon economy which may entail extensive policy, legal, technology, and market changes (e.g., regulatory changes or shifts in market preferences). On this note, we have observed that while **more than half of the companies include a materiality assessment,** they do not expand on specific risks and opportunities identified for various categories. Very few companies (**only 22.5%** of the total) provide a **list of risks and mitigations measures,** but 72.5% do not do so at all. Similarly, **only 10** or 25% provide a **list of climate related opportunities** and 65% do not do so at all.

	RISK MANAGEMENT	YES		PARTIALLY		NO	
1	The Company describes their processes for managing climate-related risks.	12	30%	5	12.5%	23	57.5%
2	The processes for prioritizing climate-related risks, and materiality is described.	24	60%	4	10%	12	30%
3	The Company provides a list of climate related risks along with mitigants.	9	22.5%	2	5%	29	72.5%
4	The Company provides a list of identified opportunities for each identified category.	10	25%	4	10%	26	65%



Study Results and Observations

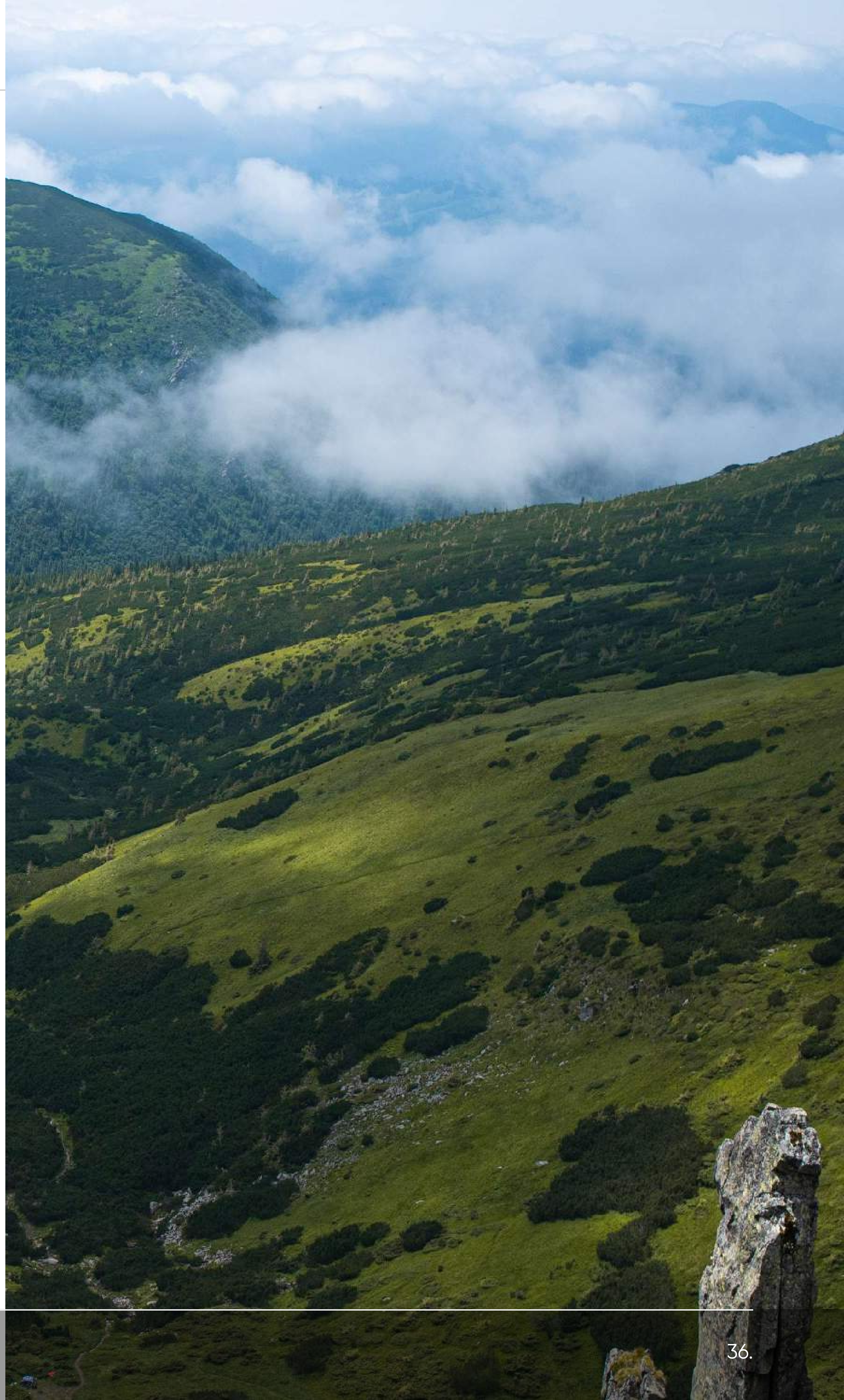
C Risk Integration

Investors want to know that companies care about climate related risks and do not treat them as a separate exercise. As such, they are keen to see that climate related risk assessment is fully integrated within the general business risk assessment and management processes.

In this regard, we have observed a relatively higher compliance with TCFD recommendations than other risk management areas. 17 companies **(or 42.5% of the total) in our study disclose how climate risks are integrated within their overall risk management processes.** However, it should be noted that very often such integration refers to sustainability in general and does not pertain to specific climate relate risks as, recommended by the TCFD. To aid companies, TCFD`s guidance on Risk Management provides a step-by-step guide of how to integrate climate related risks within the overall company strategy.

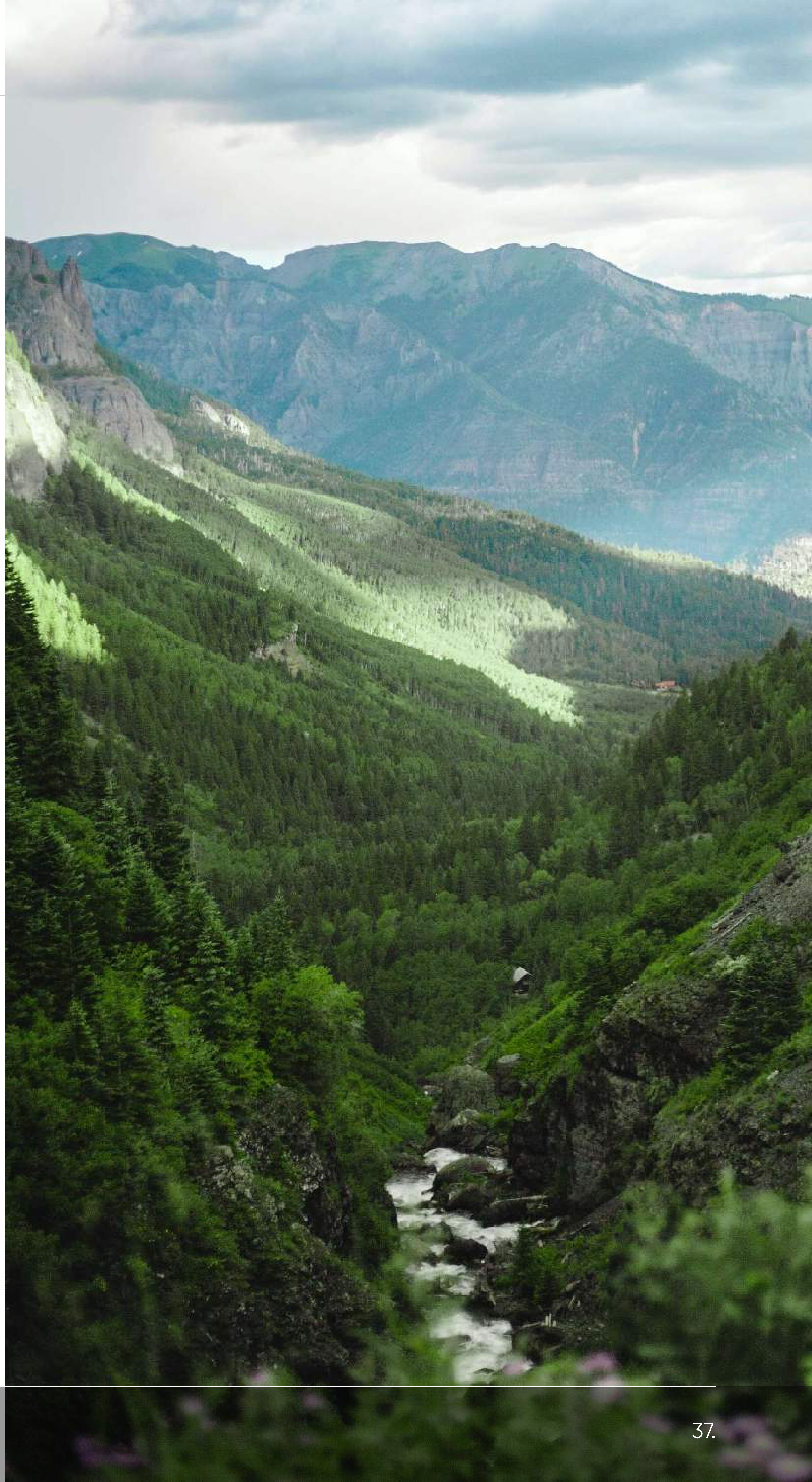
RISKS INTEGRATION	YES		PARTIALLY		NO	
The Company describes how climate related risks are integrated into the organization's overall risk management.	17	42.5%	4	10%	29	47.5%

Overall, the current level of disclosure by publicly listed Swiss companies on Risk Management is not fully in line with TCFD Recommendations with only 37% of the companies, on average, providing such information. We have observed that companies tend to present the overall risk management process and often describe how sustainability related risks are embedded in the overall process. However, climate related risks (Physical and Transition risks) are seldom mentioned in the TCFD recommended context. Risks are generally prioritised through a materiality assessment, but they are often only mentioned as general topics, such as "climate change". Furthermore, only 20% of the companies provide a specific list of risks along with the associated mitigating strategies.



