ESG Reporting Landscape in the Netherlands in 2021

A gradual shift in corporate sustainability disclosures

An analysis of the ESG reporting landscape of large entities in the Netherlands in 2021

pwc

Content

About this report

Preface

ESG remains high on the corporate agenda with a drive for more credible ESG reporting. The road to credible reporting is already progressing and gradually shifting, however the need to make bigger steps is increasing rapidly in light of:

- the need for information in relation to urgent decision taking, for example on climate;
- the regulatory ESG reporting requirements;
- the priorities of companies' stakeholders;
- transformation of investor perspectives; and
- the empirical evidence of valuation relevance.

PwC has performed different studies and researches like PwC's 25th Annual Global CEO Survey and PwC's 2022 Annual Corporate Directors Survey, with the purpose to understand what is in focus of our clients, their strategy, their commitments as well as their struggles and how they plan to solve them. From what we see, despite rising interest in ESG, the corporate strategy is still primarily driven by business metrics. And more than half of boards lack a strong understanding of ESG Strategy and Risks.

As PwC NL, we have conducted a research to understand how climate change is reflected in the financial statements, management reports and the auditor's report within the AEX companies, titled Climate change is reflected in financial statements, a role for companies and their auditors.

This all underpins our strive to inform our stakeholders and the greater public about the landscape of ESG reporting, and our support to see this landscape to improve and become more transparent. That's why we analyzed the ESG reporting landscape of large entities in the Netherlands in 2021, following our research in 2019 and 2020, which is showing a gradual shift in corporate sustainability disclosures. Specifically, this report gives information on the extent of reporting of the E, S and G in relation to the European Sustainability Reporting Standards.

Enjoy reading our findings.

About this report

Key messages and findings

A gradual shift in corporate sustainability disclosures

We researched the sustainability reporting of 121 companies with a link to Euronext, including all listed AEX, AMX and AScX companies. Our main findings show a gradual shift in corporate sustainability disclosures and are as follows.

1.There is an increase number of companies (+10%) that report on sustainability matters

- The trend analysis performed shows that there is an increase on sustainability related disclosures.
- The number of companies reporting on ESG topics and obtaining assurance is increasing.
- 55% of the companies have a net zero strategy disclosure in their reporting over 2021; 77% of which also disclose their net zero targets.
- 25% of the companies do not report on CO2 emissions, companies reporting on CO2 emissions in the value chain increased to 56% in 2021, albeit often reported with limitations.
- 45% of companies refer to TCFD recommendations in their disclosures.
- We see a significant shift in SBTi commitments, from 15% in 2019 to 29% in 2021.

At the same time, we still see that a large number of companies do not yet embed sustainability at the core of their strategy and the way they do business, and are not properly disclosing their ESG topics and sustainability in their annual reporting. It is shocking to see that 25% of the companies do not report on CO2 emissions, and that reporting on CO2 on the full value chain without limitations is still very scarce. Further, the gender pay gap, which is a mandatory disclosure of the ESRS, is only disclosed for 29% of the companies. Most of the companies seem to wait for the new EU sustainability reporting standards to be published to increase ESG disclosures.

2. The topics reported by companies are often not aligned with the requirements of the CSRD and ESRS

From the ESG topics identified and disclosed, we observe that companies' main focus lies on the topics climate change and own workforce. And although, with the latest updates of the European Sustainability Reporting Standards (ESRS)[1], not all topics need to be considered material, due care is needed for topics like biodiversity, pollution, equal pay, payment practices and especially the impact on ESG in the supply chain. The disclosure requirements for the Corporate Sustainability Reporting Directive CSRD are quite substantial and need proper investment as well as focus and priority in the business. Companies need to move quicker, be agile and resilient for future developments and requirements to prepare for serious challenges ahead.

On the other hand, we see many companies that identified and considered additional ESG topics which are not yet part of the current topical ESRSs. This means additional efforts and investment in their sustainability reporting going beyond compliance.

3. Energy and financial services sectors are leaders in ESG reporting and assurance

The energy and financial services sectors are still leaders with 100% of the companies reporting on sustainability against an 89% average, and with more than 50% of the companies that asked for ESG assurance in 2021, opposed to a 42% average.

4. The number of companies that obtain ESG assurance is stable, less than half have ESG assurance

49% of our research population obtained some level of assurance in 2021, which means 53 companies out of the 108 that disclose some form of sustainability information. We would expect this number to increase due to the relevance of ESG reporting.

Overall, we see a gradual shift in corporate sustainability disclosures. We expect a steeper increase of sustainability reporting and ESG assurance in the coming years with the EU ESG reporting regulations being enforced.

[1] EFRAG SRB meeting 15 November - https://www.efrag.org/Meetings/2211141505388508/EFRAG-SRB-Meeting-15-November-

About this report

Purpose of this research

The purpose of this research is to provide an overview of the current state of the ESG reporting landscape in the Netherlands and to identify opportunities where the disclosure practices can be enhanced.

This research builds on prior year research by PwC NL[2]. This year we will specifically include insight to the ESG regulatory requirements on the E, S and G. We further assess the current landscape of ESG reporting in the Netherlands during 2021 by:

- Analyzing the **trends of the ESG reporting** during the past years, looking at different types of reporting, assurance on ESG reporting, material ESG topics identified, and analyzing trends by sector;
- Focusing on **important ESG topics** that have the attention of stakeholders, like:
  - the material ESG topics considered and disclosed,
  - Whether the companies focus on particular ESG topics like Carbon emissions within Environment, Gender pay gap within Social, and Tax governance within Governance,
  - EU Taxonomy assurance
- Assessing the extent to which companies make **climate related disclosures** such as TCFD disclosures, climate-related risk disclosures in their management report and financial statements, as well as disclosures on net zero strategy and SBTI commitment.

[2] Het duurzaamheidsrapportage landschap in Nederland over 2020, PwC (https://www.pwc.nl/nl/assets/documents/pwc-duurzaamheidsrapportagelandschap-in-nederland-over-2020.pdf)

About this report

Population and research process

Our research population is considering the largest companies in the Dutch market that shall be leading the ESG reporting transformation with the CSRD implementation as of 2024

We researched 121 public interest entities (In Dutch Organisaties van Openbaar Belang, OOB's) that are listed on the Euronext as at 31-12-2021, see table 1. The majority of the population consists of 75 companies that are part of the Amsterdam Exchange Index (AEX), Amsterdam Midkap Index (AMX) and the Amsterdam Small Cap Index (AScX). We have further added 46 companies that we mark as other PIE's having a link to the Euronext. To maintain consistency with prior year we have applied the following selection criteria:

1. The company is listed on the Euronext Amsterdam. This could be based in the form of an offered bond on the Euronext or a listing outside the AEX, AMX or AScX. These are legal entities with securities admitted to trading on a regulated market.
2. The other PIE's need to be domiciled in the Netherlands using its Dutch legal form such as N.V. or B.V. (for AEX, AMX and AScX companies we included all legal forms). The reason for this criterion is that we want to focus on the reporting landscape in the Netherlands.
3. Lastly the PIE has to be economically participating, this means that we have excluded for example special purpose acquisition companies (SPAC).

Population (N)	2021	2020*	2019*	2018*
AEX	25	25	25	25
AMX	25	24**	24**	24**
AScX	25	25	25	25
Other PIEs	46	43	43	0***
Total	**121**	**117**	**117**	**74**

Table 1: Research population

* In 2020 we performed this research for the first time. As a result we decided to have the same population over these years.

** One company did not have an annual report publication requirement anymore due to a delisting. As a result the number of companies for the AMX amounted to 24 in prior year research.

*** For 2018 we only have the AEX, AMX and AScX data for our comparatives.

For most tables, we have used companies with some sort of sustainability reporting. In other tables, the full population of companies have been used. This is marked appropriately at each table. Note that we have included real estate companies within the financial services sector.

1. Types of sustainability reporting

Research shows integrated reporting as the most commonly used type of reporting

We analyzed the type of reporting that companies adopt for their sustainability reporting. The types of reporting consist of:

- Integrated reporting: financial and non-financial information is presented in an integrated manner;
- Combined reporting: sustainability information is often presented in a separate chapter in the annual report;
- Sustainability Report: separate sustainability report; or
- Website: on the company's website.

Chart 1 shows a significant increase in the application of integrated reporting over the past years, which is in line with the continuous growing focus on ESG and the upcoming recognition of the connectivity between finance and ESG. 89% of the companies disclose some level of sustainability information, opposed to 78% in 2020. Notably, 2021 is the first year that all AEX, AMX and AScX companies report on sustainability information. Most of them do so as part of their annual reports, however, a few companies decide to publish this information in a separate sustainability report which is available on their website.

Compared with 2018, except Integrated reporting, all the other types of reporting are decreasing. Especially combined reporting which was the most used type of reporting in 2018 with 45%, while in 2021 is just above 20%. Further, integrated reporting has increased from less than 20% in 2018, to more than 60% in 2021.

