

# Reporting on climate-related financial risks

In the 2019 financial year, Swiss Prime Site reported on climate-related financial risks for the first time using the guidelines of the «Task Force on Climate-related Financial Disclosures». The report shows how Swiss Prime Site identifies and manages physical and transitional risks caused by climate change which can have a financial impact on the Company.

## Governance

In 2019, the Board of Directors of the Swiss Prime Site Group decided to set up a Sustainability Board to strengthen the integrated management of financial and non-financial success factors and risks. This decision was taken in the belief that responsible, forward-looking leadership increases the Company's resilience and enables it to create long-term value for the Company and its shareholders and stakeholders. Climate-related opportunities and risks play an exceptionally large part, as climate change is already a reality, with many current and future consequences for all areas of business. In order to better manage the opportunities and risks presented by climate change, the Sustainability Board will assume the following key tasks:

- It will define the CO<sub>2</sub> reduction pathway, factoring in the progress of associated measures. The reduction pathway and its operationalisation within the Company are described in more detail in the chapter «CO<sub>2</sub> reduction goal and path».
- 1. It will regularly update climate-related opportunities and risks using the risk matrix introduced in 2019, set goals and introduce measures where necessary.
- 2. It will sign off the annual reporting on sustainability issues, in particular climate-related financial risks in accordance with the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD). As part of this process, the Sustainability Board assesses the progress of managing climate-related opportunities and risks using clearly defined metrics.

## Strategy

### Key climate-related risks

For Swiss Prime Site, the effects of climate change lead to certain financial risks as well as the opportunity to strengthen its resilience using future-oriented measures. In accordance with the TCFD guidelines, Swiss Prime Site differentiates between direct physical risks and transitional risks. Physical risks include extreme weather events such as heavy rainfall, droughts or floods as well as the longer-term, local consequences of climate change. Transitional risks result from the decarbonisation of the economy as well as new legislative, economic and technological trends and condi-

tions triggered by climate change. Swiss Prime Site considers the following risks in particular to be significant and integrates them into group-wide risk management:

Physical risks	Transitional risks
<ul style="list-style-type: none"> <li>– Increase in extreme weather events such as very high winds and heavy rainfall with flooding</li> <li>– Increasing summer temperatures, more heatwaves and long-lasting periods of heat</li> <li>– Reduction in both the quality and quantity of drinking water due to local periods of drought</li> </ul>	<ul style="list-style-type: none"> <li>– Social effects of climate change: Move by customers towards more responsible products and services</li> <li>– Stricter regulations: Rise in CO<sub>2</sub> tax on fossil fuels and hydrocarbon fuels as well as requirements regarding energy efficiency and renewable energies</li> <li>– Materials cycle: Stricter requirements regarding recycling and re-use of products and construction materials</li> </ul>

### Use opportunities thanks to integrated value creation

Swiss Prime Site is in a good position to mitigate risks arising from climate change and use the associated opportunities. The Company can rely on the following strengths:

- High level of investment and financial resources to implement pro-active and innovative measures
- Extensive skills in planning, constructing and running property
- Broad experience in using commercial properties
- Close coordination with Development, Sustainability and Innovation

Swiss Prime Site builds on these strengths to develop integrated solutions using the following five strategic action areas.

Strategic action areas**1. CO<sub>2</sub> reduction goal and path for the property portfolio:**

The most important action area is the property portfolio, which is managed by the group company Swiss Prime Site Immobilien. In line with the Swiss Federal Council's climate target of achieving a carbon-neutral Switzerland by 2050 and based on science-based targets<sup>1</sup>, Swiss Prime Site developed an ambitious CO<sub>2</sub> reduction pathway in 2019. This particularly includes the scope 1 and 2 emissions by the property portfolio, i.e. those emissions arising from electricity and heating requirements during the use phase. Swiss Prime Site is also working on gathering data about scope 3 emissions (see «Goals and Metrics»).

**2. Climate-friendly investments:**

In all Swiss Prime Site's areas of activity, significant investments and new services will be assessed in terms of their impact on climate change. The criterion «climate-adapted construction» will be integrated into real estate development. As part of innovation management, the Company will have a greater strategic focus on approaches that enable it to design buildings and housing schemes that are resilient to climate changes.