Best practices - Risk Management

- Explain the full risk management process including the steps for identifying, assessing, prioritizing and managing climate related risks. This can be summarised in a few paragraphs.
  - Companies often use Enterprise Risk Management (ERM) framework for their "business as usual" risk management and describe how climate risks are addressed within this framework. **Novartis** has a good summary of the Risk Management process and provides a summary of its risk portfolio presented in **Figure 6.**
- Provide a list of physical and transition risks and describe why those risks are deemed to be material for the company. To do so, we recommend that companies quantify on the company financials, whether though a decrease in revenue or increase in costs.
  - For example, **Novartis** provides a list in their integrated report, which combines physical and transition risks, quantifies the potential financial impact for two possible climate scenarios and provides a possible mitigation measure for each risk (**Figure 7**).
  - Similarly, **Sika** also provides a comprehensive list of both physical and transition risks as well as the impact of such risks on both Revenue and Assets, including their impact at different time intervals and geographies. We present some of the information in **Figure 8** while for more details, please see SIKA`s TCFD Report 2022.
- Outline a list of opportunities related to climate change (if applicable).
  - In their TCFD report, **Sika** includes a list of Transition Opportunities with detailed explanation for each identified opportunity.
  - **Implenia** provides a short synopsis of risks as well as opportunities for each category of transition risks (Sustainability Report 2022).
  - **Zehnder Group** provides a good summary of their Green products and innovation as solutions to contributing to environmental sustainability (Sustainability Report 2022).
- Use a dedicated section and/or an index table on business risk management which summarises the key topics.
- State explicitly how the climate risk process is integrated in the corporate risk management process.



Best practices - Risk Management

Figure 6 – Novartis 2022 Risk Portfolio

Strategic risks

- **Key products and commercial priorities**
  Failure to deliver key commercial priorities and successfully launch new products
- **Research and development**
  Failure to successfully prioritize, integrate and execute our research and development programs for new products or new indications for existing products, given our focus on innovative medicines
- **Pricing, reimbursement and access**
  Pricing and reimbursement pressure, including pricing transparency and access to healthcare
- **Alliances, acquisitions and divestments**
  Failure to identify, execute, and/or realize the expected benefits from our external business opportunities
- **Strategic transformations**
  Failure to meet organizational transformation programs objectives and/or unintended adverse impacts on our business
- **Environmental, social and governance matters**
  Failure to meet environmental, social and governance expectations

Operational risks

- **Cybersecurity and IT systems**
  Cybersecurity breaches, data loss, and catastrophic loss of IT systems
- **Fragmented IT landscape and strategic technology programs implementation**
  Failure to address fragmented business processes, unclear data ownership, and IT applications and infrastructure nearing their end-of-life may disrupt our core business processes
- **Talent management**
  Inability to attract, retain and motivate qualified individuals in key roles and markets
- **Third-party management**
  Failure to maintain adequate governance and oversight over third party elationships, and failure of third parties to meet their contractual, regulatory or other obligations
- **Legal, ethics and compliance**
  Challenges posed by evolving legal and regulatory requirements and societal expectations regarding ethical behavior
- **Manufacturing and product quality**
  Inability to ensure proper controls in product development and product manufacturing, and failure to comply with applicable regulations and standards
- **Supply chain**
  Inability to maintain continuity of product supply

Emerging risks

- **Geopolitical developments**
  Impact of geo- and socio-political threats
- **Impact of geo- and socio-political threats**
  Impact of macroeconomic developments
- **Climate change**
  Impact of climate change and increased risk of major natural disasters

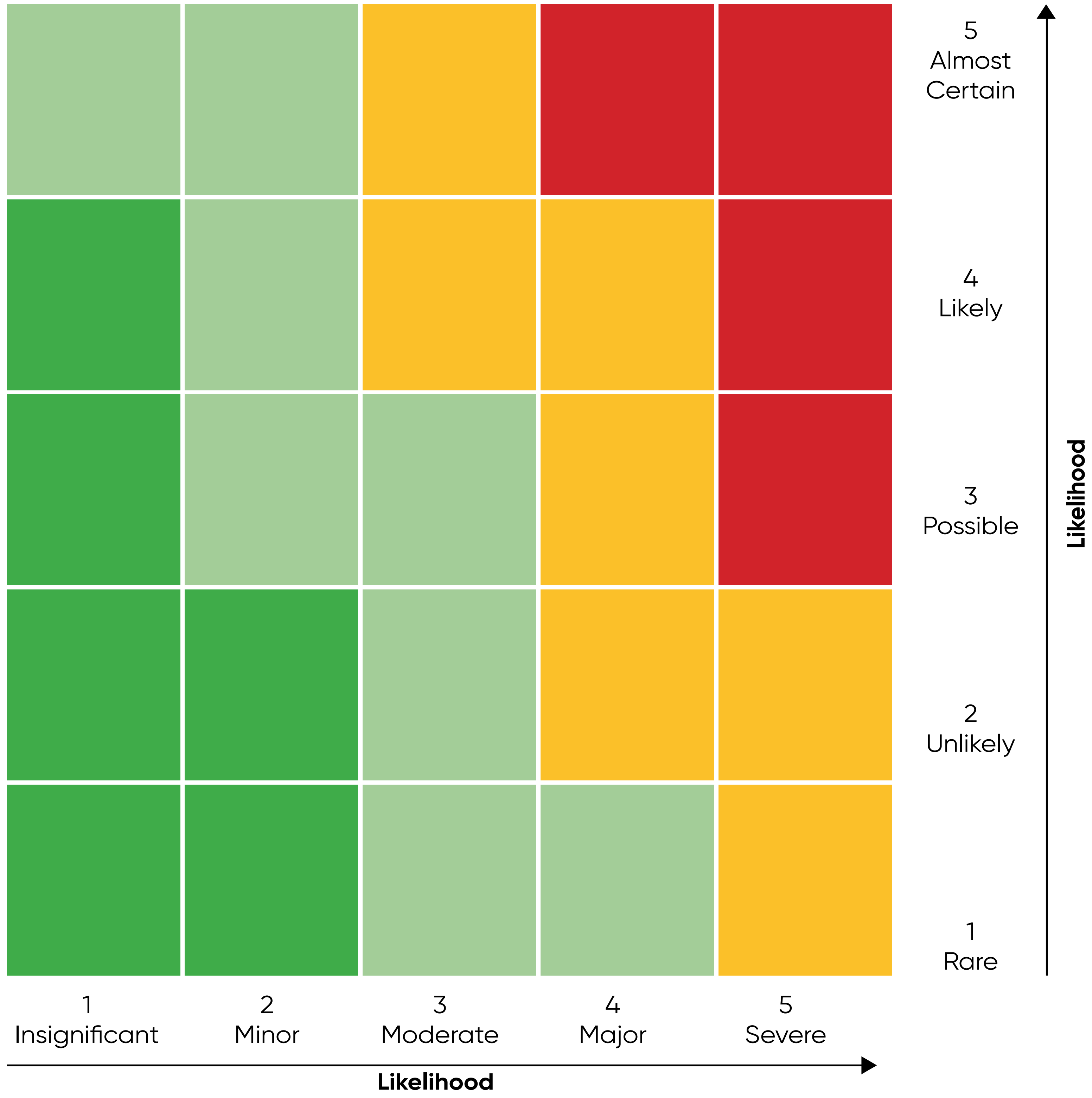
Awareness topics

Antimicrobial resistance and pandemics
Rise of antimicrobial resistance could potentially create future pandemics and impact the performance of certain Novartis products (e.g., oncology)

Falsified medicines
Impact of falsified medicines on patient safety, and reputational and financial harm to Novartis and our products

Novartis 2022 Risk Portfolio

The table below sets out our full risk portfolio for 2022. Please see the table further down below for more details on our six strategic risks.



Risk rating:

- Very high
- High
- Medium
- Low

Source: Novartis, Integrated Report 2022

Best practices - Risk Management

Figure 7 – Example Novartis (Physical and Transition Risks and Opportunities)

Physical and transition risks and opportunities

		High emissions pathway	Low emissions pathway		Time horizons
Scenario analysis for physical risks[1]		IPCC SSP5-8.5: +4.4°C mean warming by 2100 (equivalent to RCP 8.5)	IPCC SSP1-2.6: +1.8°C mean warming by 2100 (equivalent to RCP 4.5)		2030, 2050
	Impact	Description	Potential 2030 financial impact	Potential 2050 financial impact	Risk treatment
PHYSICAL RISKS					
Tropical cyclones	Insignificant	Potential financial implications through interruptions at our sites (e.g., property damage, equipment repairs) or via disruption to transport networks (e.g., delaying delivery of raw materials to sites or finished products)	USD 16–18 million	USD 25–43 million	We have a resilient supply chain with a broad geographic footprint, dual supply for key products and adequate inventory level / stock policies. Our sites have physical infrastructure mitigation in place (e.g., shelters, flood defenses, building insulation, back-up generators), supported by administrative controls (e.g. emergency response / business continuity plans). We are also implementing energy efficiency initiatives across our operations to reduce energy demand and transition to renewable energy solutions.t
Flooding	Insignificant	Flooding could lead to disruption or delays in manufacturing processes (e.g. through property and infrastructure damage or repairs, fresh-water availability etc.) and interruptions in product distribution.	USD 70-80 million	USD 35–95 million	
Extreme heat	Insignificant	Extreme heat conditions could increase operating costs by augmenting our cooling needs and energy consumption to ensure processes and equipment operate efficiently.	USD 6–10 million	USD 9–19 million	
Water stress and drought[2]	Insignificant	Water stress and drought could potentially impact our operating costs through higher water prices, and/or a need to source water from alternative suppliers. This may also impact revenue by reducing efficiency or causing a shutdown of water-intensive production processes.	USD 250 000 – 940 000	USD 470 000 – 1 million	Sites have water management programs in place, including measures for reusing, recycling and storing water

