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How **ESG reporting** can make a difference for your company

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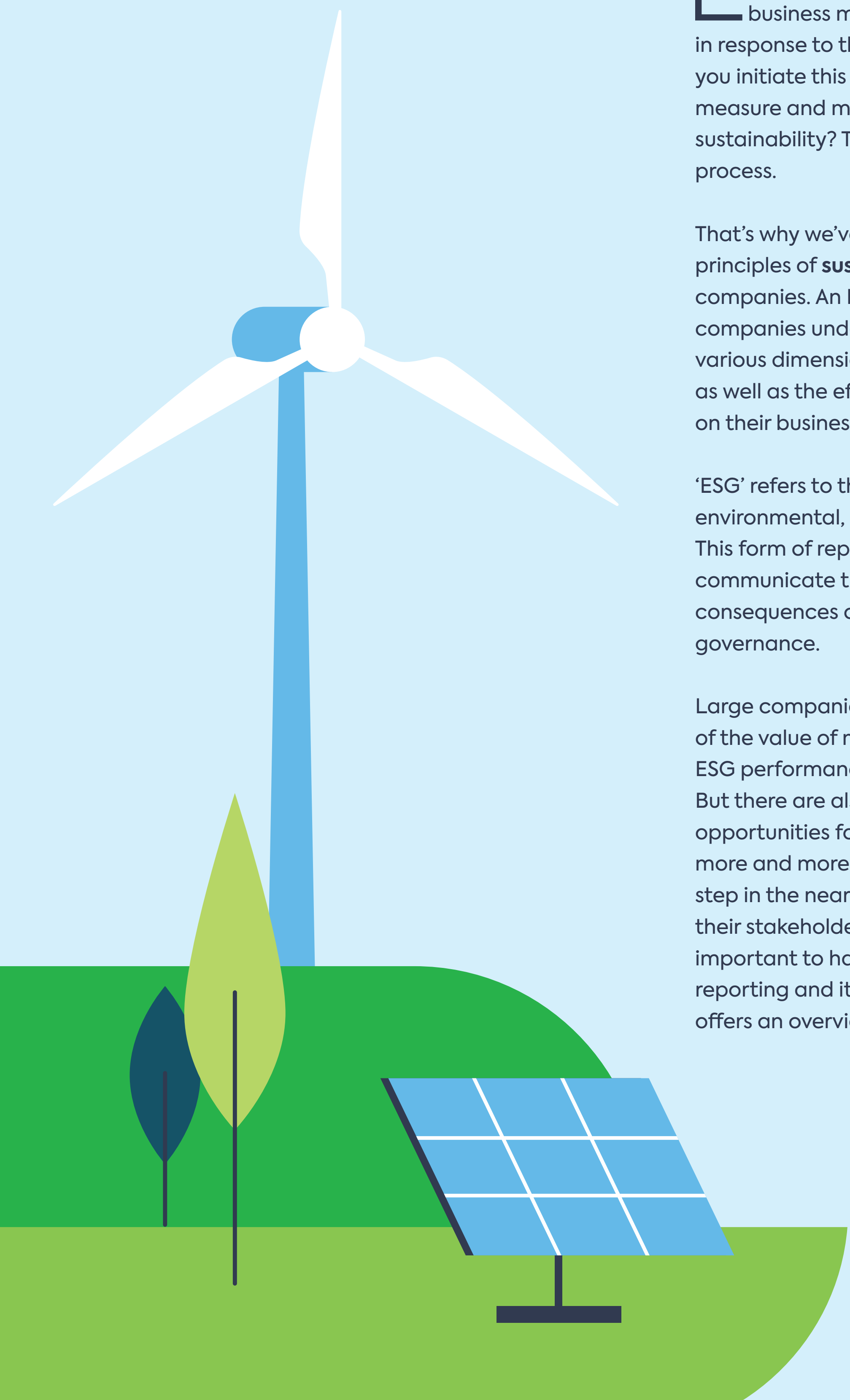


Environmental and social changes have made companies realise that their business models also need to be renewed in response to these changes. But how do you initiate this renewal? And how do you measure and manage the transition to greater sustainability? This is not always an obvious process.

That's why we've prepared an overview of the principles of **sustainability or ESG reporting** for companies. An ESG report is a tool that helps companies understand their impact on the various dimensions of sustainable development as well as the effect of sustainable development on their business.

'ESG' refers to the three pillars of ESG reporting: environmental, social and governance factors. This form of reporting allows a company to communicate the social and environmental consequences of its activities and manner of governance.

Large companies are increasingly convinced of the value of monitoring and publishing their ESG performance and have set about doing this. But there are also many significant benefits and opportunities for SMEs in this regard. As a result, more and more SMEs are expected to take this step in the near future, both for themselves and their stakeholders. Before getting started, it is important to have a clear understanding of ESG reporting and its various aspects. This brochure offers an overview of this.

WHAT ARE THE BENEFITS OF ESG REPORTING?

Demonstrating their commitment

A commitment to sustainability makes SMEs more attractive to investors, who are attaching increasing importance to sustainability. This is also true for customers and current and future employees.

SMEs that demonstrate respect for the environment and society in their organisational and production processes are also more likely to attract new talent. Today, companies that are aware of their social responsibility, and that also invest in the necessary resources for this, are more often considered to be attractive employers.

In addition, ESG monitoring can reduce the risk of the company becoming involved in controversies that could be damaging to its reputation.