Trend of sustainability reporting types

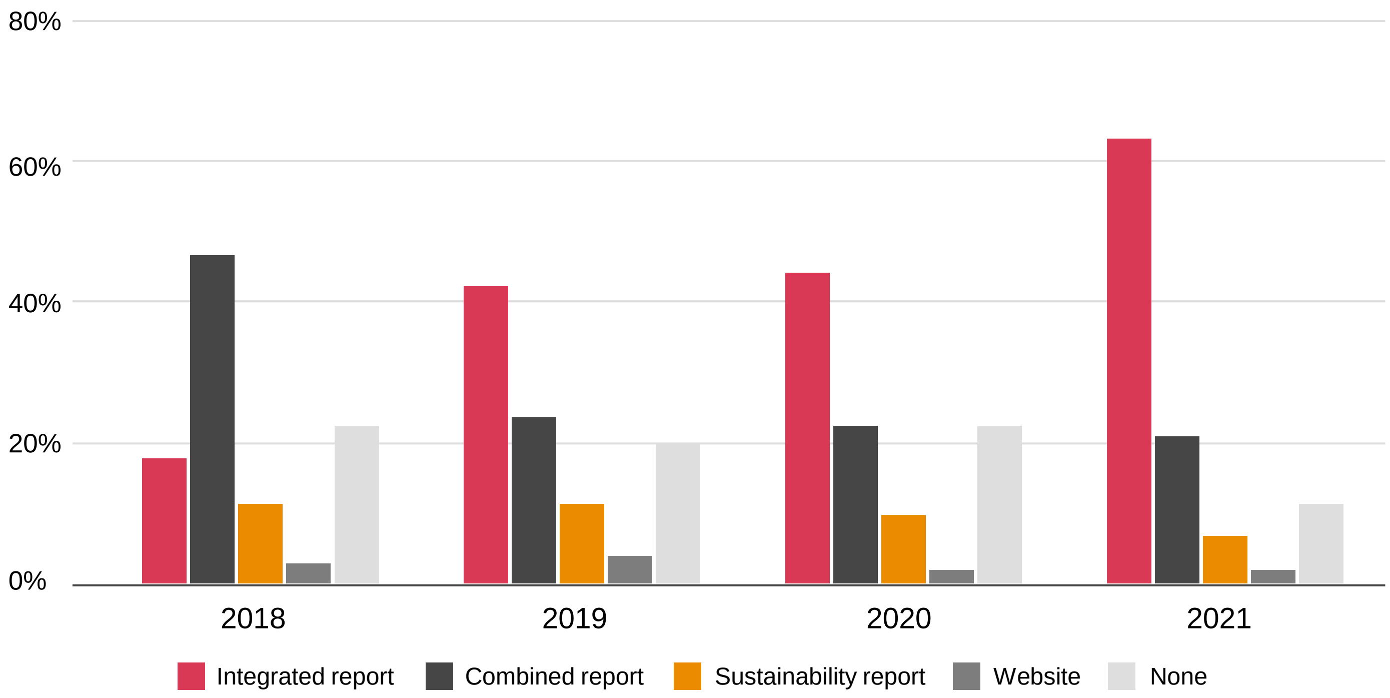


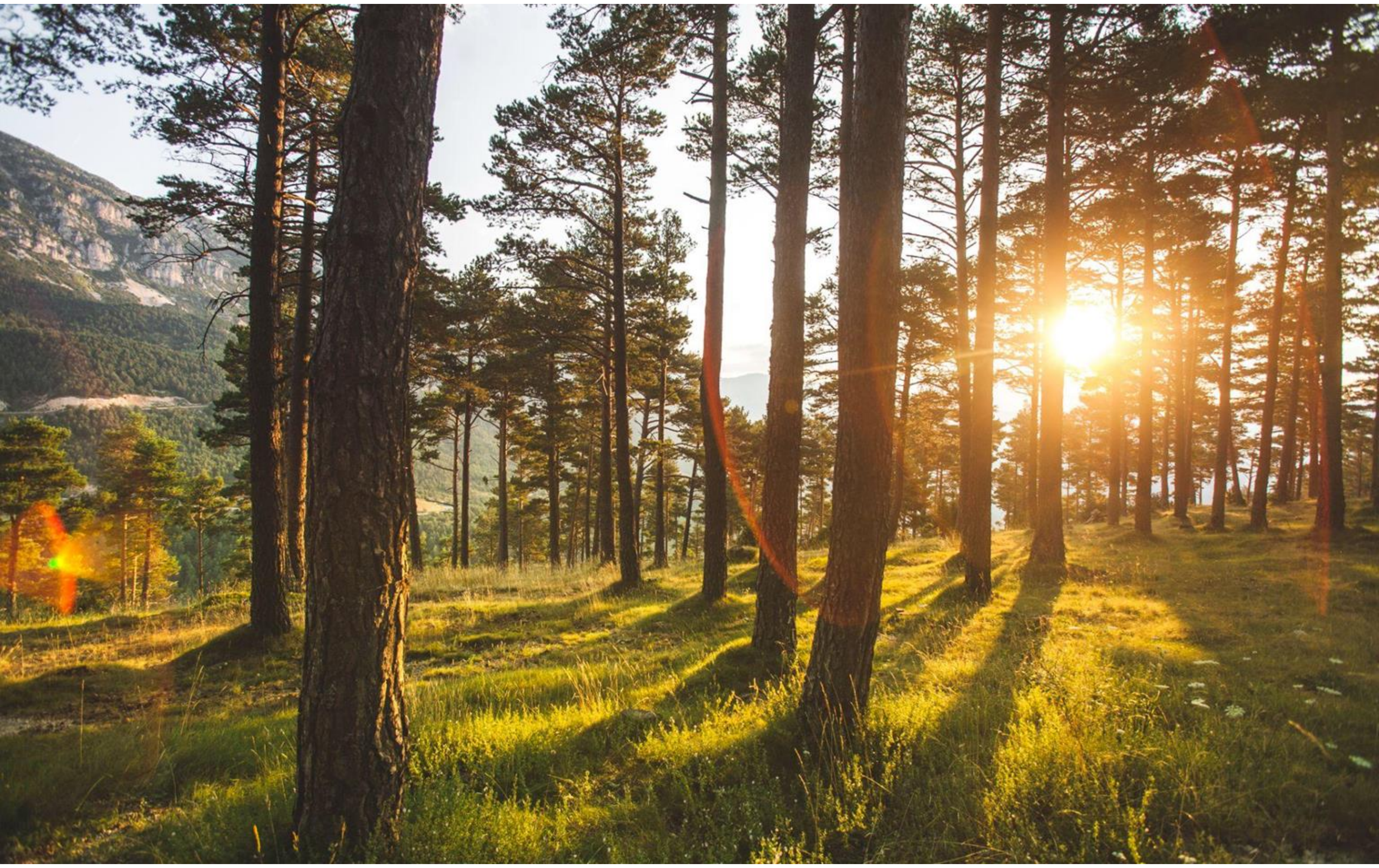
Chart 1 - Trend of sustainability reporting types*
*For 2018 we only have the AEX, AMX and AScX data for our comparatives.

If we zoom in on the AEX, AMX and AScX (see Table 2), we see a significant increase in the number of integrated reports compared to 2020. The largest increase is inspected regarding the companies in AScX where the application of integrated reporting doubled since 2020.

AEX AMX ASCX	2021	2021 %	2020	2020 %
Combined report	15	20%	21	28%
Integrated report	57	76%	37	50%
Sustainability report	2	3%	9	12%
Website	1	1%	1	1%
None	0	0%	6	8%
Total	**75**	100%	**74**	100%

Table 2 - Integrated reporting AEX, AMX and AScX companies

The CSRD requires that the sustainability report shall be a mandatory part of the (consolidated) management report. Therefore, an increasing trend of sustainability reporting is expected also in the following years. The main question will be what type of reporting companies decide to use, as while CSRD disclosures are disclosed in a combined manner, companies might still include other non-financial information, such as strategies in an integrated way in the annual report. So the question will be whether it is going to be combined or integrated reporting.



Background: the Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS)

On 10 November 2022, the European Parliament adopted the Corporate Sustainability Reporting Directive (CSRD), replacing the Non-Financial Reporting Directive (NFRD). It will become applicable for undertakings that are already subject to NFRD from the reporting years beginning on or after 1 January 2024. For other large undertakings the first time application will be reporting years beginning on or after 1 January 2025. The CSRD proposal is designed to improve and standardize the disclosure of sustainability information by companies, thereby ensuring that comparable, reliable sustainability information is available to financial companies, investors and the general public. It aims to create a set of rules that will over time bring sustainability reporting up to the same level of quality as financial reporting. The CSRD introduces an assurance requirement for sustainability reporting as well as improved accessibility of information, by requiring its publication in a dedicated section of company management reports.

In accordance with the CSRD, the European Financial Reporting Advisory Group (EFRAG) published, on 15 November 2022, the detailed proposed European Sustainability Reporting Standards (ESRS). As mentioned earlier, our research included an assessment to what extent companies already report on the topics of the ESRS's topical standards[3]. Please refer to table 3 for these standards covering all aspects of ESG.These standards go from the basis of earlier explained double materiality and are very extensive in sector agnostic and sector specific standards, including the requirements of the EU Taxonomy for sustainable activities. In parallel, other sustainability reporting standardization initiatives are being developed, of which most important:

- International standards developed by the International Sustainability Standards Board (ISSB), which is part of the IFRS Foundation, using a financial materiality lense ;
- International updated universal Sustainability Reporting Standards of the Global Reporting Initiative, that use the impact materiality lense and focus on human rights more;
- US based disclosure requirements developed by the Securities and Exchange Commission (SEC), mainly focused on climate-change related risks, and their impact on the financial statement line items.

The main challenge for companies is to keep track of these various publications on future standards so that they can be prepared by gradually adjusting their reporting ahead of the mandatory application.