**3. Innovation management regarding climate-friendly services and new technologies**

As part of innovation management, Swiss Prime Site looks at trends and disruptive issues such as climate change. In doing so, the Company uses the skills of employees from all areas to help develop services that can help resolve social challenges. Corporate Ventures manages the collaboration with innovative new companies who are driving pioneering technologies and business models, such as those working on energy efficiency or climate protection in the real estate industry.

**4. Raising employees' awareness**

The issue of climate change plays an increasingly important role in internal communication and employees' training and development. Until now, Swiss Prime Site has not formally embedded sustainability-related performance indicators into its compensation policies. However, the Company is planning to review this incentive system. Including more figures in compensation calculations could help the Company to integrate sustainability goals more systematically into corporate processes and achieve them more efficiently.

**5. Stakeholder dialogues on climate-related issues:**

Swiss Prime Site has regular discussions with investors, customers and other stakeholders. Issues relating to climate change form an increasing part of these dialogues, helping the Company to identify stakeholder groups' needs at an early stage and factor them into planning processes.

**Risk management**




Swiss Prime Site undertakes a systematic, ongoing risk management process that identifies and manages opportunities and risks. In 2019, the Company included climate-related risks into its risk management for the first time and evaluated them using the following two methods:

- Event-based scenario analysis: Evaluating individual physical and transitional risks caused by climate change
- Science-based modelling of the «Climate Value-at-Risk» of the entire property portfolio

In the event-based scenario analysis, potential risks are evaluated using qualitative scenarios and their impact on Swiss Prime Site's business activities. This evaluation is based on the existing risk management process. Potential events are evaluated based on their probability of occurrence and the scale of their impact on the Company's value and reputation. The evaluation also looks at when the impact is expected to occur and the expected horizon for action to implement risk mitigation measures. The resulting risk evaluation serves as a tool to help the group management and the Board of Directors to identify specific measures which can dampen or eliminate the expected negative impact on the Company.

<sup>1</sup> <https://sciencebasedtargets.org/>

The following are events with the highest risk potential:

Potential events caused by climate change	Impact on Swiss Prime Site	Action required and measures Horizon for action: Short (1 year); Medium (1–3 years); Long (3–10 years)
<ul style="list-style-type: none"> <li>– Increase of up +4.5 °C and longer periods of drought up to +9 days</li> <li>– Increase in very hot days to up to 17 days per year</li> </ul>	<ul style="list-style-type: none"> <li>– Increased insurance events</li> <li>– Less attractive rentability for seniors (key word: hotspots in cities)</li> <li>– Lower rentability and higher vacancies</li> <li>– Potential falls in rental income due to higher ancillary costs</li> <li>– Rising costs due to higher energy requirements for cooling</li> <li>– Increased requirements of cladding and housing technology</li> <li>– Increased expenses to comply with promised indoor climate conditions</li> <li>– Rising costs due to increased water requirements</li> </ul>	<p>Measures:</p> <ul style="list-style-type: none"> <li>– Factor in the effect of rising temperatures on living and working comfort in properties, particularly in cities.</li> <li>– If necessary, identify and implement preventive measures, e.g. increase proportion of green spaces</li> </ul> <p>Metrics:</p> <ul style="list-style-type: none"> <li>– Number of tenant complaints and insurance events</li> <li>– Total costs of special measures to prevent climate-related damage in real estate</li> <li>– Identification of energy consumption from cooling</li> </ul> <p>Horizon for action: Long</p> 
<p>Heavy rainfall</p> <ul style="list-style-type: none"> <li>– 10% higher annual heavy rainfall, linked with extremely high winds and storms</li> <li>– Greater frequency of long-lasting, extreme weather conditions</li> </ul>	<ul style="list-style-type: none"> <li>– Stricter location quality and building safety requirements</li> <li>– Increased insurance costs</li> <li>– Structural damage to buildings</li> <li>– Stricter construction quality requirements</li> </ul>	<p>Measures:</p> <ul style="list-style-type: none"> <li>– Detailed analysis of building locations</li> <li>– Analysis of flooding risk across the whole property portfolio and for specific projects</li> <li>– Analysing potential environmental damage of specific properties</li> <li>– Analysis of building structure and stability</li> <li>– Review of insurance cover</li> </ul> <p>Metrics:</p> <ul style="list-style-type: none"> <li>– Value of damage caused by extreme weather events</li> </ul> <p>Horizon for action: Short</p> 
<p>Social impact of climate change</p> <ul style="list-style-type: none"> <li>– Move by customers towards more responsible products and services</li> <li>– Climate-induced migration</li> </ul>	<ul style="list-style-type: none"> <li>– Investors' requirements regarding resilience of products and services</li> <li>– Tenants' requirements regarding building and space standards, e.g. SNBS or Minergie certifications</li> <li>– Tenants', investors' or regulators' requirements regarding sustainable procurement and building technology (e.g. materials)</li> </ul>	<p>Measures:</p> <ul style="list-style-type: none"> <li>– Factoring in sustainability criteria for existing stock and new build projects</li> <li>– Additional sustainability requirements by suppliers</li> </ul> <p>Metrics:</p> <ul style="list-style-type: none"> <li>– Demand for certifications of buildings and rented spaces</li> <li>– Questions by tenants, the public and investors on properties' sustainability</li> </ul> <p>Horizon for action: Short</p> 

