Impact Reporting: the Road Ahead

Welcome to
the Third P&R Square Survey
of ESG Reporting 2020

Perception & Reality Square
GmbH

Main Trends

This year, the survey spotlights four emerging developments within ESG reporting

1. **GHG emission data is the most important number reported; are other ESG fields being neglected?**

   92% of the companies report absolute GHG emissions and 73% report GHG targets, making GHG data the number of numbers. Non-energy related ESG data and targets significantly lag behind.

2. **The SDG trend is ongoing**

   79% of companies make a connection between the company's ESG communication and the SDGs, an impressive 13% year-on-year increase.

3. **Prioritising human rights needs to be followed up by supply chain measures**

   25% of the Top5 materiality topics are related to Business Ethics, coming second after Economic factors for the first time, as human rights in the supply chain were prioritised more often. However, data on supply chain audits is the data category companies report on the least.

4. **On an Index level, ESG communication is diverse**

   One third of the FTSE constituents do not refer to the SDGs. 97% of CAC constituents set ESG targets and 100% of IBEX constituents report ESG data.

As the survey highlights, simply linking ESG activity to the SDGs is not enough. People want to know how companies are contributing to achieving the goals and what the impact of those positive contributions is and/or will be.

It is not just civil society and NGOs that are interested in such information; we observe a strong rise of large institutional investors aligning their investment approaches with the SDGs and corporate social responsibility. Such ESG -Environmental, Social and Government- investment strategies require impact disclosure from business.

A shift that gathered pace in the past few years has started: environmental and social issues such as climate change, water scarcity and human rights are being seen as financial rather than non-financial issues. Companies need to be transparent not only about their performance, but also about the financial risks and opportunities they face and the likely effects on the business's value creation both short and long term.

Survey Framework

This survey, conducted for the third time, is an assessment of the current sustainability, reporting status of 317 European companies included in 9 stock market indices.

The EU Non-Financial Reporting Directive (which requires large companies in the EU to disclose ESG information) is the most significant EU-wide legislative initiative to promote corporate responsibility reporting. It is already having effect on ESG reporting rates in the EU.

The ongoing growth of ESG investing, the EU reporting directive and EU sustainable finance initiatives are driving the dynamics of ESG communication, not only in Europe but also on a global level.

This year's insights are very exciting and show a shift in ESG communication. Yet, it appears there is still plenty of room for improvement.

In general, there are two aspects of sustainability in business: reporting and strategy. To stress the connection between reporting and strategy, we have expanded the scope of our survey. Priority and target setting are both relevant for strategy development.

Therefore, for the second time, we have looked into whether and how companies communicate ESG targets, ESGR data and materiality, and how they do so. This year, on a strategic level, we looked closer at the specific SDG goals companies' mention. This survey followed a four-step approach to determine how far reporting has progressed:

1. SDG alignment;
2. Target setting;
3. Footprint perspective;
4. Materiality communication

The 317 companies surveyed span across a wide range of business sectors, such as Financial Services, Technology, Food and Beverages, Chemicals, Healthcare, Telecommunications, Utilities and Energy.

We have reviewed ESG communication at companies that are part of the following European Indices:

- FTSE (UK)
- CAC (France)
- DAX (Germany)
- MIB (Italy)
- BEX (Spain)
- AEX (Netherlands)
- BEL (Belgium)
- PSI (Portugal)
- SMI (Switzerland)

Corporate websites and reports were reviewed and analysed.

Study Objectives

The survey provides a detailed perspective of trends in CSR reporting and insights for business leaders, company boards, and CSR and sustainability professionals. It is meant to offer guidance on good business practice to corporate professionals who prepare their own organization's ESG reporting. It is also designed as a guide to investors, asset managers and ratings agencies who now factor environmental, social and governance information into their assessments of corporate performance and risk.

The survey is based on several months of research, with our professionals analysing 317 company financial reports, ESG reports, and websites. The number of companies and markets involved in the survey makes it one of the most comprehensive pieces of research on ESG reporting available in Europe.

Our goals were as follows:

- Put together a smart database of best ESG reporting practices based on reports published by major public companies;
- Identify the underlying shifts in communicating ESG information to the outside world;
- Develop recommendations and tools to improve such communication.