		High emissions pathway	Low emissions pathway		Time horizons
Scenario analysis for physical risks[1]		IPCC SSP5-8.5: +4.4°C mean warming by 2100 (equivalent to RCP 8.5)	IPCC SSP1-2.6: +1.8°C mean warming by 2100 (equivalent to RCP 4.5)		2030, 2050
	Impact	Description	Potential 2030 financial impact	Potential 2050 financial impact	Risk treatment
TRANSITION RISKS					
Carbon price	Insignificant	Carbon prices are likely to increase further across major operating countries. This may increase our future operating costs.	USD 4–22 million in additional annual carbon costs	USD 5–53 million in additional annual carbon costs	Reducing emissions as part of our environmental sustainability targets will limit exposure to carbon pricing.
Net-zero healthcare systems	Insignificant	Requirements to rapidly decarbonize may drive up capital expenditure (while failure to decarbonize may threaten the company's license to operate in certain countries).	USD 26–873 million in annual revenue classified as "at risk"3 (i.e. related to markets with more ambitious net-zero targets than Novartis).		For the most part, our net-zero targets are aligned with health system goals. In our key markets our net-zero commitment will require us to decarbonize at a faster rate than required. "At risk" revenues relate to a relatively small, low-footprint region.
TRANSITION OPPORTUNITIES					
Circular economy	Insignificant	We may face potential increases in operating costs driven by higher plastic prices/ taxation imposed by countries. However, this is also an opportunity for Novartis to switch away from "virgin" (non-recycled) plastic	USD 21–60 million in savings4 (from avoidance of increasing plastic costs)	USD 10–120 million in savings4 (from avoidance of increasing plastic costs)	We will reduce exposure to prices as we move closer to our plastic-neutral goal, particularly in advanced economies where plastic is being phased out or replaced by recycled materials. Risk will be entirely mitigated by 2030 if company goals are met.
Energy source	Insignificant	Impact of rising fossil fuel prices may be avoided by switching to more sustainable sources (particularly in replacing natural gas for heating with electricity).	USD 250 000 – 940 000	USD 470 000 – 1 million	Sites have water management programs in place, including measures for reusing, recycling and storing water

Source: Novartis Integrated Report 2022

Best practices - Risk Management

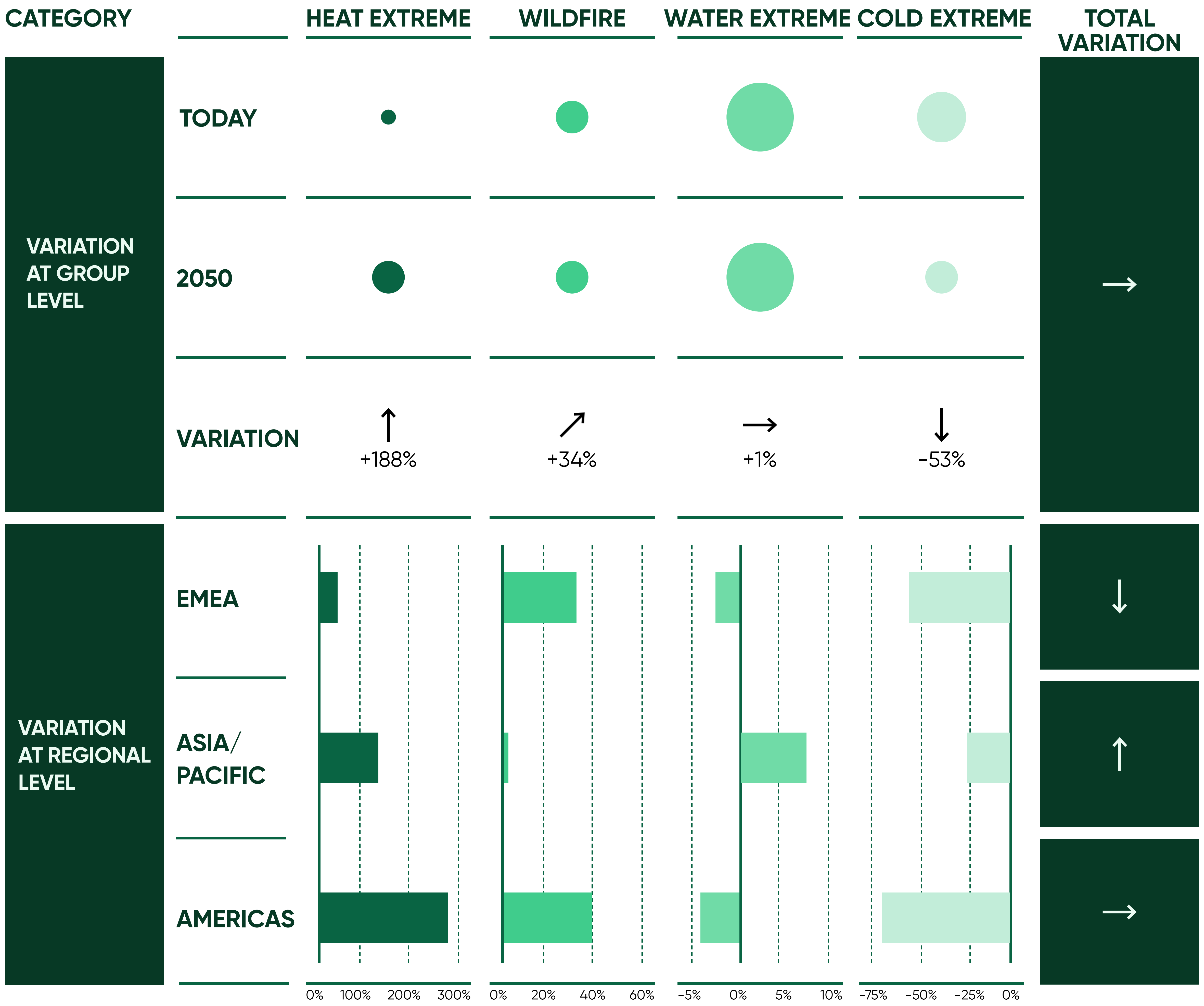
Figure 8 – Sika`s Physical Risks and their impact on Revenues

DESCRIPTION OF PHYSICAL RISKS CONSIDERED IN SIKA'S ASSESSMENT

CATEGORY	PHYSICAL CLIMATE RISK	METRIC DESCRIPTION
HEAT EXTREME	Heatwave	It represents the sum days per year within a period with at least 6 consecutive days with a daily maximum temperature above the 90th percentile in the region (according to underlying meteorological data).
	Highest temperature	It represents the annual maximum value of maximum temperature.
WILDFIRE	Length of fire season	It represents the number of days exceeding the yearly average.
	Highest temperature	It represents the number of days with high FWI (Fire Weather Index, indicator used to estimate risk of wildfire) risk.
WATER EXTREME	Water Stress	Water stress is an indicator of competition for water resources and defined informally as the ratio of demand for water by human society divided by available water.
	Riverine Flood	It represents flooding from river overflow and occurs in river basins with an area of at least 10,000 km2
	Coastal Flood	It represents flooding from storm surges and occurs along coastlines around the world.
	Total Rainfall	It represents the total yearly rainfall.
	Heavy Rainfall	It represents the average yearly number of days with precipitation over 20mm.
	Longest dry spell	It represents the maximum number of consecutive days a year when daily precipitation is under 1mm per day
COLD EXTREME	Frost days	It represents the annual count of days when the daily minimum temperature is below 0°C.
	Ice days	It represents the annual count of days when the daily maximum temperature is below 0°C.
	Lowest temperature	It represents the annual minimum value of minimum temperature.

RISK EVOLUTION OF REVENUES[10]

Source: SIKA TCFD Report 2022



In Focus: What is Double Materiality?

Materiality assesses the significance of information, focusing on what's relevant and substantial enough to influence decisions or judgments. In sustainability reporting, it identifies and reports on the most relevant and impactful environmental, social, and governance (ESG) issues for a company and its stakeholders.

Companies typically conduct materiality assessments to determine which sustainability issues to prioritize. This assessment results in a matrix highlighting ESG topics where companies can have the most impact, facilitate ESG transformation, and ensure compliance with stakeholder expectations.

The EU Corporate Sustainability Reporting Directive (CSRD) makes materiality assessment a requirement starting in January 2024 and introduces the concept of Double Materiality Assessment. **The New Double Materiality Assessment**, initially introduced in 2019, applies to all EU companies meeting certain criteria and non-EU entities with significant EU-generated revenues. It combines impact and financial materiality, assessing how sustainability affects a company and its impact on the environment and society. This enhancement significantly improves the quality, breadth, and accessibility of sustainability reporting.

CSRD expects disclosure of all ESG topics, with exceptions requiring justification using a "comply or explain" approach. The Double Materiality assessment filters out industry-specific ESG topics that are not financially or impactfully significant. **Impact materiality** considers the severity, scope, and irreparability of sustainability impacts, such as the impact on biodiversity when building a hydropower plant. On the other hand, **financial materiality** focuses on the financial effects of sustainability matters on the company, extending beyond financial statement consolidation, such as the impact on revenues for a solar farm due to physical risks arising from climate change.

The Swiss Ordinance requires companies to comply with the Double Materiality assessment but does not provide direct guidance on how to assess impact and leaves it up to the company's discretion. The European Sustainability Reporting Standards (ESRS) and CSRD can serve as guides for corporations to comply with this requirement. The Boston Consulting Group (BCG), has developed a four-step materiality assessment approach to address Double Materiality, depicted below and published in a White Paper of the same title.