Convenient tool for internal use

ESG reporting has several advantages for the company's internal management thanks to the additional transparency it provides. This creates new opportunities, such as short and long-term cost reduction opportunities through the use of new technologies or the opportunity to introduce principles of circular economy such as leasing or recycling.

Moreover, measuring and monitoring their ESG performance makes it easier for companies to compare themselves with other companies. This gives them a better understanding of their own competitive ability and how to strengthen this.

ESG is about more than just the environment. From a strategic point of view, for example, it is also important to ensure greater diversity in the different layers of a company. A diverse team is more innovative, makes better decisions than a homogeneous team and delivers better business results. Inclusion at the workplace also creates a collegial atmosphere that generally reduces employee turnover.

Meeting stakeholder demand for sustainability information

SMEs are part of a value chain that includes suppliers and business customers who are expected to increasingly demand ESG information. In addition, there are other stakeholders who will take into account the SME's ESG performance. These include financial institutions that will request sustainability information as part of their investment and financing activities.

A company that shows that it is well prepared and resilient to, for example, the consequences of climate change, tightening of the legal framework relating to the environment and changing customer expectations, will have more stable future prospects. This will make this company less risky and therefore also more attractive to credit providers and investors. Public authorities are also expected to increasingly prioritise sustainability requirements for the granting of subsidies and concessions.

Therefore, SMEs that practise ESG reporting will be able to stay ahead of the curve and be better prepared to meet these information requests.

Some examples of information in an ESG report

The information contained in an ESG report gives a picture not just of the company's current situation (activities, results, etc.) but also of the path it wishes to take in future. Some examples of information contained in an ESG report are listed below.

This is information that will take priority in the short and medium term, both for the company itself and its stakeholders (business customers, financial institutions, government, etc.). Entrepreneurs should start measuring and reporting this information as soon as possible. This can be done either in a quantitative/indicative or a qualitative/narrative manner.

The relevance and importance of this information depend on the size, sector, location and complexity of the business chain.

Company's overall approach and sustainability strategy

- The Paris Agreement on climate change aims to limit global warming to 1.5°C. Does the company have a transition strategy to align its business model accordingly?
- Has the company identified its ESG risks and opportunities? If so, what are they?
- Is the company aware of the risk of labour or human rights violations within its supply chain?
- ...

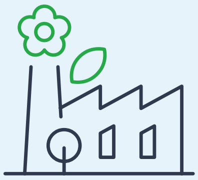
Reporting

- Does the company report on its sustainability policy? Does it follow a specific standard for this?
- Does it have environmental, social or governance certificates?
- ...

Buildings and real estate

- What is the energy performance (EPC rating) of the company buildings?
- How high are the real estate carbon emissions?
- ...

Company activities



- What are the various main and secondary activities of the company (NACE code[1])?
- Does the company produce sustainable goods? If so, what are they?
- Are the company activities in line with the European taxonomy[2] (% capital investments, % operating costs, % turnover)?
- ...

Energy consumption and carbon emissions

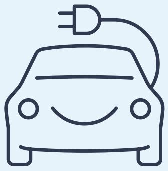
- What is the total energy consumption of the company (broken down into renewable[3] and non-renewable energy)?
- Does the company have plans and/or goals to reduce carbon emissions or its dependence on non-renewable energy? If so, what are they?
- ...

Capital investment

- What is the amount and nature of capital expenditures and investments aimed at making its business processes greener?
- ...

[1] The NACE code is part of an EU classification system for economic sectors and activities.
[2] The EU Taxonomy is a classification system that establishes a list of environmentally sustainable economic activities.
[3] Renewable energy is the energy we produce from the earth's natural resources, such as the sun, water and wind. These sources are referred to as 'renewable' because they are considered to be inexhaustible.

Vehicle fleet



- How large is the vehicle fleet (list of the number of company vehicles by type: electric/hybrid/conventional)?
- What is the average carbon emission of the vehicles?
- ...

Risk management

Which of the following ESG risks are relevant for the company and for which of these risks have policies been developed or specific measures taken?

Physical risks such as the impact of prolonged drought, floods, heat waves, etc. on business operations.

Transition risks such as the impact of the following:

- Introduction of a carbon tax
- More stringent environmental standards and permits
- Increased customer expectations regarding the sustainability of products and services
- Reputational damage as a result of involvement in ESG controversies
- Disruptions in the supply chain

Is the company insured against these risks?

Other relevant sustainability information

- What is the annual water consumption?
- Waste management: how much waste (%) is recycled?
- Does the company have a policy with respect to the following areas?
  - Diversity and anti-discrimination
  - Anti-money Laundering
  - Fiscal integrity
  - Etc.
- Does the company have regular contact with external interest groups such as consumer groups or NGOs?
- ...

ESG REPORTING IS WORTH THE EFFORT

Focused and relevant ESG reporting is an essential tool for companies to manage and monitor their sustainability performance. It is an exercise that allows the company to remain competitive in a rapidly changing economy and society.

Transparency about the sustainability strategy will increasingly become a basic expectation of all types of stakeholders. Moreover, besides the usual financial information, the company's ESG information will also weigh heavily in the credit and investment decisions made by financial institutions.

In any case, ESG reporting offers more than enough benefits and opportunities to convince any entrepreneur. In the short term, and most certainly in the longer term, a proper ESG report will become a determining factor for corporate strategy. Having said that, identifying and reporting sustainability performance is a relatively new concept, and therefore still a work in progress. That is why it is important to take the first step in this direction as soon as possible and make ESG reporting a priority. The future begins today.

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More information?

For more information, please visit **www.febelfin.be**