We are convinced that corporate sustainability information should include more than a mere list of metrics and issues to be disclosed. It must present a clear picture of the company's goals and strategies in this area and demonstrate that the company meets the expectations and requirements set by its stakeholders. It is an active dialogue between the company and its stakeholders that must be at the core of any ESG effort.

Yet another important objective is to ensure that information reported by different companies allows for proper apples-to-apples comparison. It must be up to the stakeholders to determine whether, and to what extent, operations of any particular company meet their expectations and comply with best globally accepted practices.

This study is conducted annually.

The SDGs in ESG Communication

The 17 UN's Sustainable Development Goals, set out to solve the greatest economic, environmental and social challenges of our world by 2030, have been widely adopted by business. Last year's survey highlighted that there is evidence for a stronger trend towards aligning corporate responsibility strategy with the UN Sustainable Development Goals (SDGs).

SDGs have resonated strongly with businesses since their launch.

This year, again, we see an increase by 9% of companies referring to the SDGs in corporate communication compared to last year: 79% and 70% respectively.

This clear trend has emerged in a short space of time and strongly suggests that the SDGs will have a growing profile in ESG reporting over the next years.

Share of companies referring to the SDGs in corporate communication

While the SDGs were designed as goals for governments, the UN's 2030 Agenda for Sustainable Development specifically calls for businesses "to apply their creativity and innovation to solving sustainable development challenges". Companies are increasingly linking corporate sustainability strategies to the SDGs.

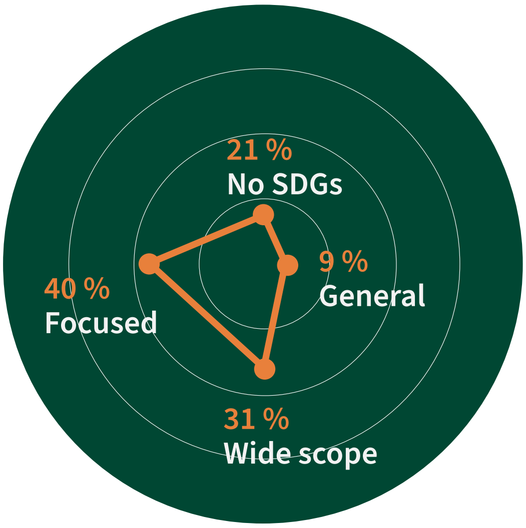
Communications can identify specific SDGs the organization considers most relevant to its business and stakeholders, on which it can have the most impact. Not all the SDGs and their underlying targets are of equal relevance to every company, sector or geography. Companies are advised to focus their actions on the goals which they have the greatest actual and potential impact on, either positive or negative.

The 17 SDGs are broad. Corporate communications can disclose to which of them the business aims to contribute. Focusing on specific SDG targets helps a company to define and communicate its SDG-related business priorities clearly and show implementation of effective actions.

Therefore, for the first time, we analysed how communication of corporate sustainability strategies is assigned to the SDGs.

Besides checking if an organization refers to the SDGs, we researched which SDGs are mentioned and we counted how many are specifically being applied. We then classified the use of SDGs:

- Focused: up to 7 SDGs linked to corporate SDG strategy
- Wide scope: between 8-16 SDGs linked to corporate SDG strategy
- General: reference to all 17 SDGs
- No SDGs



Companies' approach to SDGs

71% of the organizations show priority setting concerning SDG alignment to ESG strategies and, surprisingly, 40% of the companies communicate a focused SDG approach.

This shows that, on a broad scale, companies are setting and communicating clear priorities and implementation actions connected to the SDGs.

The 29% of companies with a general or no SDG approach are clearly lagging behind and have vast room for improvement, especially taking into account that the largest group of companies are already adopting a focused SDG approach.