SECTOR-AGNOSTIC STANDARDS				**SECTOR-SPECIFIC STANDARDS** (coming later)
Cross cutting standards	**Topical standards**			
	Environment	**Social**	**Governance**	
ESRS 1 General requirements	**ESRS E1** Climate change	**ESRS S1** Own workforce	**ESRS G1** Business conduct	**SME-PROPORTIONATE STANDARDS** (coming later)
ESRS 2 General disclosures	**ESRS E2** Pollution	**ESRS S2** Workers in the value chain		
	ESRS E3 Water and marine resources	**ESRS S3** Affected communities		
	ESRS E4 Biodiversity and ecosystems	**ESRS S4** Consumers and end-users		
	ESRS E5 Resource use and circular economy			

Table 3 - European Sustainability Reporting Standards

[3] Please note that, as part of our research, we did not assess whether the disclosures related to the topics are in line with the proposed standards. We only assessed whether the material topics disclosed by the companies can be linked to the topics covered by the ESRS's and we performed further analysis on some of them. Also, our assessment does not cover all the material topics that are identified and disclosed by the companies, only the ones that can be linked to the final ESRS topical standards.

2. Materiality assessment

A materiality assessment should be the starting point of ESG reporting

In 2021, 108 companies disclosed some sort of sustainability information, of which 83 included a materiality assessment[4] as a basis to determine their material ESG topics. In Chart 2 we see that the AEX and AMX companies increase respectively 13% and 9% in using materiality assessments opposed to 2020.
For AScX and other PIEs we see a decrease of 3% and 17%.

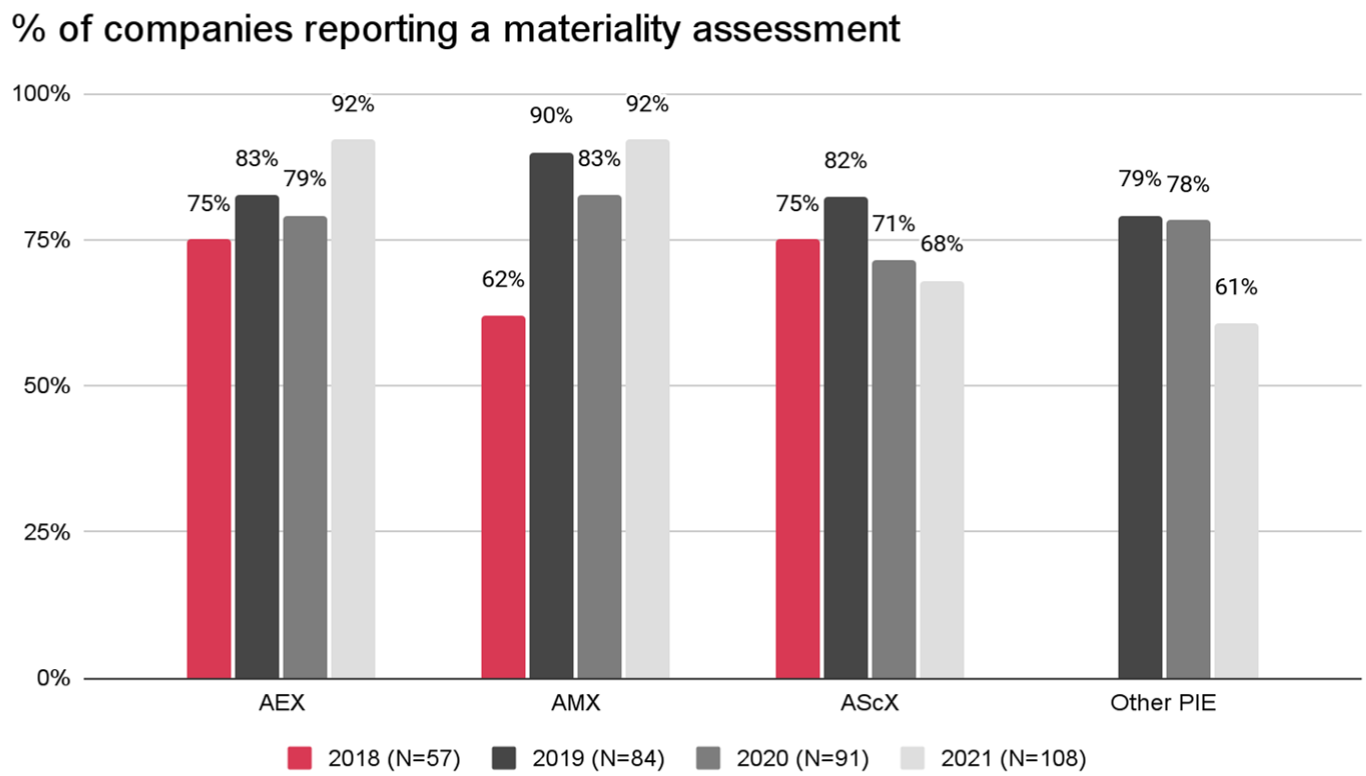


Chart 2 - companies that included a materiality assessment in their sustainability reporting.

The materiality assessment reporting is now common practice for the AEX/AMX/AScX companies. For other OOBs this is not yet the case. For the 2021 reports, we see that mainly the GRI Standards are followed to determine materiality. GRI Standards are using 'impact materiality', an inside-out assessment of the impact of the company on ESG. During 2022 and towards 2023, we expect companies to move more towards a double materiality assessment used in the ESRS as part of the CSRD. This double materiality includes the impact materiality as well as the 'financial materiality'. See below for a short description:

Impact materiality: A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long term. A material sustainability matter from an impact perspective includes impacts caused or contributed to by the undertaking and impacts which are directly linked to the undertaking's own operations, its products, and services through its business relationships. Business relationships include the undertaking's upstream and downstream value chain and are not limited to direct contractual relationships.'

[4] A materiality assessment is a tool used to identify and prioritize the ESG matters that are the most important (so called 'material topics') to the company.
[5] At the time of writing this article, the ESRS versions of 15th November 2022, were just available.

Financial materiality: 'A sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects on the undertaking's development, including cash flows, financial position and financial performance, in the short-, medium- or long-term.'

From the assessment above, we have analyzed the material ESG topics which are identified by the companies and linked these to the current ESRSs. It is important to mention, that the latest ESRSs5 contain the basis of the materiality assessment driving which ESRS should be applied.

Chart 3 shows the ESG topics of the 83 companies that have a materiality assessment. Climate change and own workforce are the most used topics. This aligns with the ESRS that identify these topics as mandatory topics to report on. We further analyzed these topics along the different aspects of ESG.

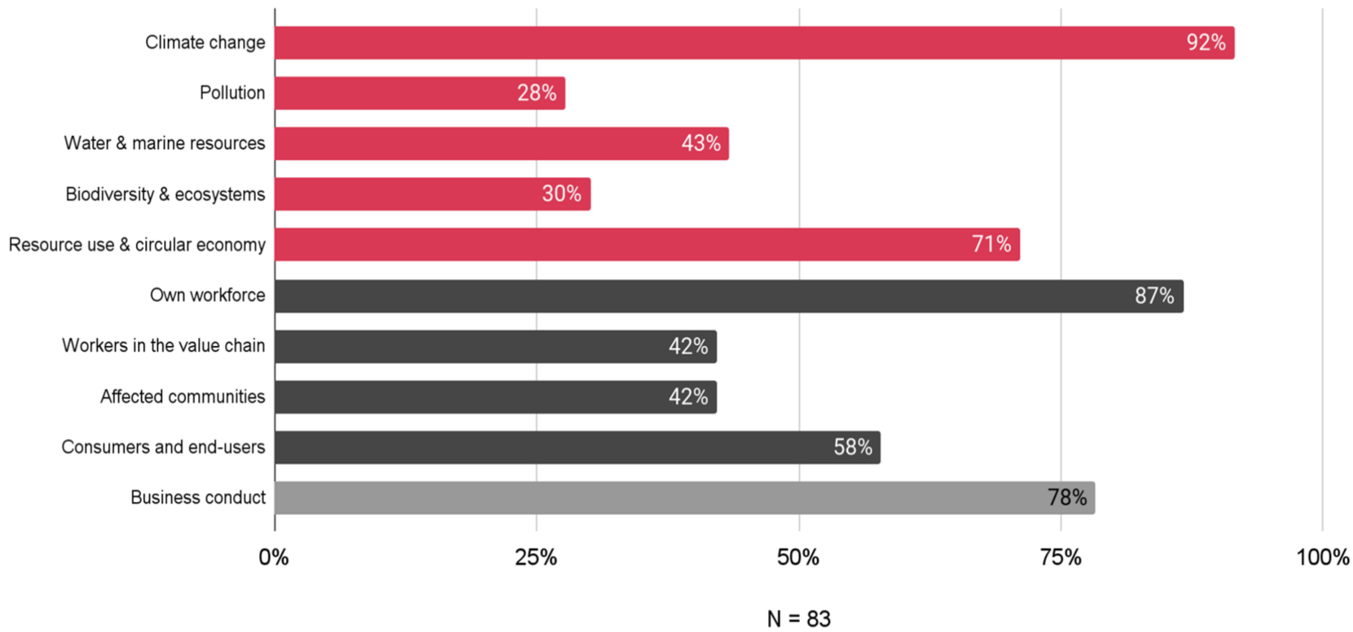


Chart 3 - Summary of the extent of topics disclosed in line with the topics per current ESRS's

It's a wide observation that companies put the most emphasis on Environmental topics, while Social and Governance topics receive less attention. However, we see in the public debate that social matters received increased attention as well, our research shows the same trend. The topic of 'Own workforce', such as employees, including diversity and inclusion, is leading the disclosures on Social.