<p>Stricter regulations</p> <ul style="list-style-type: none"> <li>- CO<sub>2</sub> tax on fossil fuels and hydrocarbon fuels</li> <li>- Increased requirements regarding the use of renewable energies and energy efficiency</li> <li>- Tax on contamination</li> </ul>	<ul style="list-style-type: none"> <li>- Rising operating and ancillary costs</li> <li>- Potential falls in rental income due to higher ancillary costs</li> <li>- Reduced rentability and vacancies</li> <li>- Tenants', investors' or regulators' requirements regarding sustainable procurement and building technology (e.g. materials)</li> <li>- Increasing requirements and costs to develop and operate real estate</li> <li>- Significant additional costs if new guidelines are not proactively considered, e.g. by replacing fossil fuel-based heating systems before the end of the life cycle</li> <li>- Potential additional costs and longer project terms due to contamination in development and construction projects</li> <li>- Negative impact on the fair value of real estate</li> </ul>	<p>Measures:</p> <ul style="list-style-type: none"> <li>- CO<sub>2</sub> reduction pathway and strategy, operationalisation of reduction pathway</li> <li>- Implementation of sustainability requirements in new build projects</li> <li>- Factoring in sustainability requirements into property strategies for existing real estate</li> <li>- Portfolio analysis to identify risks</li> <li>- Factoring in sustainability requirements when purchasing real estate</li> </ul> <p>Metrics:</p> <ul style="list-style-type: none"> <li>- Current CO<sub>2</sub></li> <li>- emissions of the portfolio (progress against the CO<sub>2</sub> reduction pathway)</li> <li>- Efficiency figures and proportion of renewable energies in the energy mix</li> <li>- Costs of CO<sub>2</sub> tax in the portfolio</li> </ul> <p>Horizon for action: Short / medium</p> 
<p>Materials cycle</p> <ul style="list-style-type: none"> <li>- Products and services are geared towards reuse / recycling</li> </ul>	<ul style="list-style-type: none"> <li>- Additional requirements for building planning, development and demolition (e.g. by using minimum quotas for recycling and recyclability of building materials)</li> <li>- Rising construction costs and longer planning phases due to increased planning and building requirements</li> <li>- Stricter requirements regarding product and supplier management</li> </ul>	<p>Measures:</p> <ul style="list-style-type: none"> <li>- Actively follow technical and regulatory developments, if necessary adapt requirements for Swiss Prime Site and suppliers</li> <li>- Implement requirements for new build projects and existing real estate</li> <li>- Operationalise Madaster</li> </ul> <p>Horizon for action: Long</p> 
<p>Increased requirement for ESG data and information</p> <ul style="list-style-type: none"> <li>- More discussion by investors about sustainability</li> <li>- Stricter requirements by investors, regulators (e.g. FINMA), NGOs, etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Attractiveness to investors falls, with potential impact on share price and financing</li> <li>- Increased expense of gathering and maintaining relevant data</li> <li>- Increased relevance of reporting</li> <li>- Need for sustainable procurement guidelines</li> <li>- Additional expense of identifying and gathering relevant data across the whole value chain</li> <li>- Impact on fair value; higher valuation expenses</li> <li>- Investment required in the sustainability of properties in order to positively affect their valuations (conflict between investment cycles and short-term valuation)</li> </ul>	<p>Measures:</p> <ul style="list-style-type: none"> <li>- Monitoring of ESG Key Performance Indicators in business process, sustainability reporting and property strategies</li> <li>- Integration of sustainability requirements into property strategies</li> <li>- Targeted increase in investment in sustainability of real estate</li> </ul> <p>Metrics:</p> <ul style="list-style-type: none"> <li>- Sustainability ratings for real estate and companies</li> </ul> <p>Horizon of action: Short</p> 