Target Setting

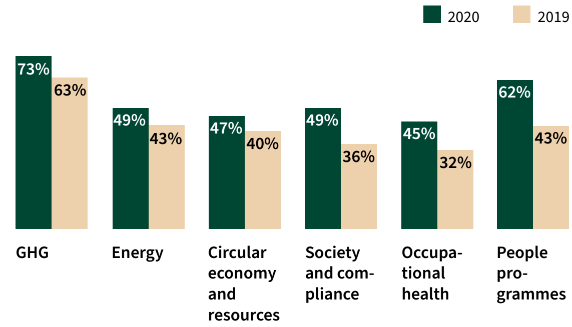
In our last survey we examined whether companies reported on measurable, objective and accountable targets. Due to the increasing relevance of transparent sustainability strategies based on e.g. the EU non-financial reporting directive and the EU Action Plan on Financing Sustainable Growth, communicating ESG targets is deemed to become a business necessity. This year, for comparability reasons, our research was identical to last year's. Target setting in the following areas was analysed:

- Energy
- Greenhouse gas (GHG) emissions
- Circular economy and resources
- Society and compliance
- Occupational health
- Employee development programs.

The positive news is that more companies are reporting ESG targets, compared to last year; an increase by 14%.

Share of companies reporting ESG targets

This means 88% of the listed companies are at least reporting one target and that 12% still do not report any measurable, accountable targets.



Areas where targets are set most frequently

Overall, we observe an increase of target setting for all topics, demonstrating that the EU directive and investor pressure are taking root in the business sector.

Again, setting targets for greenhouse gas emissions was the most popular. Considering the ongoing climate change debate, we expect this topic to remain high on the corporate agenda in the coming years. 73% of the companies report GHG targets, non-energy related ESG targets significantly lag behind. There is still vast room for improving overall sustainability target setting.

Reporting targets related to people programs comes second.

The steep increase by 19% is explained by the focus on gender equality programs.

The observation that there is a higher increase of social targets compared to environmental targets is believed to be due to the increasing role of stakeholder engagement and dialogues.

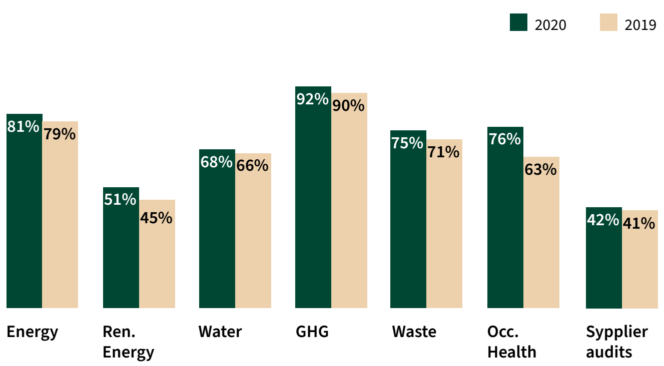
Footprint Data Perspective

– Communication of ESG performance data has increased again, but it can still be improved

For the second time we have analysed the extent of company reporting – in terms of absolute numbers on selected ESG performance data. Increasing investor interest, paired with employee and customer demand, brought ESG performance to the top of corporate agendas. With general interest continuing to grow, companies are intensifying impact measurement and increasing communication on a quantitative level. In this year's survey, we looked into the extent of company reporting – in terms of absolute numbers – on the following topics:

- Energy;
- Greenhouse gas emissions;
- Renewable Energy;
- Waste generation;
- Water use;
- Occupational health (new in our study);
- Supplier audits (new in our study).

Overall, reporting of absolute performance data has improved year-on-year, with an average observed across all topics growing from 90% to 94% – accounting for an annual increase of over 4%. However, this does not mean no data is reported by the other 6%. Various companies still choose to report relative data, e.g. per revenue or number of employees.



Reporting of absolute performance data

Reporting on greenhouse gas emissions and energy clearly remains the focus of attention. The number of companies reporting on both topics has increased. Climate change is still the most relevant communication issue for various reasons.

92% of the companies report absolute GHG emissions, while non-energy related ESG data is significantly behind.

There is still vast room for improving data collection and reporting.

The largest increases are observed with Occupational Health (+13%), Renewable Energy (+5%) and Waste (+4%).

The high increase of occupational health data may be linked to the increase of communication on employee programs, observed in the target setting section of this report.

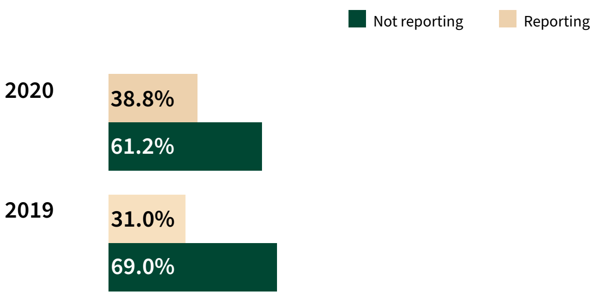
Reporting more on renewable energy data is directly linked to the climate debate and the increase in waste related data can be linked to an increase of Circular Economy awareness.