In the next three chapters, we have assessed to which extend the companies have made disclosures on the E, S and G, analyzing their reporting per sector.

3. Environment

Environment is broader than climate change, whilst ESG reporting is focused on climate

As shown in Chart 4, most of the companies in scope, regardless of the sector, disclose climate related information, including ambitions and targets, mainly focusing on CO2 emissions. This is not surprising considering the significance of, and attention to, the topic. However, the extensiveness and maturity of these disclosures may vary largely.

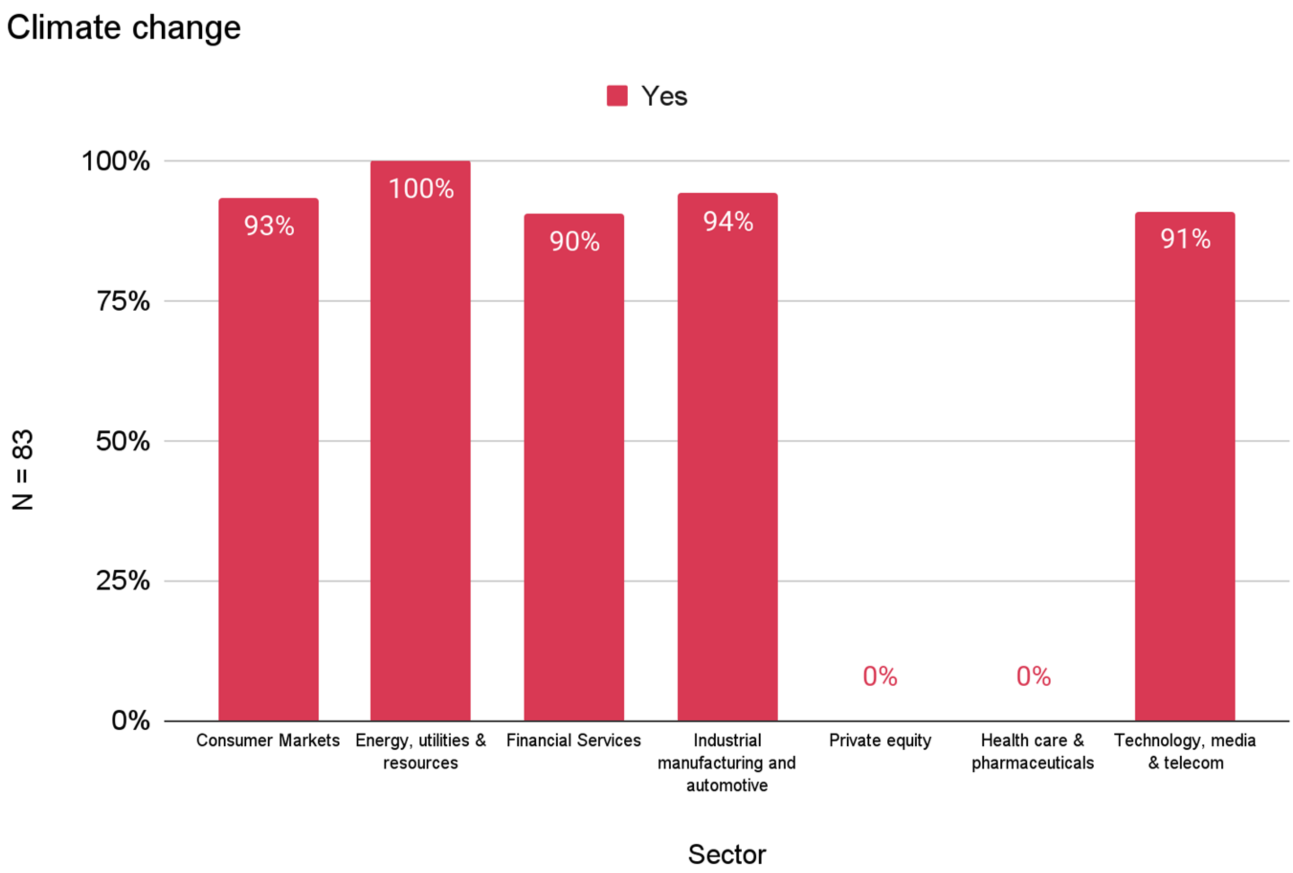


Chart 4 - Climate reporting per sector (related to ESRS E1)

We also see quite a good population of disclosures related to waste and circular economy. Out of the 83 companies that have a materiality assessment in place, 71% disclose information related to circular economy, mainly in the form of KPIs and targets attached to waste management.

However, we notice that the companies are lacking in reporting on the other aspects of the environmental standards. Only 28% of the companies disclose information on pollution and 43% on water management. Biodiversity also needs a significant increase of attention from the organizations as only 30% of the companies have some level of disclosure focusing on biodiversity. It's important to mention that this overview is mainly based on the material topics disclosed by the entities linked to the scope of the ESRSs and not the quality of the disclosure nor the inclusion of metrics.

CO2 emission reporting

Still 25% of companies without CO2 emission reporting, scope 3 emissions is becoming more common, although often reported with limitations

Chart 3 shows climate is one of the most reflected sustainability topics in sustainability reporting. One of the goals of the Paris Agreement is to maintain the increase in the global average temperature at well below 2 °C and pursuing efforts to limit it to 1.5 °C above pre-industrial levels.To achieve this long-term temperature goal, countries aim to reach global peaking of greenhouse gas emissions as soon as possible to achieve a climate neutral world by 2050. Please see our analysis on the net-zero commitments of the companies in scope further on

We have first researched to what extent the companies provide information about CO2 emissions, and how this has changed compared to 2020, using the three scopes:

- Scope 1 concerns own direct emissions (e.g. burning of fuels).
- Scope 2 concerns emissions from purchasing energy (e.g. electricity).
- Scope 3 concerns emissions in the supply chain (e.g. related to the purchase and sale of products and services).

	Scope 1,2 & 3		Scope 1 & 2		Only Scope 1		No reporting	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
AEX	84%	60%	12%	8%	0%	0%	4%	32%
AMX	68%	63%	24%	17%	0%	0%	8%	21%
ASCX	40%	28%	36%	24%	0%	4%	20%	44%
OOB	43%	40%	3%	7%	0%	0%	48%	53%
Total	**56%**	**46%**	**17%**	**13%**	**0%**	**1%**	**25%**	**40%**

Table 4 - Extent of CO2 reporting

*Please note that there are 3 companies in the 2021 scope that report their Co2 emissions, however they do not differentiate between the different scopes. For the simplicity of the comparability, we have excluded them from the table.

Table 4 shows that the number of companies that do not report on their CO2 emissions in any form, decreased significantly compared to 2020. This is aligned with Europe's ambitions on reducing emissions and being transparent about that. However, it is stunning to see that still 25% of companies do not report on CO2 emissions. We believe that companies that will not take any further steps in this regard will be addressed by stakeholders and overtaken by legislation and regulations.

We can see a positive trend as well when it comes to reporting on all three scopes. The largest improvement is in the AEX companies in both matters, whereas AScX seems to be behind. This is a positive trend because scope 3 is the most complex scope, these emissions take place outside the company itself, which results in less data availability. At the same time, multiple companies have only reported travel (such as airplane emissions) in scope 3 and have not yet calculated the impact of products and services. This overall picture is in line with PwC's 25th Annual Global CEO Survey which shows that CEOs find measuring emissions in the supply chain complicated and also struggle to reduce greenhouse gasses to net zero.

4. Social

Equal opportunities and impact on a wider scale of stakeholders in the full value chain deserve more attention now than ever

When it comes to social, the vast majority of the companies put focus on the matters impacting their own workforce. We see companies focusing on diversity and inclusion information, including gender ratios in the workforce, especially in upper management, and equal pay indicators. Chart 5 shows that most companies report on their own workforce.