Depiction of the Double Materiality Concept

Step 1:
Exploration

- **Consolidate shortlist of ESG themes,** based on EFRAG topics and industry standards
- **Map out internal and external stakeholders** to be involved and how to engage with them

Step 2:
Preparaton

- **Prepare materiality online surverys and scoring tool**
- **Determine relative weights** for each stakeholder group
- **Pre-engage with stakeholders** to familiarize with materiality concept and definitions

Step 3:
Execution

- **Run materiality online survey and report output** in scoring tool
- **Gather insights** from interviews with executives
- **Build materiality matrix** preliminary plot

Step 4:
Consolidation

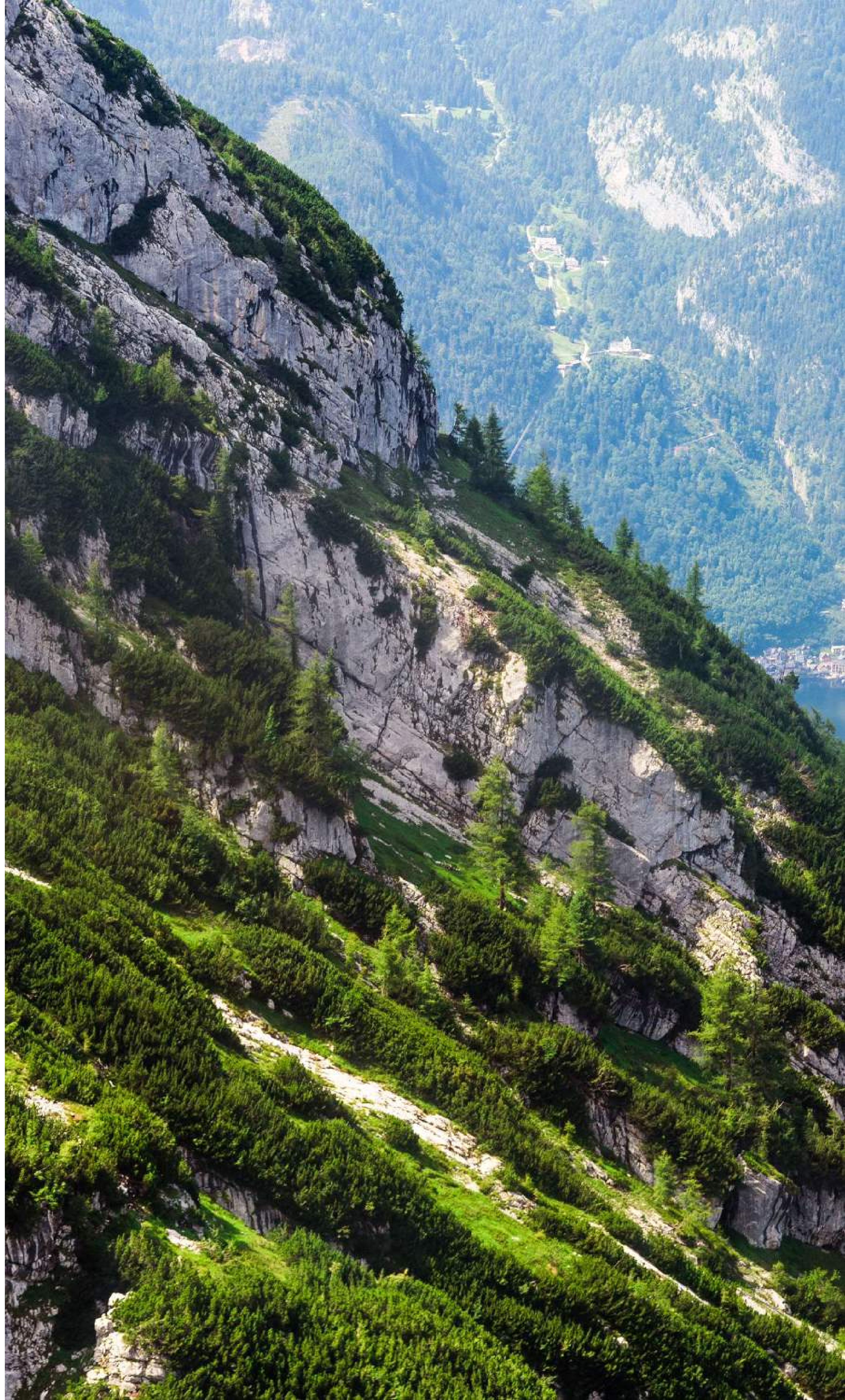
- **Cluster ESG themes** into "differentiators", "enablers" and "areas to monitor"
- **Produce Materiality Assessment** return report

Key Questions

1. **WHEN** to run double materiality assessment
2. **WHERE** to start (which ESG topics)
3. with **WHOM** to engage
4. **HOW** to translate EFRAG requirements into a practical scoring mechanism
5. **WHAT** is next?

Source: Boston Consulting Group

Metrics and Targets



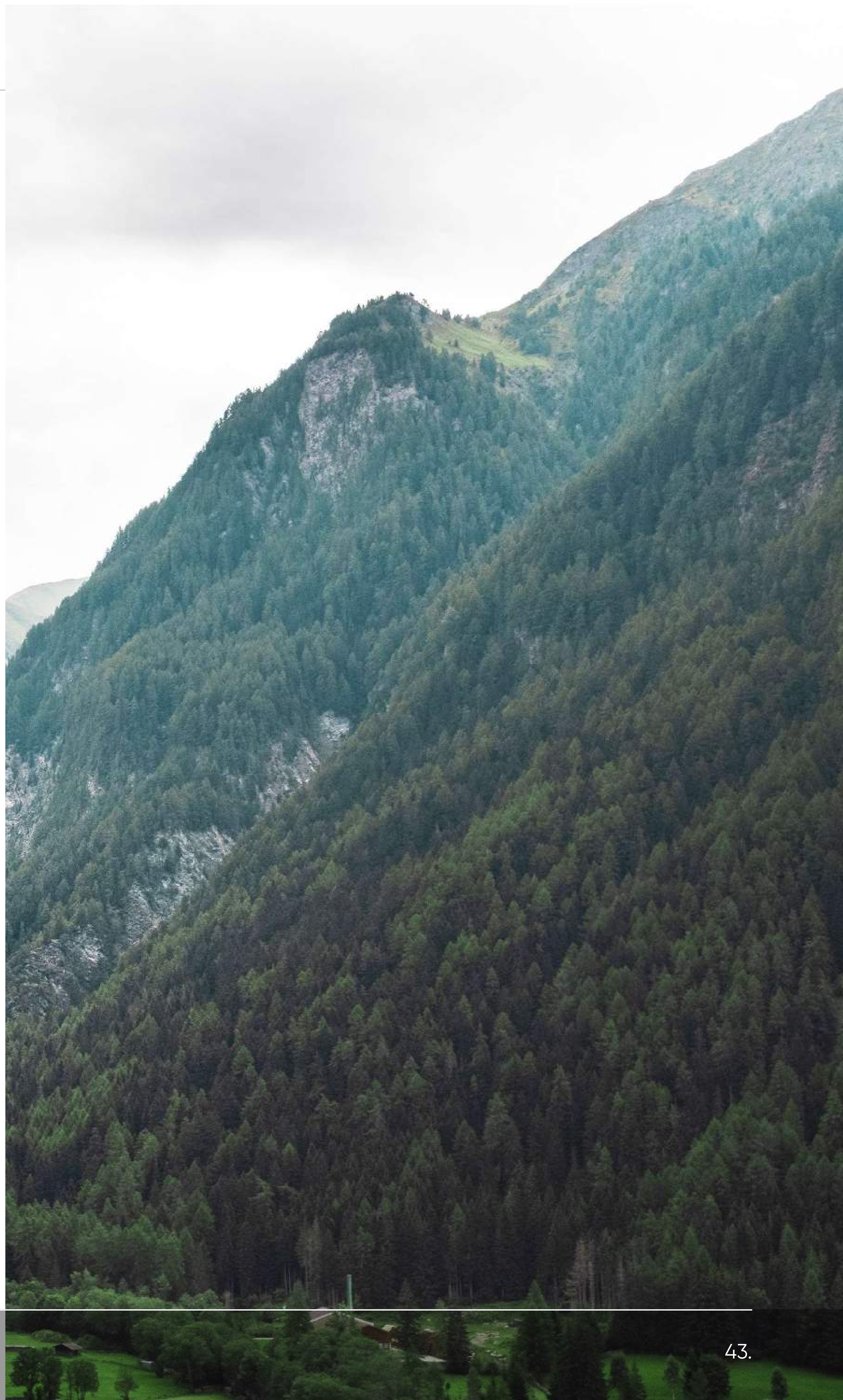
Metrics and Targets

The last thematic element, around which TCFD recommendations are structured, concerns Metrics and Targets related to climate related risks and opportunities. While all four thematic elements for recommendations are interrelated, the Task Force views metrics as the "connective tissue" between the recommendations. They provide quantifiable baseline and future oriented targets that enable board and management to monitor progress, help the leadership team describe impact of climate related risks and opportunities, while supporting the measurement of risk exposure. They also create a feedback loop over time and are used to inform a continuous business management process.

In its *Guidance on Metrics and Targets*, TCFD recommends that companies disclose metrics and targets on certain fundamental categories that are critical inputs for measuring financial risk. The Task Force has identified seven categories of climate-related metrics for all sectors that all organizations should disclose, and these are summarized to the right.[9] The Task Force recognises that ultimately Companies choose to disclose metrics that are in line with their industry and relevant to their business.

1. **GHG Emissions:** The Task Force believes that all organizations should disclose absolute Scope 1 and Scope 2 GHG emissions independent of a materiality assessment. Scope 3 is subject to materiality assessment.
2. **Transition risks:** Metrics related to transition risks allow investors to understand the amount and extent to which an organization's assets or business activities are vulnerable to transition risks. Such risks can include but are not limited to policy and technology related exposures. A good example of a transition risk could be the percentage of revenues coming from high-carbon business lines.
3. **Physical risks:** Similarly, metrics related to physical risk provide information with regards to the vulnerability of a company to material climate-related physical risks. Examples of physical risks could be issues related to impairment or stranding of business assets.
4. **Climate-Related Opportunities:** Proportion of Revenue, Assets, or Other Business Activities Aligned with Climate-Related Opportunities
5. **Capital Deployment:** Amount of Capital Expenditure, Financing, or Investment Deployed toward Climate-Related Risks and Opportunities
6. **Remuneration:** Proportion of Executive Management Remuneration Linked to Climate Considerations
7. **Internal Carbon Prices:** Price on Each Ton of GHG Emissions Used Internally by an Organization

9. https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf



TCFD Recommendations on Metrics and Targets

TCFD splits the topic into four recommended disclosures:

A Metrics

B Targets

C Transition Plans

D Financial Impacts

For each category, the Task Force outlines several climate-related topics that companies should consider in their disclosures. These topics are presented below.