Materiality

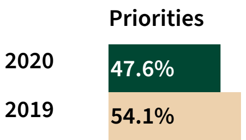
Materiality is a process through which companies can select issues to be included in non-financial reporting favouring the expectations of all stakeholders. The aim of this research is to investigate if materiality processes were reported in corporate reports and which Top5 topics emerged.

This year we observed that fewer companies are communicating on Materiality in their reports.

The percentage of companies not reporting a Materiality analysis, such as a Materiality matrix or Priorities, has risen from 30 to 39%.



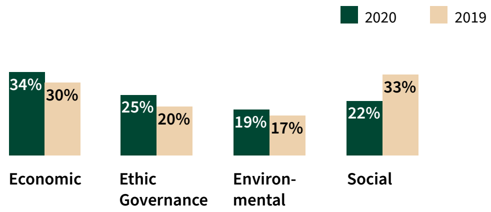
This year less than half the companies (48%) reported Materiality priority topics, down 6% from last year‘s 54%.



It seems that performing and reporting on Materiality analyses is fading on corporate agendas.

For an insight into the priority topics, we researched and clustered the Top 5 topics for each organization which reported its priorities. The topics were classified as Economic, Environmental, Ethics/ Governance or Social. Examples of such topics are as follows:

- Economic: Economic Performance, Cyber Security, Innovation/R&D, Regulatory;
- Ethics/Governance: Anti-corruption, Business Ethics, Business Conduct, Supply Chain;
- Environment: Climate, Resources, Waste;
- Social: Health & Safety, Employees, Communities.



Reporting of Top 5 Materiality topics

In the Top 5 of materiality topics, economic and ethics/governance issues prevail, at 34% and 25% respectively.

Environmental themes are still mentioned the least – only 19% of companies list these in their Top5 priority lists.

Surprisingly, social topics were mentioned less in the Top5 with a dramatic decrease of 11%.

In this part of the research, following observations were made concerning ESG communication based on the fact that Materiality seems to be used in different ways:

- Companies are increasingly reporting on Stakeholder Engagement and a continuous dialogue between companies and their stakeholders. It appears that the formal stakeholder engagement within the Materiality framework is evolving into an umbrella covering the full range of an organization's efforts to understand and interact with stakeholders in activities and decisions.

- Materiality assessments are being embedded within corporate risk assessment procedures. This is understandable as, in the broadest sense, material issues are those that have a great impact on a company's ability to do business. In essence, it's simply risk assessment.

- SDGs are becoming a more popular means to communicate CSR priorities and strategy. Materiality apparently offers less flexibility for communication of CSR strategy.

European Index comparison

Large differences on an Index-level regarding specific ESG communication are observed, once again. The main highlights are:

The SDGs in ESG Communication

One third of the FTSE (London) constituents are not aligning sustainability strategy to the SDGs, while in the AEX (Amsterdam) 96% of constituents do.

Target Setting

One third of the MIB (Milan) and PSI (Lisbon) constituents do not communicate measurable ESG targets, while in the CAC (Paris) 97% of constituents do.

Footprint Perspective

A quarter of the BEL (Brussels) constituents do not communicate absolute ESG data, while in the IBEX (Madrid) 100% of constituents do.

About this survey

P&R Square team led by Mr. Erik van Buuren produced this study.

A specific methodology was developed for the ESG analysis of organisational reporting.

Perception & Reality Square is a Berlin-based consultancy specializing in ESG Reporting, Financial Communications, Online Platform's Developing, Public Opinion & Perception. Our main objective is to develop solutions to help corporations, their stakeholders, non-profit organizations and the general public to use all kinds of information more effectively.

Erik van Buuren is an acknowledged ESG expert with over 20 years of international experience in the field of ESG investing, sustainability strategies and innovation. Besides supervising sustainability analysis for ESG equity investment funds, Erik focuses on the implementation of circular economy impact programmes.

Our survey and analysis were conducted in July–November 2020.

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