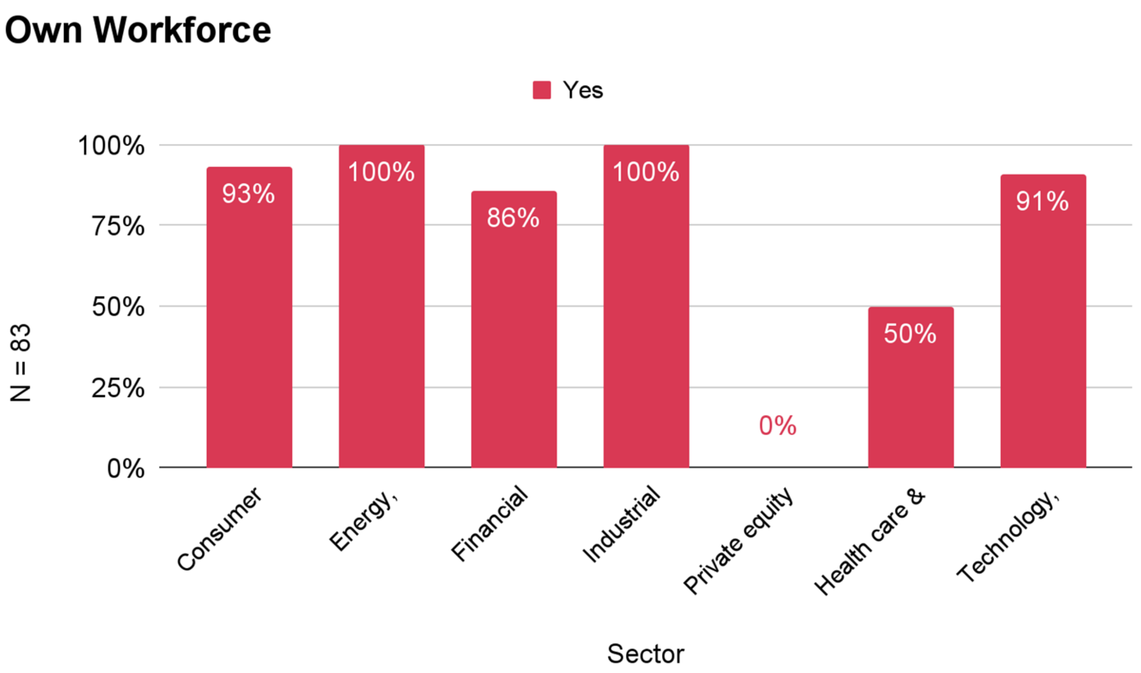


Chart 5 - Reporting indicators on Own workforce per sector (related to ESRS S1)

Other common social KPIs cover employee satisfaction and safety at work, such as injuries and employee absenteeism.

The other aspects of the social standards such as human rights or labor conditions in the supply chain, generally receive less attention in the 2021 annual reports. Only around 40% of the companies include information on the workers in the value chain and the affected communities, as part of their social ambitions and targets. The numbers slightly vary per sector.

The average for reporting on consumers and end-users is relatively higher as 58% of the entities included related disclosures and sometimes targets in their 2021 annual report. The average per sector varies more in this category. We note that 80 % of the companies acting in the consumer markets included related disclosures and targets. This higher number is not surprising considering the nature of the sector.

Gender pay gap

Equal pay is a part of the social aspect of ESG that received a lot of societal attention over the past years. The statistical office of the EU Eurostat publishes data regarding the gender pay gap within the EU. The unadjusted Gender Pay Gap (GPG) represents the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. The 2020 data shows a 13% pay gap in the EU. Multiple countries have various laws to stimulate gender parity. In Europe and thus the Netherlands, large entities are required to set targets in order to balance the gender composition of the board of directors and the supervisory board and other categories of employees in leadership positions to be determined by the entity. The entities have to report on the plans to achieve set targets; the realization of these targets and provide explanations when targets are not met.

The ESRS will take gender parity a step further as companies subjected to CSRD will have to report on equal pay. Disclosure requirement S1-16 of ESRS S1 Own workforce specifically states the undertakings shall disclose the percentage gap in pay between women and men. In Chart 6 the share of companies that report on the gender pay gap is presented. For the financial year 2021 22% of the companies included a gender pay gap disclosure in their reporting. Only looking at companies listed on the AEX, AMX and AscX this percentage increases to 29%. We expect the disclosures on the gender pay gap will increase as CSRD will become mandatory.

Social - Share of companies that reported on gender pay gap in 2021 (N=121)

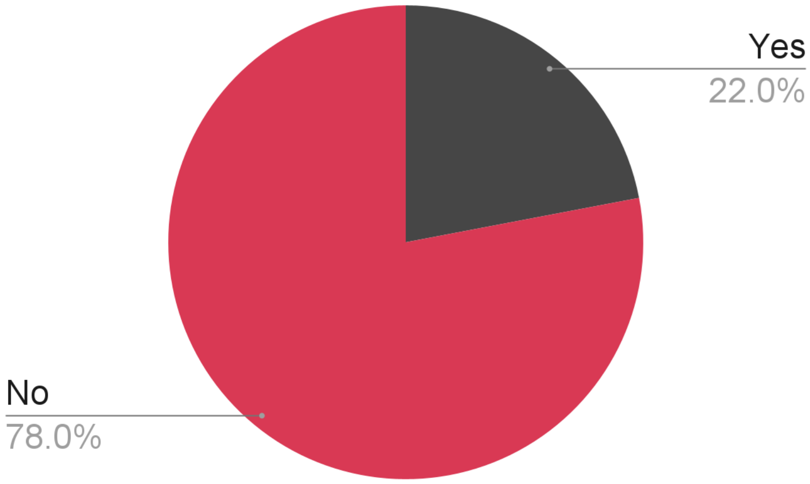


Chart 6 - percentage of companies that have reported on gender pay gap in their reporting over 2021.

5. Governance

Disclosures are still limited on the governance of ESG, including managing ESG risks and opportunities.

Generally, our observation is that companies lack disclosures on the G in ESG, including managing ESG risks and opportunities. This also comes back in PwC's 2022 Annual Corporate Directors Survey which shows that more than half of boards lack a strong understanding of ESG Strategy and Risks. It shows that no more than 27% of the directors reported that their boards understand ESG risks "very well". We note that although ESG risks are becoming part of the companies' risk management paragraph more, this mainly focuses on climate-related risks. See Chart 7 for the averages per sector regarding reporting around the topic of ESRS G1.

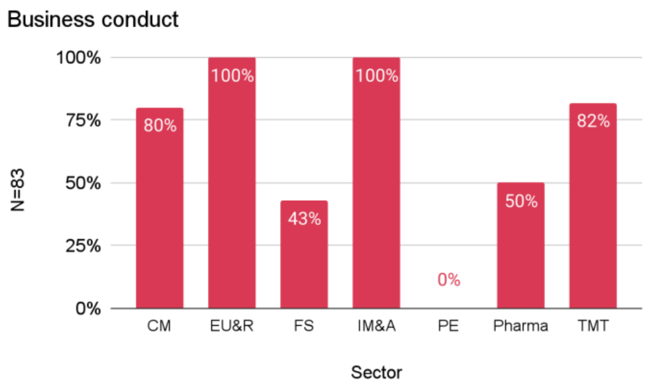


Chart 7 - Reporting indicators on ESG related to Business conduct per sector (related to ESRS G1)

The ESRS first governance standards relate to business conduct. We see that multiple companies make disclosures around business and supplier conducts, mainly referring to code of conducts in place. These disclosures are still scattered and lack structure. Future required payment practices on timely cash flows to business partners, especially to small and medium enterprises are mostly not found in reporting.

Tax governance

Tax governance is a topic which we have researched in more depth. We observed that only 24% of entities disclose their tax governance in the annual report. Three other entities are referring to separate tax reporting where tax governance is disclosed.

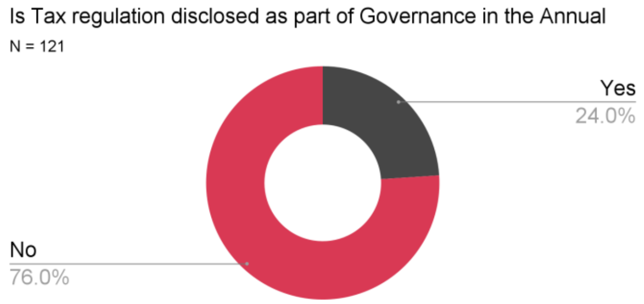
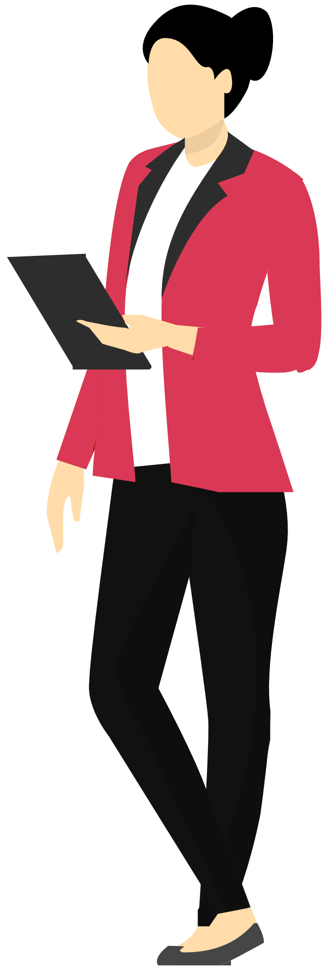


Chart 8 - Tax regulations as part of the governance report



6. EU Taxonomy for Sustainable Activities

In 2021, companies reported on eligibility of activities in the EU Taxonomy, alignment of those will help companies steer on the right direction, were assurance will bring trust and reliability.

Assurance on EU Taxonomy disclosures

Out of the 53 companies that have some level of assurance, whether it be reasonable or limited, over their non-financial information, only 5 have assurance over their EU Taxonomy disclosure as shown in chart 9. This is in line with the expectations as the EU Taxonomy is continuously evolving and the already existing regulations were published quite late.

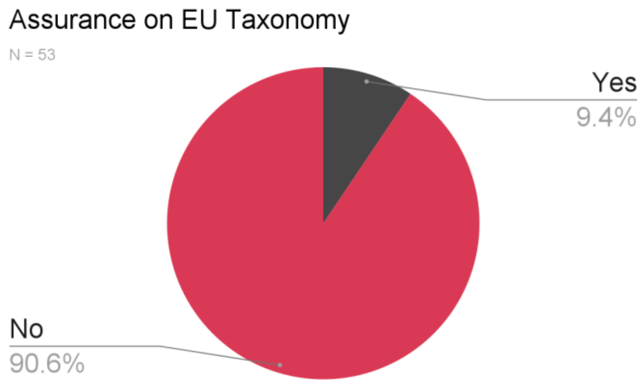


Chart 9 - Assurance on EU Taxonomy

Background: The EU Taxonomy for sustainable activities and Task Force on Climate-Related Financial Disclosures (TCFD).