A Metrics

1 The Company discloses the amount and extent of assets or business activities vulnerable to **physical risks.**

2 The Company discloses the **proportion of revenue, assets,** or activities aligned with **climate-related opportunities.**

3 The Company discloses the amount of **CAPEX or investment** deployed toward climate related risks and opportunities.

4 The Company provides their **Scope 1 and Scope 2 GHG emissions.**

5 The company discloses **Scope 3 emissions.**

6 The Company provide generally accepted **industry specific GHG efficiency ratios.**

7 The Company provides metrics related to **water.**

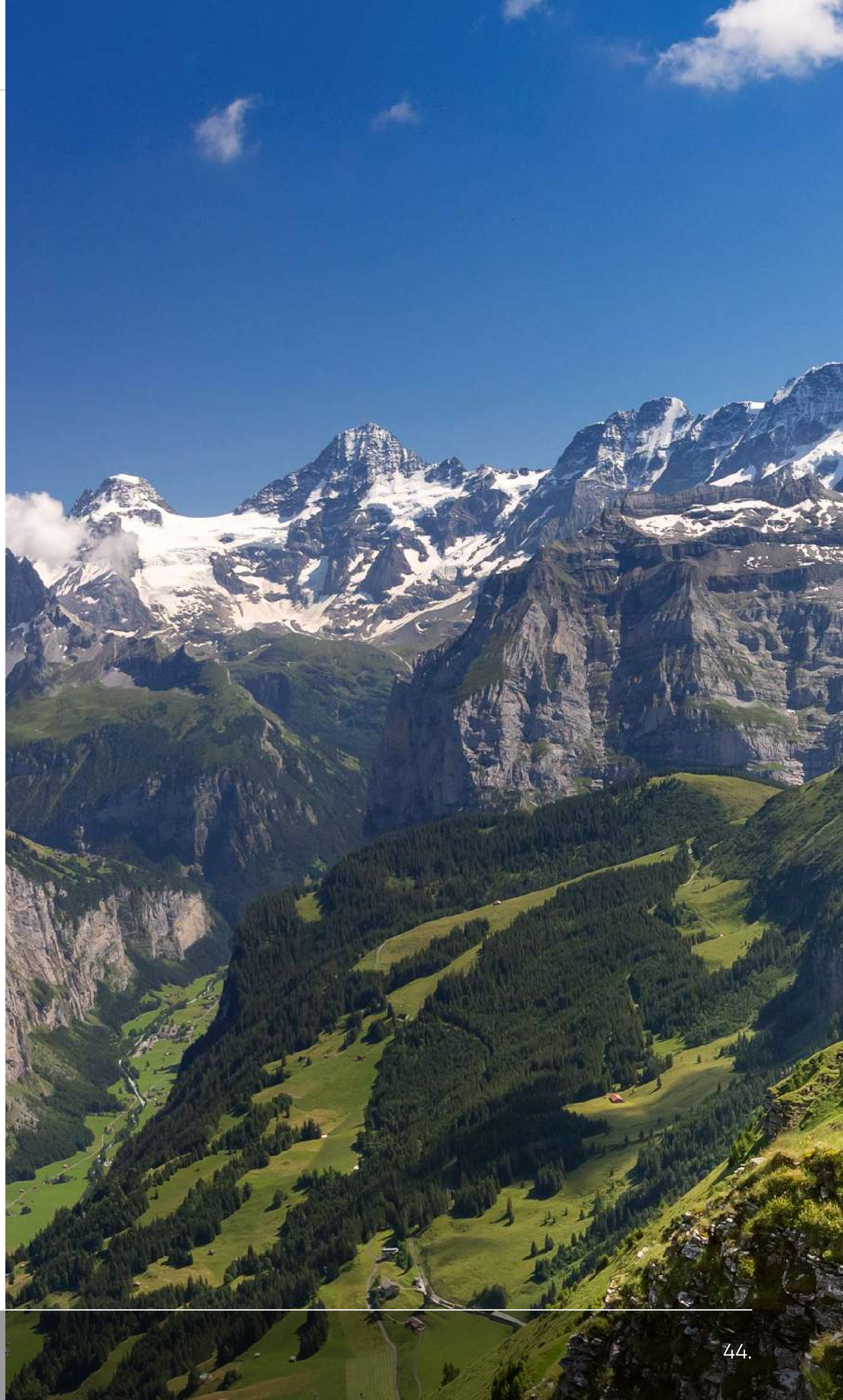
8 The Company provides metrics related to **energy.**

9 The Company provides metrics related to **land use.**

10 The Company provides metrics related to **waste.**

11 Company climate related metrics are incorporated into **remuneration policies.**

12 Does the Company have an **internal carbon price.**



TCFD Recommendations on Metrics and Targets

B Targets

1 The Company has a target related to **physical risks:** extent of assets or business activities vulnerable to physical risks

2 The Company has a target related to the **proportion of revenue, assets, or activities aligned with climate-related** opportunities

3 The Company has a targeted related to **CAPEX or investment** deployed toward climate related risks and opportunities

4 Company has **GHG Targets (Scope 1 and 2)**

5 The Company has **Scope 3 GHG Emissions targets**

6 The Company states that the set **target is verified by a third party** (example, Science Based Targets)

7 The Company has targets related to **water**

8 The Company has targets related to **energy**

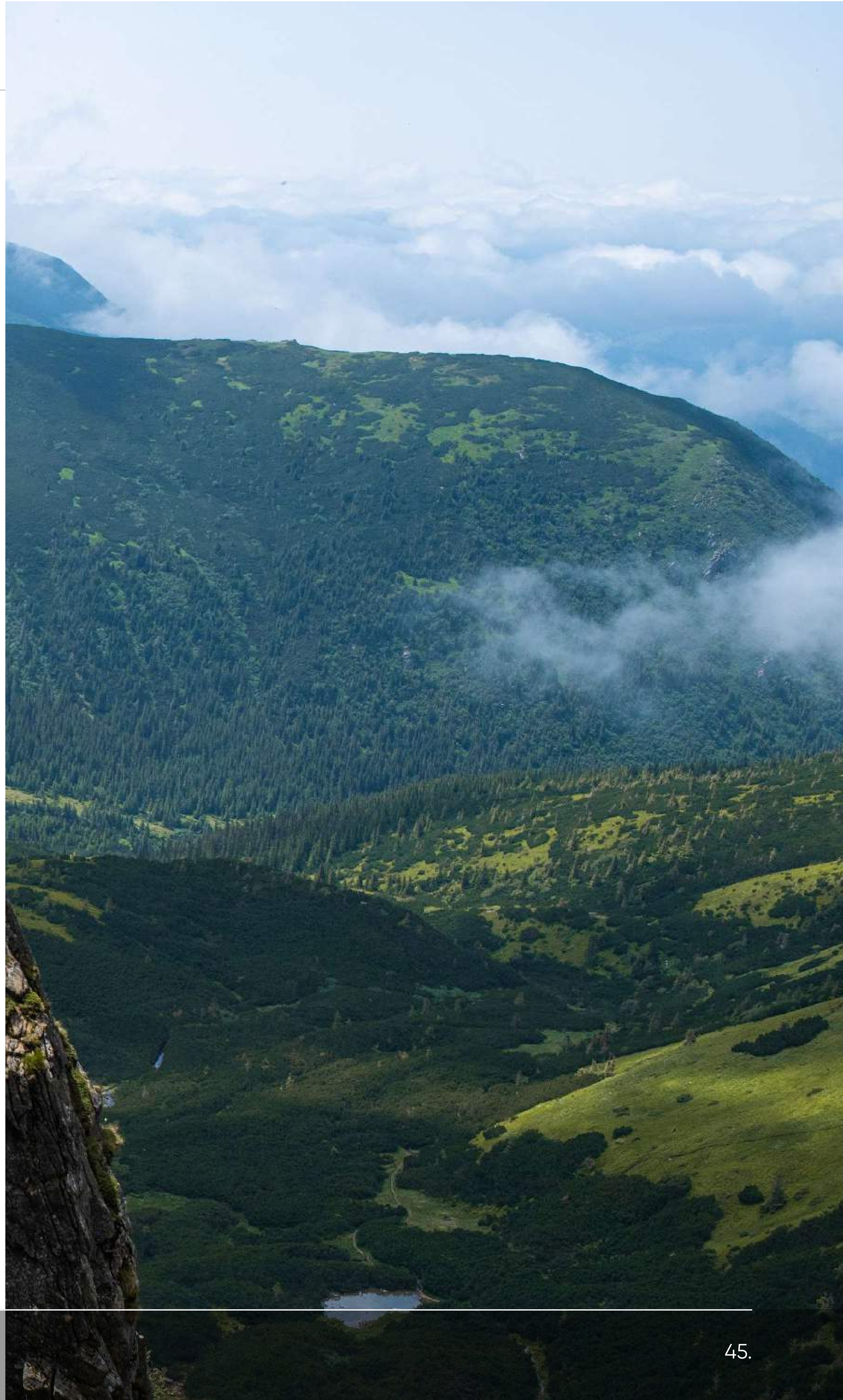
9 The Company has targets related to **waste**

C Transition Plan

1 The Company describes the **transition plan** (actions and activities to support transition, including GHG emissions reduction targets and planned changes to businesses and strategy).

D Financial Impacts

1 Disclose the **financial impacts of climate-related risks and opportunities including** (1) the actual and potential impacts of climate-related risks and opportunities on an organization’s financial performance and financial position and (2) how those impacts may affect the organization’s enterprise value over the longer term.



Study Results & Observations

A Metrics

Our results show that the vast majority, 34 out of 40 (or **85% of the total**) of the Swiss companies in our study, disclose their **Scope 1 and Scope 2 emissions** and only 6 companies do not make any such disclosures. Conversely Scope 3 emissions are included in the disclosures of only 22 companies (slightly more than the half of the total), while industry specific **GHG efficiency ratios** are disclosed only by 12 companies or 30% of the total.

Compliance for other recommended metrics is much lower. Only 3 companies (**7.5% of the total**) present metrics related to Physical and Transition risks while 26 companies (65%) do not include any such metrics at all.

Similarly, in terms of metrics pertinent to **climate related opportunities,** only **5 companies (12.5%)** have metrics related to the **proportion of revenues, assets aligned with climate relate opportunities,** while the vast majority or 35 companies (85% of the total) do not make any disclosure at all.

Continuing with the theme of very low compliance with TCFD recommendations for specific metrics, **only 3 companies** (7.5% of the total) have **metrics related to CAPEX deployed towards climate related risks and opportunities.** It should be noted that a survey undertaken by TCFD asked investors, lenders and insurance underwriters to rank specific types of information that could be disclosed to describe a range of impacts and the results showed a nearly unanimous agreement that capital expenditures and capital allocation were the most useful in terms of assessing financial implications.[10]

10. https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

Study Results & Observations

In a more positive finding, out of the 40 companies assessed, **16 companies** (40% of the total) have **remuneration policies** linked to climate related metrics. However, only 4 companies (10% of the total) have internal carbon prices.