The internal risk management process was supplemented by the external valuation of the «Climate Value-at-Risk» of Swiss Prime Site’s property portfolio. Swiss Prime Site made a fundamental contribution to this science-based method, which has been specifically developed for the real estate industry. Initial results show that the direct physical climate risks for the property portfolio in Switzerland over the next 15 years are comparatively low, although flood risks are not yet fully factored into the model. The results suggest that the short- and medium-term transition risks due to social change and stricter regulations are significantly more important. The results of the calculations are shown at an individual property level. This enables Swiss Prime Site to identify properties exposed to above-average risks and take preventive measures.

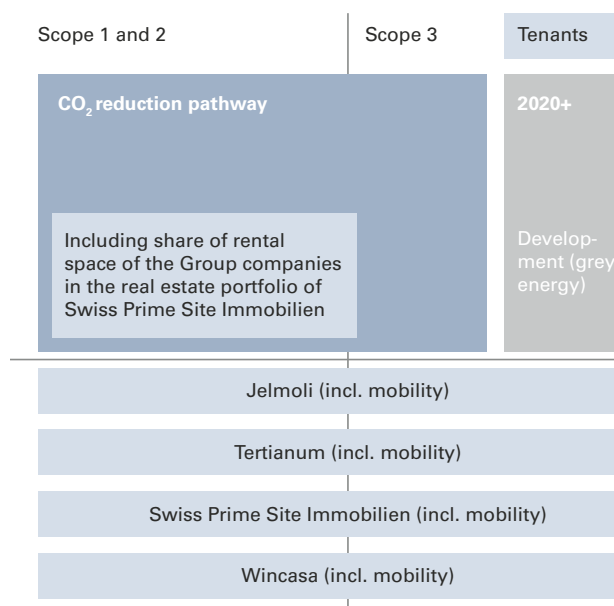
**Metrics and goals**

In developing the CO<sub>2</sub> reduction pathway in 2019, Swiss Prime Site set a binding long-term goal to reduce CO<sub>2</sub> emissions. This will be achieved through investment in the replacement of fossil fuel-based heating systems, cladding renovations and the promotion of renewable energies, as the property portfolio is responsible for around 71% of Swiss Prime Site’s CO<sub>2</sub> emissions. Comprehensive data is needed to monitor progress and this has been gradually built up over the last few years. The CO<sub>2</sub> reduction pathway was calculated based on the property portfolio’s scope 1 and scope 2 emissions as well as the scope 3 emissions of spaces in the property portfolio rented through the group companies. Swiss Prime Site is planning to extend the balancing of scope 3 emissions in 2020 as follows (Figure 1):

- to all group companies’ operations;
- to spaces occupied by third-party tenants;
- to emissions caused by grey energy at new build projects;

Detailed information on metrics and goals can be found in the chapter on «CO<sub>2</sub> reduction goal and path» and in the Environment section of the GRI report. Further information on the calculation methodology used can be found in the footnotes to the overview of the ESG figures in the document «Sustainability Key Indicators».

**Figure 1: CO<sub>2</sub> balance, as of 2019**





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