The **EU Taxonomy for sustainable activities** is designed to map out the European economy in order to identify, in a standardized and transparent manner, the percentage of business activity which aligns with sustainability objectives. The Taxonomy Regulation is a key component of the European Commission's action plan to reorient capital flows towards a more sustainable economy. It represents an important step towards achieving carbon neutrality by 2050, since the Taxonomy is a classification system for 'sustainable' activities.

The scope of the Taxonomy Regulation includes EU PIE companies with more than 500 employees, and all companies that fall under the CSRD in the near future, as of 2021. In total there are six environmental objectives within the EU taxonomy, the first two of which have been elaborated, being climate change mitigation and climate change adaptation.The issuance of the delegated acts related to the other four objectives, being sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity, is planned for late 2022.

As of 2021, in-scope companies must report on the eligibility of their activities within the scope of this taxonomy. Companies must first determine which of its activities are described in the taxonomy (eligibility) over 2021 and then whether and to what extent they meet the standards to be called sustainable (alignment) over 2022 and future years. Percentages of eligibility and alignment in terms of turnover, tangible fixed assets (and operational costs related to these assets, such as R&D) must be presented in table form. Principles such as 'do no significant harm' and 'compliance with minimum safeguards' are key to assess alignment. In short, an activity is in line with the taxonomy if it makes a substantial contribution to sustainability and does not detract from other sustainability objectives. Different and additional rules may apply to financial institutions that have delayed reporting as they need to use the alignment assessment of other companies. Financial institutions mainly will report on the 'green asset ratio'.

The Taxonomy will be extended to cover social objectives (Social Taxonomy) and in the future governance to address support needed for the environmental transition needed in the whole economy.

7. In-depth analysis on climate-related risk reporting

The impact of climate change is addressed in a general way in management reports

In September 2022, PwC NL published an article named Climate change reflected in financial statements, a role for companies and their auditors, in which AEX listed entities in NL were analyzing climate risks in their financial statements. The results said that only 8% of the companies report transparently about climate risks in the financial statements and that this is a challenging exercise for most of the companies. Here in this study, we have taken that analysis and further enlarged it to the full population of entities summarized earlier.

We investigated to what extent the entities responded to calls from society for more transparent reporting on the effects of climate change and zero emission plans in their management reporting. Compared to financial statements, the data shows that 88% of the 121 entities have included at least some wording about the effects of climate change in the management reports of 2021, see Chart 10. Some are more detailed than others, disclosures vary from full chapters to a couple of sentences.

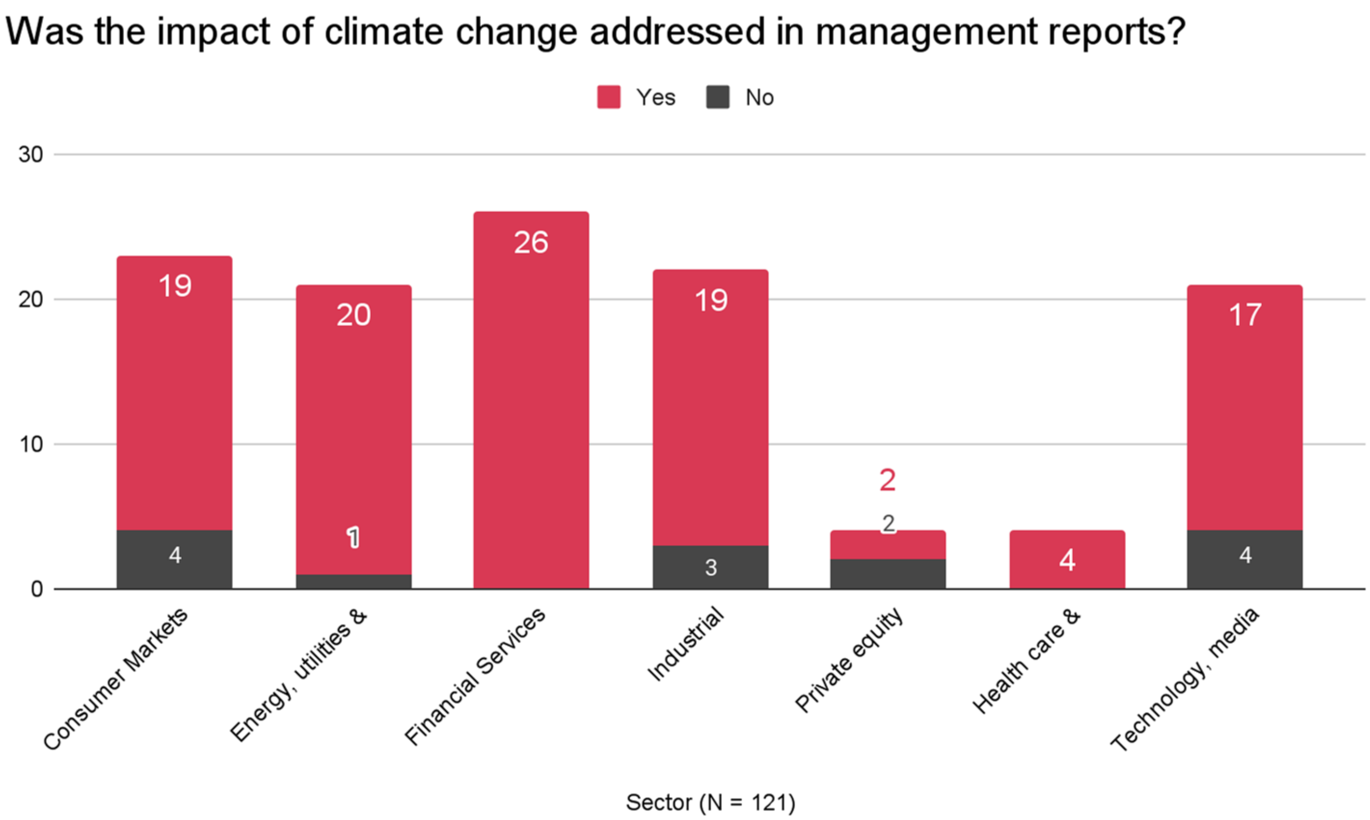


Chart 10 - Climate change in management reports

Looking at our full population, we see only around 25% of companies mentioning climate change in their financial statements. Similar to the prior study on the AEX entities, the disclosures are in most cases limited to a couple of sentences, concluding that there is no significant impact on the financial statements identified.The areas in the financial statements where climate-related risks are disclosed differ across companies, but most disclosures are related to valuation of assets (including impairments) and general notes or general accounting policies.

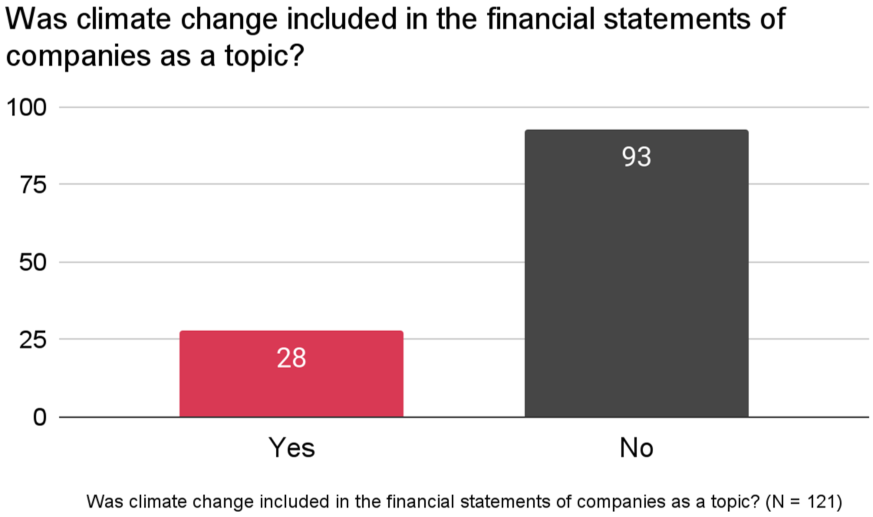


Chart 11- Climate change in financial statements

The voluntary disclosures on Task Force on Climate-Related Financial Disclosures (TCFD) are increasingly incorporated in annual reports.

The TCFD is a widely used voluntary framework to report on the impact of climate change and climate-related risks. The recommendations are structured around four thematic areas that represent core elements of how companies operate, being governance, strategy, risk management and metrics and targets. These four areas are supported by recommended disclosures that build out the framework with information that help investors and others to understand how companies assess climate-related risks and opportunities.

From Chart 12 we can see a nice increasing trend on the disclosures of TCFD in the annual reports. Around 45% of the researched companies claimed using the recommendations of TCFD, while the number of companies that claims to fully comply with the framework, including detailed scenario analysis, is still limited. This is also in line with the latest 2022 TCFD Status report published in October 2022. In this report, there is an indication of a significant increase in the number of companies reporting on climate-related risks and opportunities, and in the amount of information provided. The report also emphasizes that there is a significant room for continued advances on these topics.

Comparing the number of entities that include a disclosure about climate change in the Netherlands with other global countries, we see a slightly better result, with 45% entities having a type of disclosure in their report.