Lastly, when it comes to more traditional metrics such as water, energy and waste, a significant share of more than 60% of the assessed companies disclose relevant metrics.

METRICS	YES		PARTIALLY		NO	
Scope 1 and **Scope 2** GHG emissions.	34	85%	-	-	6	15%
Discloses **Scope 3** emissions	22	55%	2	5%	16	40%
The Company **industry specific GHG efficiency ratios**	12	30%	-	-	28	40%
The Company discloses the extent of assets or business activities vulnerable to **physical risks.**	3	7.5%	2	5%	35	87.5%
The Company discloses the **proportion of revenue, assets, or activities aligned with climate-related opportunities.**	5	12.5%	1	2.5%	34	85%
The Company discloses **CAPEX or investment** deployed toward climate risks and opportunities.	3	7.5%	5	12.5%	32	80%
Metrics related to **water**	27	67.5%	-	-	13	32.5%
Metrics related to **energy**	32	80%	-	-	8	20%
Metrics related to **land use**	-	-	-	-	40	100%
Metrics related to **waste**	26	65%	1	2.5%	13	32.5%
Climate related metrics are incorporated into **remuneration policies**	17	42.5%	-	-	23	57.5%
Company has an **internal carbon price**	4	10%	-	-	36	90%

Study Results & Observations

B Targets

A climate-related target is a quantitative or qualitative goal that an organization wishes to meet over a defined time horizon to address its climate-related risks and opportunities. Climate related targets are closely linked to the company metrics, and they are continuously reviewed and updated.

Similar to the section above on Metrics, TCFD follows the same logic for targets and uses the same list of possible categories under which companies can set their targets. We followed the same approach in this section and assessed the extent to which Swiss publicly listed companies disclose information on the targets related to these categories.

The results of the Study show similar patterns as in Metrics, whereby companies are well in line with TCFD recommendations insofar as GHG emissions are concerned. However, they are not well aligned with recommendations in terms of targets related to physical risks, share of revenue aligned with climate opportunities, CAPEX related to climate risks and opportunities etc.

When it comes to GHG Emissions, **27 companies (or 67.5%)** of the analyzed Swiss companies have targets related **Scope 1 and Scope 2 emissions,** while 12 companies do not disclose any such targets. Similarly, **19 companies** (47.5%) disclose targets related **Scope 3 emissions.** A considerable number of Swiss companies (45%) have set Science Based Targets (SBT) or are in the process of having their targets verified by SBTi (Science Based Target initiative). We provide a summary of the SBTi in the In Focus section below.

TARGETS	YES		PARTIALLY		NO	
Scope 1 and Scope 2 GHG emissions target.	27	67.5%	1	2.5%	12	30%
Scope 3 emissions targets	19	57.5%	1	2.5%	20	50%
The Company has a target related to **physical risks:** extent of assets or business activities vulnerable to physical risks	-	-	-	-	40	100%
The Company has a target related to the **proportion of revenue, assets, or activities aligned with climate-related opportunities**	1	2.5%	3	7.5%	36	90%
The Company has a targeted related to **CAPEX or investment deployed** toward climate related risks and opportunities	2	5%	-	-	38	95%
The Company has set **Science Based Targets** and are in the process of having them verified by the SBTi.	18	45%	1	2.5%	21	52.5%
Targets related to **water**	13	32.5%	-	-	27	67.5%
Targets related to **energy**	20	50%	1	2.5%	19	47.5%
Targets related to **waste**	16	40%	-	-	24	60%

Regarding, **physical risks,** none of the companies in our study disclose setting a target. In terms of targets related to climate – related opportunities, only 5 companies (7.5%) have targets related to the proportion of revenues, assets aligned with climate relate opportunities, while the vast majority 35 (85%) do not.

Similarly, only 3 companies (7.5%) have targets related to CAPEX deployed towards climate related risks and opportunities. Lastly, a significant number of the companies assessed have targets related to water, energy and waste.

Study Results & Observations

C Transition Plan

Only 10 companies out of the 40 assessed (or 25%) have a clear **transition plan** in place and 13 only disclose such information partially, usually through the inclusion of various targets though they are not presented in a cohesive manner. But 17 of the companies (or 42.5%) do not have any such disclosure.

TRANSITION PLAN	YES		PARTIALLY		NO	
The Company describes the transition plan (actions and activities to support transition, including GHG emissions reduction targets and planned changes to businesses and strategy).	10	25%	13	32.5%	17	42.5%

D Financial Implications

To make informed financial decisions, investors, lenders, and insurance underwriters need to understand (1) the actual and potential impacts of climate-related risks and opportunities on an organization's financial performance and financial position and (2) how those impacts may affect the organization's enterprise value over the longer term.

When it comes to disclosure of the financial implications of climate related risks, only 1 company in our study has done so, while the rest of the companies do not present any such quantification. It should be noted, however, that lack of such disclosures has been reported by TCFD globally due to complexities of such assessment and lack of data. As such, this issue is not specific to Switzerland and is in fact one of the lowest levels of disclosure globally.

Overall, our study shows a very mixed compliance across the board in terms of disclosure of metrics. Disclosures are generally in line with TCFD recommendations when it comes to reporting GHG emissions. However, there is significant deviation from recommended disclosures for the metrics relevant to physical and transition risks, and related opportunities. One of the contributing factors to this situation, in our opinion, is the exclusive emphasis on Impact Materiality without consideration of Double Materiality in reporting. Consequently, companies excel in areas related to the environment, like GHG emissions, while metrics concerning the impact of climate-related risks on company performance receive insufficient attention.

FINANCIAL IMPLICATIONS	YES		PARTIALLY		NO	
The Company discloses the financial impact of climate related risks and opportunities including implementation of transition plans.	1	2.5%	-	-	39	97.5%

Best Practices - Metrics and Targets

- Present a clear list of **metrics** including GHG emissions and those related to climate specific risks and opportunities.
  - While GHG related emissions are well reported in Switzerland, companies should put more emphasis on outlining metrics in line with TCFD`s 7 categories explained above.
  - We have included an example in **Figure 9** from Bell Foods, which includes information related on specific business lines linked to climate related risks and opportunities.
- Present a clear list of **targets** in line with TCFD requirements along the 7 proposed categories. Clearly state the assumptions behind the set targets and how they interlink with strategy and risk management and with **Scenario Analysis.**
  - Some companies present targets in various sections split by topics, for example water, energy to relate to topic at hand, which is useful. However, we recommend that for ease of reference companies also present an aggregate list of all targets.
  - When it comes to energy related targets, they are sometime split in various topics such as improved energy management, renewable energy installation, production of efficient machines, which are not easily translatable to a single quantifiable target. We recommend that specific target for energy is set, composed of various activities that contribute to the transition.
  - We present an example in **Figure 11** from Holcim with targets in terms of share of revenue dedicated to climate opportunities as well as capex deployment commitments.
- Use industry-specific metrics such **emission intensity** as it allows investor to compare data cross the same industry.
  - See an example from Emmi in **Figure 10** below.
- Present a clear **transition plan,** which includes actions and activities to support transition, including GHG emissions reduction targets, timelines and planned changes to businesses and strategy.
  - See examples from Givaudan`s and Sika`s transition plan in **Figure 12** and **Figure 13** and below.

Best Practices - Metrics and Targets

Figure 9 – Bell Food`s Ecosystem related Metrics and Targets

TARGETS		Unit	2021	2022	Guide value 2026	Evaluation[1]
4.1	We are maintaining sales with product labels for organic agriculture, animal husbandry and fish farming at CHF 370 million.	mCHF	376	363	370	■
	We are maintaining sales with product labels for sustainable agriculture, animal husbandry and fishing at CHF 1 100 million	mCHF	1236	1135	1100	■
4.2	95 percent of fruit and vegetables procured is of a minimum standard for sustainableagricultural or higher.	%	63	73	95	■
	100 percent of fruit and vegetables procured outside Europe is of a minimum standard for sustainable agricultural or higher.	%	not recorded	38	100	■
4.3	72 percent of our fish and seafood range is rated as «recommended» or «highly recommended» by the WWF	%	not recorded	54	72	■
	Less than 1 percent of our fish and seafood range is rated as «not recommended» or poorer by the WWF.	%	not recorded	1.14	< 1%	■
4.4	100 percent of our palm oil is obtained from deforestation-free and conversion-free sources	%	100	66.4	100	■
4.5	At least 50 percent of our soy in feed used in integrated poultry production or in our supply chain for meat and meat products from Europe is obtained from deforestationfree and conversion-free sources.	%	not recorded	45	50	■
4.4	We maintain the proportion of beef from deforestation-free and conversion-free sources at Bell Switzerland at 99 percent.	%	not recorded	99.16	99.00	■
4.7	75 percent of the raw materials used by us are traceable along the entire supply chain.	%	not recorded	80	75	■

Source: Bell Foods Sustainability Report 2022

Figure 10 – Emmi`s emission intensity

	2019	2020	2021	2022	2022
tCO_2e per KCHF Sales	1.53	1.54	1.45	1.29[2]	-11%
tCO_2e per t of milk	2.59	2.69	2.61	2.64[3]	1%
tCO_2e per t of saleable goods	4.06	4.20	3.97	4.06[4]	2%

Source: Emmi Sustainability Report 2021/2022

Figure 11 – Homcim`s targets – Share of revenue from climate related opportunities and capital deployment targets

The strategy includes ambitious 2025 sustainability targets in line with Holcim's net-zero roadmap, validated by the SBTi:

- 25 percent of ready-mix sales from ECOPact, with at least a 30 percent lower CO2 footprint
- 10 million tons of construction & demolition waste recycled in our products
- Green CAPEX of CHF 500 million
- >40 percent of financing agreements linked to sustainability goals

Source: Holcim Integrated Annual Report 2022

Best Practices - Metrics and Targets

Figure 12 – Givaudan`s transition plan

Our roadmap to becoming climate positive

Our actions to reach our ambitions

Our supply chain (scope 3)