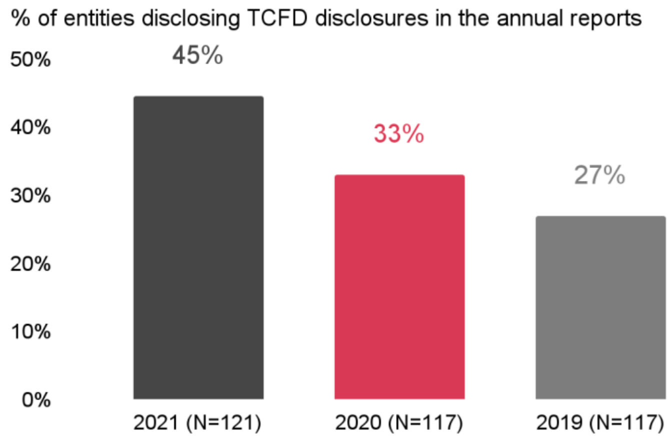


Chart 12- development of the share of companies that have added some TCFD disclosures in their reporting.

8. Net Zero and Science Based Targets initiative (SBTi)

Only around half of the entities have disclosed their Net Zero strategy and ambitions

To limit global warming, the United Nations climate agreements targeted a fifty percent reduction in global carbon emissions by 2030 with net zero being achieved by 2050. To achieve the net zero ambition, companies, investors and public organizations are opting for a more sustainable strategy, resulting in a transformation of, for instance, the business model, the value chain and the purchase and sale of business units. Heading towards net zero also requires adjustments to systems and financial processes to measure non-financial KPIs, transparent reporting on sustainability targets and a cultural shift to enable the transformation. However this is not an easy task. PwC's 25th annual global survey published in 2022 in which 4.446 CEO's from 89 countries participated shows this struggle. The survey finds that 22% of the respondents have made a net-zero commitment and that an additional 29% of the survey respondents are working toward making a net-zero commitment.

Chart 13 of our research shows that 54.6% of the companies have included a net zero strategy in their reporting over 2021. This percentage increases to 72% when we only look at the companies with a listing on the AEX. This difference could be that companies on the AEX are in general large companies with multiple shareholders and increased public pressure to set a net zero strategy.

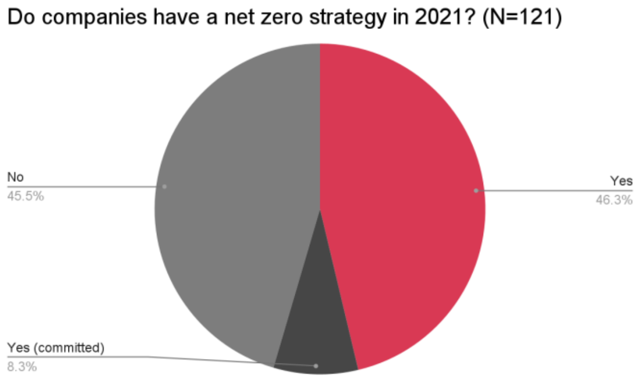


Chart 13- Breakdown of companies that have reported a net zero strategy in their reporting in 2021.

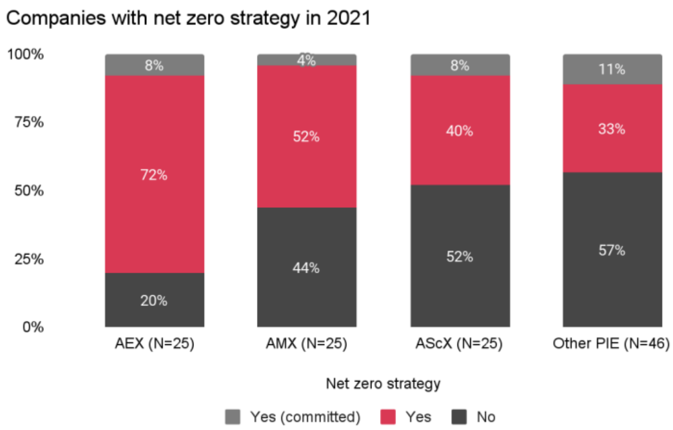


Chart 14- Breakdown of type of companies with net zero strategy reported in 2021.

ESG Reporting Landscape in the Netherlands in 2021

In 2016 195 countries signed the Paris Agreement. The Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. To achieve this long-term temperature goal, countries aim to reach global peaking of greenhouse gas emissions as soon as possible to achieve a climate neutral world by 2050. When we look closer at the companies with a net zero strategy Table 5 shows that of the 66 companies with net zero strategy, 15 do not disclose their targets in their reporting over 2021. Considering the amount of signatory countries and the goal of the Paris Agreement one expects that more companies would have set a net zero strategy within their reporting over 2021. However with 2030 closing in on us we expect that the percentages of companies with a net zero strategy and net zero targets will further increase.

	Companies that did not disclose their targets	Companies that did disclose their targets
AEX	1	20
AMX	1	13
AScX	5	6
Other PIE	8	12
Total	**15**	**51**

Table 5 - Disclosure of net zero targets of companies with net zero strategy (N=66).

Having a framework that helps companies with their net-zero strategy like SBTi, had made it easier for companies to report on their targets

A framework that could help companies with their net-zero target is the Science Based Target Initiative (SBTi). The SBTi's Corporate Net-Zero Standard is the world's first framework for corporate net-zero target setting in line with climate science. It includes the guidance, criteria, and recommendations companies need to set science-based net-zero targets consistent with limiting global temperature rise to 1.5°C. SBTi identifies five phases for target setting, being commit, develop a target, submit, communicate and disclose. As of October 29th 2022 SBTi discloses that 3943 companies are taking action and that 1885 companies have science-based targets and 1558 companies have net-zero commitments.

For our research population we have inspected whether the companies are included in the SBTi dashboard that contains all the companies that are taking action and that have targets that are validated by SBTi. Chart 15 shows that 29% of the companies have committed to SBTi based on the SBTi dashboard. This is an increase of 13% compared to 2020. The increase could be due to heightened attention to emissions from various stakeholders and that companies therefore try to apply a framework such as SBTi to focus on lowering emissions. We also noticed that although some of the companies are included in the dashboard of SBTi they did mention in their reporting over 2021 that they are using SBTi.

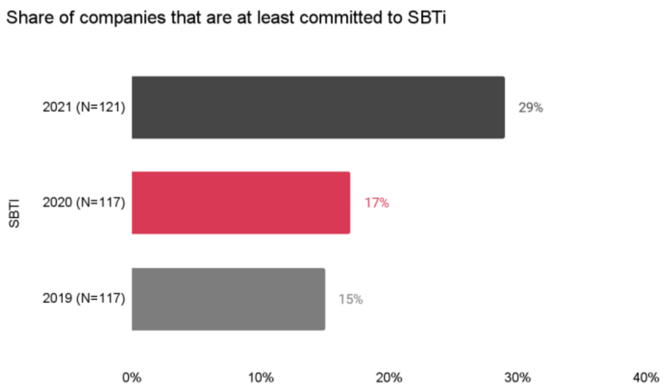


Chart 15 - development of SBTi commitment between the reporting years 2021 and 2020

Other trends of sustainability reporting in the last years

1. Sector analysis

Companies in the energy and financial services sectors are still leading in sustainability reporting

As discussed earlier, companies report in different ways on ESG. Keeping the trend from prior years, integrated reporting is the most used type of reporting for companies. We also had a closer look at how the sectors differ in terms of sustainability reporting.

Sector	2021	%2021	2020	%2020
Consumer Markets	21	91%	15	79%
Energy, utilities & resources	21	100%	18	95%
Financial Services	26	100%	25	93%
Industrial manufacturing and automotive	19	86%	18	78%
Private equity	0	0%	0	n/a
Health care & pharmaceuticals	4	100%	2	40%
Technology, media & telecom	17	81%	13	65%
Total	**108**	**89%**	**91**	**78%**

Table 6: Any form of sustainability reporting per sector

When looking at sector level, we can see a clear trend in the leading sectors. In line with 2020, the Energy and Financial services sectors are leading in sustainability reporting, with consumer markets coming up, and considering that all of the companies in our scope in these sectors disclose a certain level of ESG information.

As far as the energy sector is concerned, this is probably due to these companies being in the heart of energy transition causing an increased need for transparency and legitimacy. For the financial sector, this has to do with the role it plays in providing financing to more sustainable companies, a role that is heavily emphasized by the European Commission in the form of their Action Plan on Sustainable Finance, adopted in March 2018. From the European Sustainable Finance Platform, the legislation and regulations in the field of sustainability reporting are also increasing enormously for this sector.

More than 80% of the energy, utilities & resources sector has integrated reporting and is the leading sector, with consumer markets following.

Sector	2021	%2021	2020	%2020
Consumer Markets	16	70%	14	74%
Energy, utilities & resources	17	81%	15	79%
Financial Services	14	54%	13	48%
Industrial manufacturing and automotive	15	68%	15	65%
Private equity	0	0%	n/a	n/a
Health care & pharmaceuticals	3	75%	3	60%
Technology, media & telecom	11	52%	11	55%
Total	**76**	**63%**	**71**	**61%**

Table 7 - Integrated reporting per sector

2. Assurance obtained on the sustainability reporting

Number of companies that have obtained ESG assurance reporting is stabilized

Assurance on sustainability information is high on the corporate reporting agenda. Assurance supports relevant, consistent, comparable and reliable sustainable information. Hence it is more and more expected by investors, other stakeholders, as well as ESG rating agencies. More importantly, the CSRD proposal requires limited assurance. This is a less in-depth version of the audit, required in the first years of implementation. The European Commission will then evaluate to grow to reasonable assurance (audit), which is the same level of assurance as used in the financial statements audit.

Sustainability reporting will only be truly credible if the data collected and analyzed is as robust as that used in financial reporting. Misleading disclosures, or a material omissions, could undermine the confidence in the sustainability information that companies prepare. Still, we see in practice that the processes and controls around ESG reporting are significantly less mature when compared to the processes in place for financial reporting.

Chart 16 shows 49% of the companies obtain some level of assurance in 2021, which means 53 companies out of the 108 that disclose some form of sustainability information. The percentage of companies obtaining some level of assurance has been stable and even slightly declining over previous years. An explanation for this could be that our population for 2021 is higher than the previous years. We expect more companies asking for assurance when getting closer to the implementation of the CSRD and its required assurance.

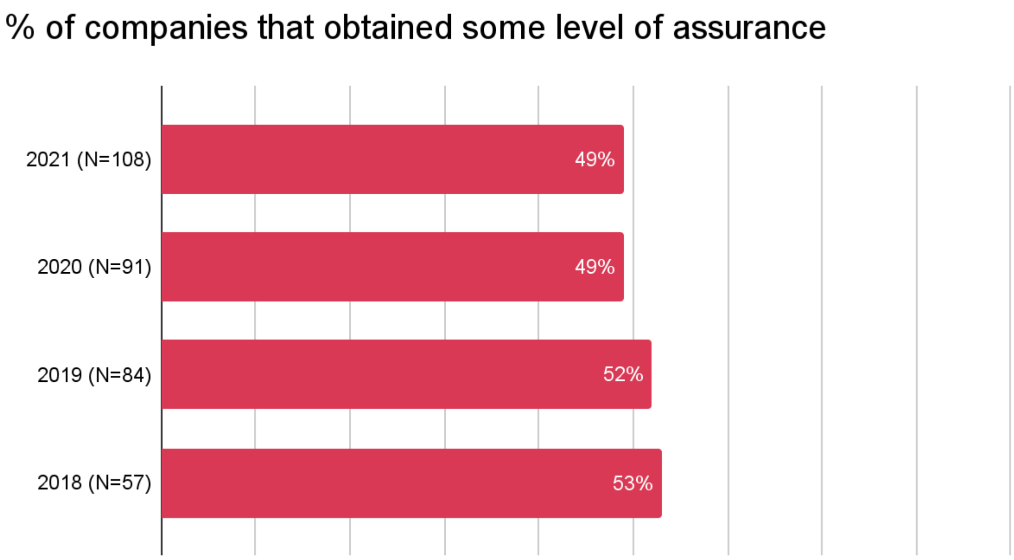


Chart 16, share of companies that obtained some level of assurance over their sustainability reporting.*

*Note that in 2018 we only have data on AEX, AMX and AScX companies.

The external auditor of the financial statements mostly also provides assurance to the sustainability information. In general, the assurance provider is usually one of the BIG4 audit firms. In some other countries we see that other auditors or even verification firms are asked to provide assurance. One reason that we see less of this in the Netherlands is that companies value the interdependencies between sustainability and financial information, and that the sustainability information is often included in the same annual report as the financial statements, which will also be the requirement under the CSRD.

Other trends of sustainability reporting in the last years

Within this group of 53 companies, 81% obtained limited assurance and 19% reasonable assurance. This includes 3 companies that received a combination of limited and reasonable assurance with respect to their sustainability information. We see a decrease in the number of companies that have a reasonable level of assurance on their ESG information, as this percentage was 24% in 2020.

We see in practice that the reason that companies do not yet opt for reasonable assurance could be caused by, amongst others:

- strategy re-orientation;
- waiting for final regulations to streamline the reporting;
- coping with an immature internal control environment;
- following market practice;
- growing in scope rather than in reliability;
- cost consciousness.

The assurance obtained per each sector shows a constant trend over the years.

The general trend when inspecting the assurance per type of listing remains the same. In Chart 17 data shows that assurance on sustainability information is largely obtained by companies listed on the AEX and AMX.

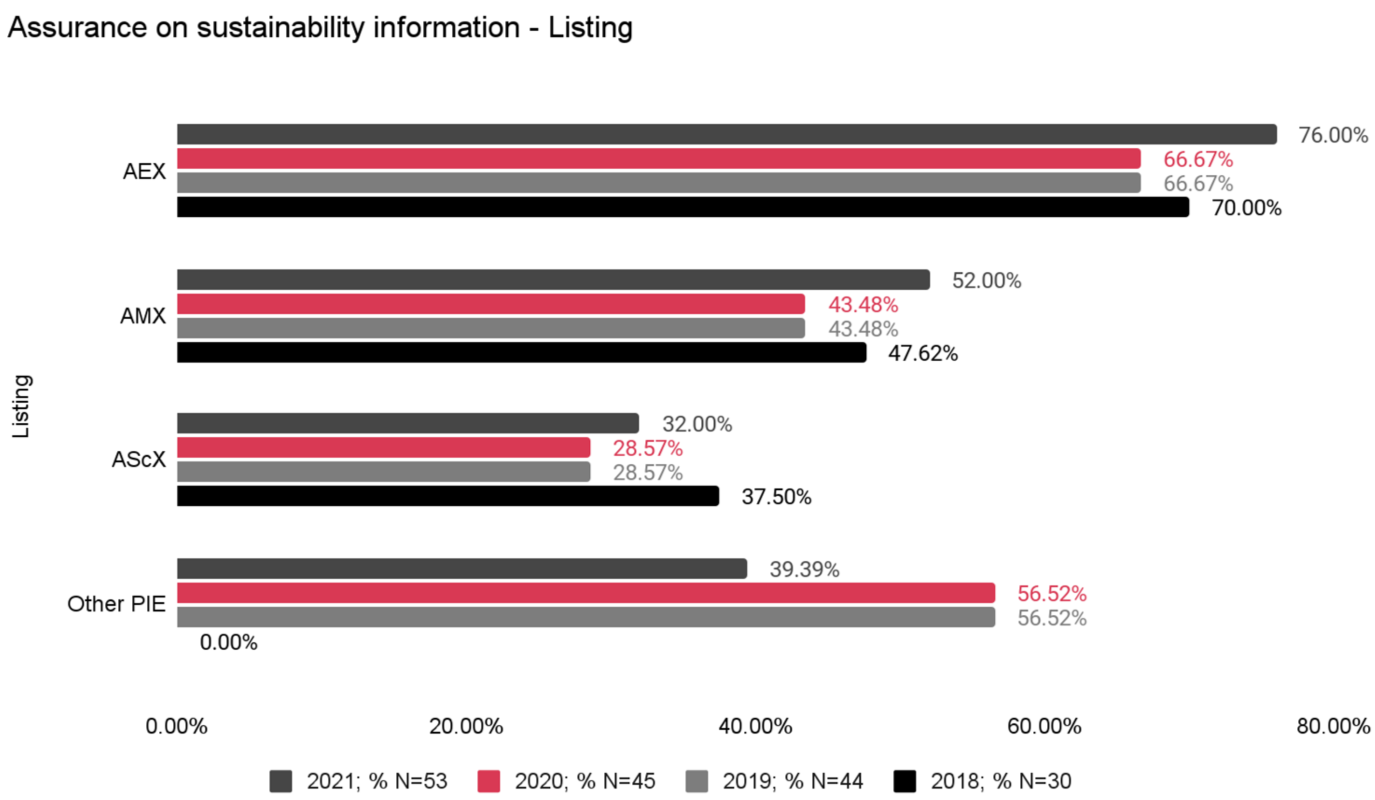


Chart 17 - Assurance per type of listing for companies that disclose any form of sustainability information.

Other trends of sustainability reporting in the last years

Forward looking statement

As we mentioned in the preface of this article, and as you have noticed flipping the pages so far; we strongly believe that credible reporting is very important in increasing the trust on ESG topics and steering them to better results.

We can say that we see many positive changes in the ESG reporting landscape so far, and we expect that this trend will upscale in the upcoming years. We expect a significant increase in ESG disclosures in 2022 and 2023, as companies move to implement ESRS. We will jointly proceed on this journey with society and companies.

Glossary

CSRD	Corporate Sustainability Reporting Directive
EFRAG	The European Financial Reporting Advisory Group
ESG	Environmental, social and corporate governance
ESRS	European Sustainability Reporting Standards
GRI	Global Reporting Initiative
ISSB	International Sustainability Standards Board - IFRS Foundation
IFAC	International Federation of Accountants
IFRS	International financial reporting standards
KPI	Key Performance Indicator
NFRD	The Non-Financial Reporting Directive
OOB	Organisaties van Openbaar Belang (Dutch public interest entities)
PIE	Public interest entity
SBTi	Science Based Targets initiative
SEC	Securities and Exchange Commission
SME	Small and medium-sized enterprises
SPAC	Special purpose acquisition companies
TCFD	Task Force on Climate-Related Financial Disclosures

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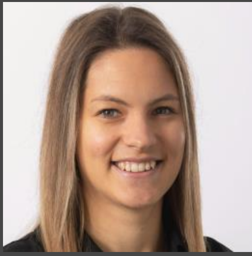

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