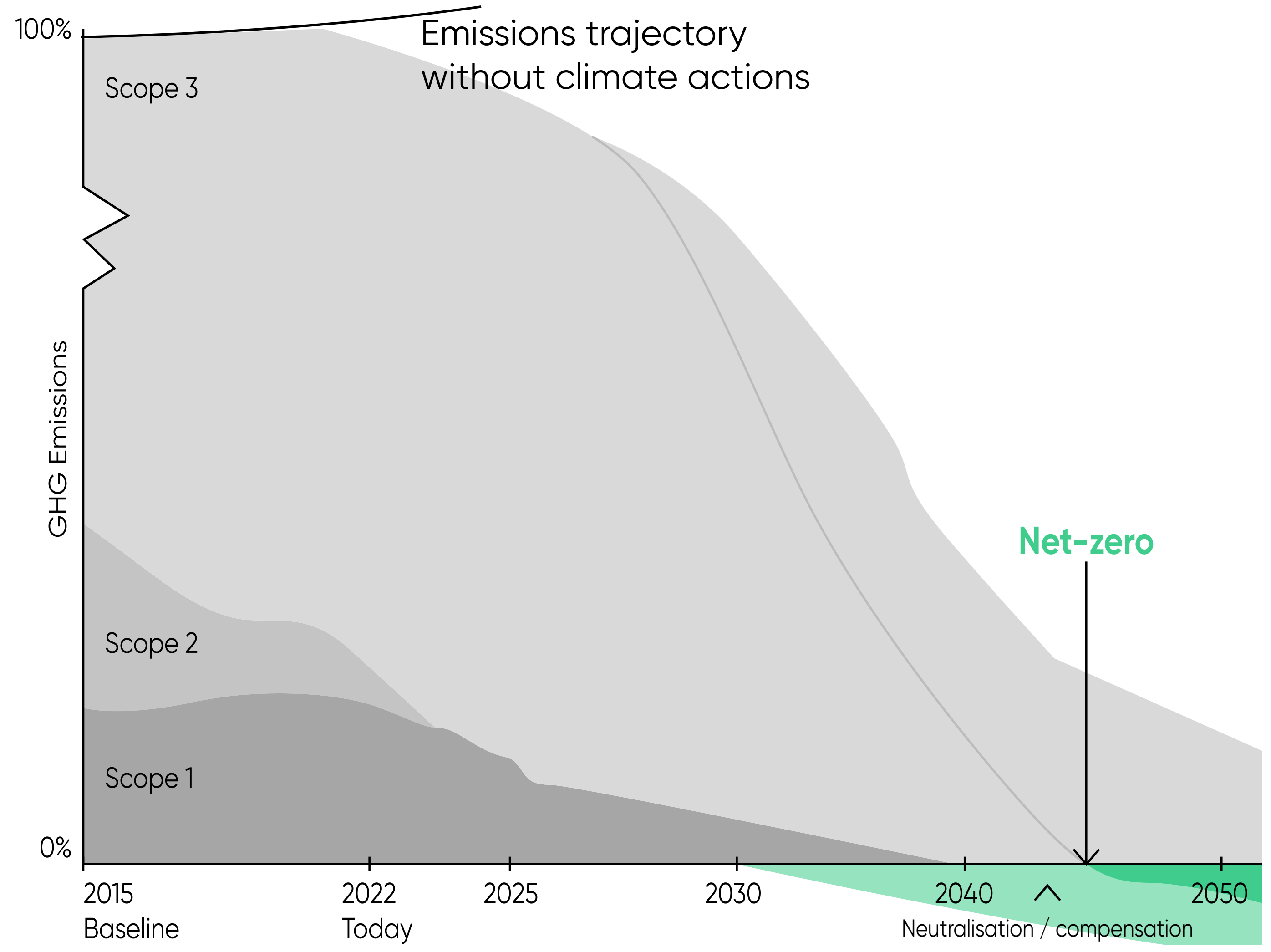
- Sustainable procurement of ingredients
- Low-carbon creations
- Driving circularity and upcycling
- Optimising Packaging, logistics and transport of goods
- Optimising business travel and employee commuting

Our operation (scope 1+2)

- Energy efficiency
- Renewable energy sources

Neutralisation / compensation

- Natural Climate Solutions (NCS)
- Carbon capture technology



ENABLERS TO REACH OUR AMBITIONS

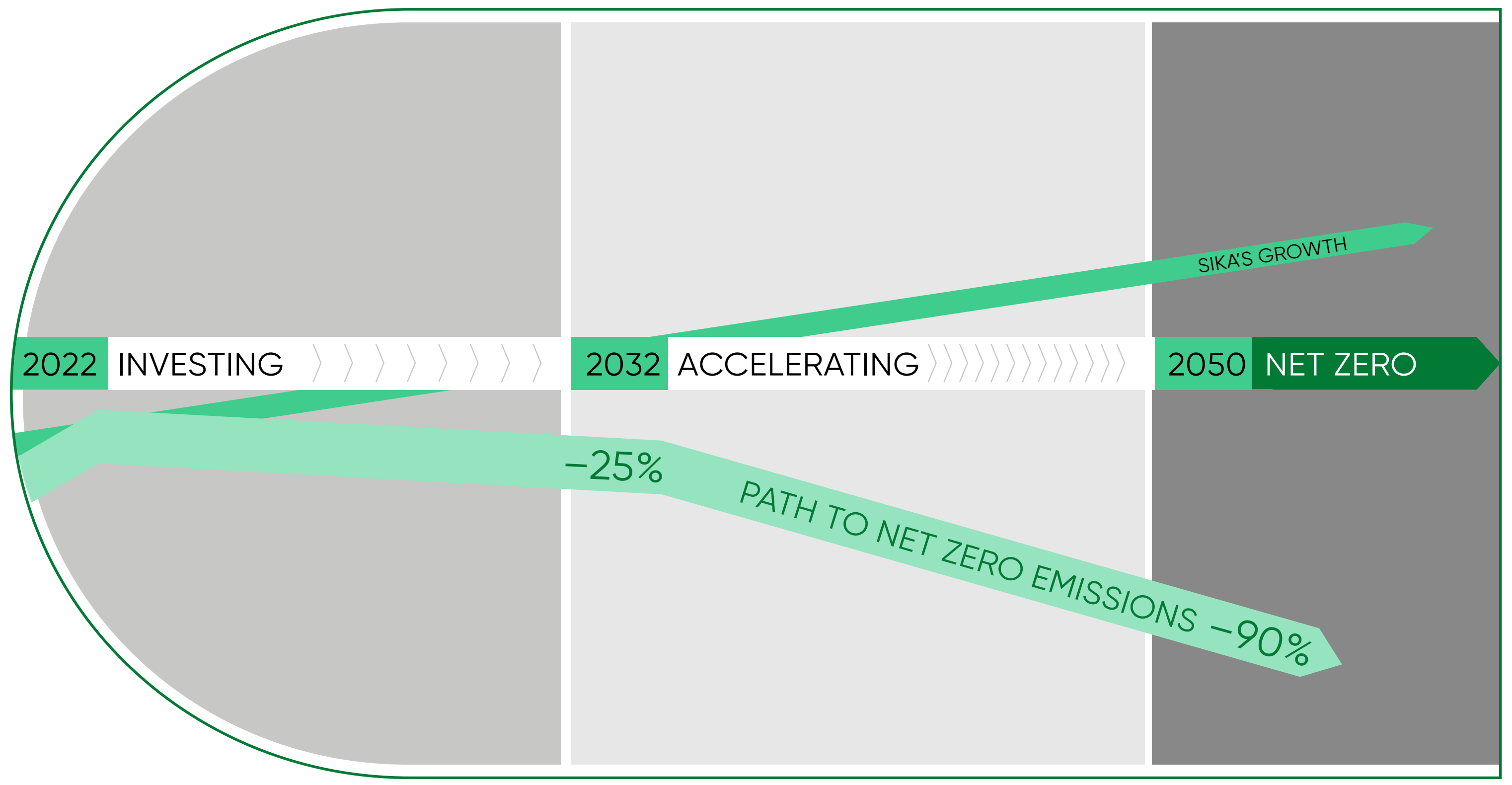
- Supplier engagement
- Innovation
- Budget and financial mechanisms
- Advocacy and promotion
- Partnership and governance
- Model enhancement

2022 ACHIEVEMENTS	2025 AMBITION	2030 AMBITION	2040 AMBITION	BEFORE 2050 AMBITION
-35% scope 1+2 -1% scope 3 90% Renewable electricity	100% Renewable electricity	-70% scope 1+2 -20% scope 3	-100% scope 1+2 -50% scope 3	Climate positive (Scope 1+2+3)

Source: Givaudan Sustainability Report 2022

Figure 13 – Sika`s transition plan

SIKA'S WAY TO NET ZERO - KEY LEVERS



OUR KEY LEVERS

- Accelerated use of **alternativelow carbon supplies**
- Education and capacity building to improve **material efficiency and circularity**
- **partnerships with key suppliers** who support Sika's path to net zero
- Development of **new technolofical solutions** for construction and industry
- Continued focus on **operational efficiencies**

SBTI TARGENTS AND TIME HORIZONS

	Near-term (2032)	Net-zero (2050)
Scope 1 and 2 emissions[1]	-42% (1.5°C scenario aligned)	-90% (1.5°C scenario aligned)
Scope 3 emissions[2]	-25% (well below 2°C scenario aligned)	-90% (1.5°C scenario aligned)
Total emissions	**-25%**	**-90%**

Source: Sika Sustainability Report 2022

In Focus: Science Based Targets Initiative (SBTi)

What is the Science Based Target Initiative (SBTi)?

The Science-Based Targets initiative (SBTi) is a collaborative effort involving several organizations that provides a framework and guidance for companies to set and achieve science-based targets (SBTs) for reducing their greenhouse gas (GHG) emissions.

What is the Science Based Targets?

Science-based targets are a set of specific, measurable goals that organizations set to reduce their greenhouse gas (GHG) emissions in line with the latest scientific evidence on climate change. These targets are designed to help combat global warming and limit the increase in average global temperatures to well below 2 degrees Celsius above pre-industrial levels, as outlined in the Paris Agreement. Main elements of SBT are:

→ Targets can vary by **industry sector** and are typically based on sector-specific decarbonization pathways. This recognizes that different sectors have different challenges and opportunities for emissions reduction.

→ Science-based targets consider both direct **(Scope 1) and indirect (Scope 2 and Scope 3)** emissions.

→ Targets are **assessed and validated** by recognized organizations, such as the Science-Based Targets initiative (SBTi), to ensure they are in line with climate science. This validation provides credibility to an organization's commitment.

→ Targets typically have a specified **time frame** for achieving emissions reductions, often by a specific year in the future. Common target years include 2030 and 2050.

→ The **ambition** level of science-based targets can vary, with some organizations committing to achieving net-zero emissions by a certain date. Net-zero means that the organization removes as much carbon dioxide from the atmosphere as it emits.

→ Setting science-based targets can have several **benefits,** including enhanced corporate reputation, reduced operational costs, access to green financing, and increased resilience to climate-related risks.

In summary, science-based targets are a crucial strategy for organizations to contribute to global efforts to combat climate change by aligning their emissions reduction goals with the latest climate science and international agreements like the Paris Agreement. These targets help ensure a more sustainable and climate-resilient future.

For more, visit https://sciencebasedtargets.org

Key Findings

The key research question we set out to answer with this report was to understand how aligned Swiss publicly listed companies are with the TCFD Climate Related Financial Disclosure recommendations that are referenced in the Swiss Ordinance on mandatory climate disclosures.

The main conclusion of our study is that climate reporting by Swiss companies is not yet aligned with the TCFD recommendations. We summarise below our main findings from our research.

Governance: Swiss companies are generally aligned with TCFD recommendations insofar as Governance is concerned with 60% of the companies assessed having disclosed information on various Governance aspects. However, there are gaps identified in several areas such the frequency and the processes by which the board oversees climate related topics. In addition, roles and responsibilities of different business functions within the company, as well as the processes should be better defined and articulated.

Strategy: Current level of disclosure by the publicly listed Swiss companies on the impact of climate related risks on their Strategy is not considered to be in line with TCFD. On average, only 23% of the companies assessed provide information on how climate related risks and opportunities impact their Strategy while only 13% describe how resilient their strategies are to such risks. Companies should focus on defining the strategic timeframes applicable to their operation and pinpoint climate-related risks that may emerge. In addition, companies should use Scenario Analysis as a method for assessing the potential implications for their businesses in case climate related risks materialise.

Risk Management: The current level of disclosure on Risk Management is not fully in line with TCFD Recommendations as less than half (only 37%) of the companies in our study have made such disclosures. While companies generally do describe the overall risk management process of sustainability related risks, companies should make a clear focus on physical and transition risks. A clear list of such risks along with the level of impact as well as the identified opportunities should be made available.

Targets and Metrics: Overall, our study shows a very mixed compliance across the board in terms of disclosure of metrics and targets. Disclosures are generally in line with TCFD recommendations when it comes to reporting GHG emissions. Our results show that 85% of the companies disclose GHG related metrics and 67.5% have targets related to GHG emissions. However, we can observe a significant misalignment with the TCFD recommendations in the metrics and targets concerning both Physical and Transition risks and opportunities, highlighting a notable lack of attention to the Double Materiality concept. Stemming from the strategic considerations, companies should identify the relevant metrics and targets with regards to climate related risks and opportunities, for example share of CAPEX dedicated to climate related risks. Investors consider these metrics as one of the most relevant in understanding the resilience of the strategy and the pathway forward to implementing and new climate and sustainability related objectives.

Key Findings

Disclosure based on revenue ranges

Lastly, probably as expected, is that companies with higher revenues exhibit a stronger alignment across all four TCFD categories. Companies generating annual revenues exceeding CHF 10 billion can be considered the most aligned with TCFD requirements. Nevertheless, even these sizable companies do not fully align with TCFD recommendations in Strategy, Metrics and Targets regarding physical and transition risks, financial impact disclosure, and detailed transition plans. Conversely, companies with annual revenues below CHF 1 billion display notable deficiencies and substantial misalignment in various aspects of the four TCFD fundamental areas and their related sub-areas.

REVENUE RANGES				
TCDF Recomendations	Up to 500 mn	500 mn to 1bn	1 to 10 bn	10 bn +
GOVERNANCE				
Board Oversight	45%	58%	71%	88%
Managment's Role	22%	46%	63%	98%
STRATEGY				
Identification of Risks	10%	17%	25%	42%
Impact of Risks	8%	25%	35%	53%
Resilience	3%	9%	13%	44%
RISK MANAGMENT				
Risk Identification Process	13%	27%	44%	58%
Risk Managment	3%	38%	33%	59%
Risk Integration	20%	40%	42%	75%
TARGETS AND METRICS				
GHG Emissions	30%	60%	69%	67%
Other TCDF recommended metrics	2%	20%	12%	35%
Other environmental metrics	33%	80%	78%	96%
GHG Targets	15%	65%	67%	88%
Other TCDF recommended targets	0%	3%	3%	4%
Other environmental targets	17%	47%	36%	71%
Transition Plan	10%	0%	25%	50%
Financial Impact	0%	0%	0%	13%

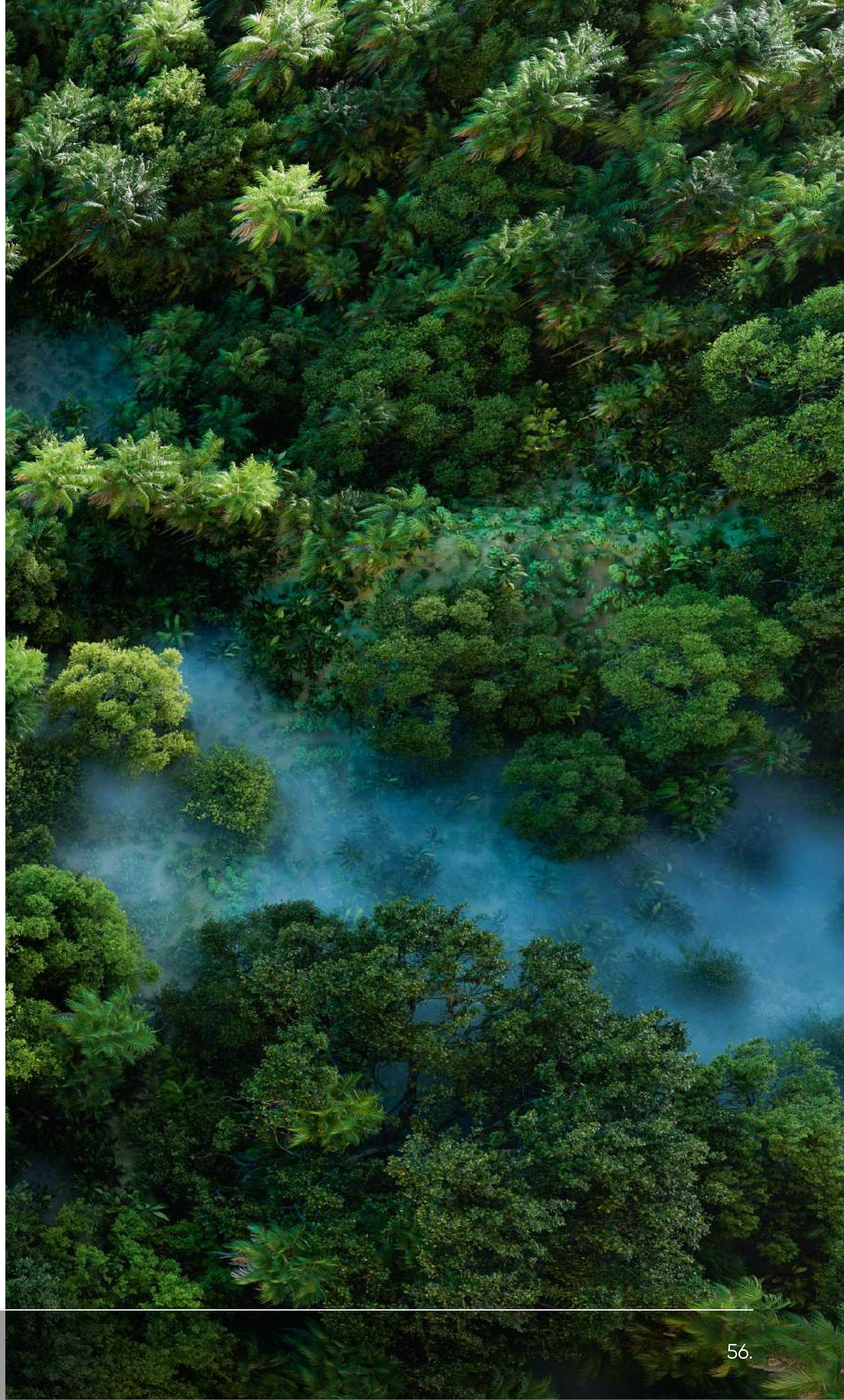
- Above 80%
- Between 61% and 80%
- Between 41% and 60%
- Between 21% and 40%
- Under 20%

Appendix

List of companies included in the Study

ABB
ALUFLEXPACK
ARYZTA
BACHEM GROUP
BELL FOOD GROUP
BKW GROUP
BOBST GROUP
BURKHALTER GROUP
CPH CHEMIE + PAPIER
DATWYLER HOLDING
EMMI
GIVAUDAN
HUBER+SUHNER
IDORSIA
IMPLENIA
INFICON
KUEHNE NAGEL
LALIQUE GROUP
MEYER BURGER

MEYER BURGER
NESTLÉ
NOVARTIS
ORIOR
PHOENIX - MECANO
POLYPEPTIDE
ROCHE HOLDING
SCHAFFNER GROUP
SCHINDLER
SENSIRION
SFS GROUP
SIKA
STARRAG
SWATCH GROUP
SWISS STEEL GROUP
TECAN GROUP
TORNOS
VETROPACK
VONROLL HOLDING



Climate Reporting in Switzerland

How Aligned are Swiss Companies with the Ordinance on Mandatory Climate Disclosures?

www.enfinit.ch   www.pelt8.com

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